

MINE SAFETY APPLIANCES CO  
Form 10-Q  
April 29, 2010

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2010

Commission File No. 1-15579

# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of  
incorporation or organization)

**25-0668780**  
(IRS Employer  
Identification No.)

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121 Gamma Drive

RIDC Industrial Park

O Hara Township

Pittsburgh, Pennsylvania  
(Address of principal executive offices)

15238  
(Zip Code)

Registrant's telephone number, including area code: (412) 967-3000

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 and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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

On April 22, 2010 there were 36,104,547 shares of common stock outstanding, not including 2,031,896 shares held by the Mine Safety Appliances Company Stock Compensation Trust.

**PART I. FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****MINE SAFETY APPLIANCES COMPANY****CONDENSED CONSOLIDATED STATEMENT OF INCOME**

(In thousands, except per share amounts)

Unaudited

|                                                                                       | <b>Three Months Ended<br/>March 31</b> |             |
|---------------------------------------------------------------------------------------|----------------------------------------|-------------|
|                                                                                       | <b>2010</b>                            | <b>2009</b> |
| Net sales                                                                             | \$ 212,434                             | \$ 218,175  |
| Other income                                                                          | 1,305                                  | 859         |
|                                                                                       | 213,739                                | 219,034     |
| Costs and expenses                                                                    |                                        |             |
| Cost of products sold                                                                 | 129,981                                | 135,198     |
| Selling, general and administrative                                                   | 61,908                                 | 56,820      |
| Research and development                                                              | 7,736                                  | 7,013       |
| Restructuring and other charges                                                       | 6,809                                  | 8,095       |
| Interest                                                                              | 1,540                                  | 1,847       |
| Currency exchange gains                                                               | (2,158)                                | (926)       |
|                                                                                       | 205,816                                | 208,047     |
| Income before income taxes                                                            | 7,923                                  | 10,987      |
| Provision for income taxes                                                            | 2,803                                  | 3,614       |
| Net income                                                                            | 5,120                                  | 7,373       |
| Net income attributable to noncontrolling interests                                   | (214)                                  | (152)       |
| Net income attributable to Mine Safety Appliances Company                             | 4,906                                  | 7,221       |
| Earnings per share attributable to Mine Safety Appliances Company common shareholders |                                        |             |
| Basic                                                                                 | \$ 0.14                                | \$ 0.20     |
| Diluted                                                                               | \$ 0.14                                | \$ 0.20     |
| Dividends per common share                                                            | \$ 0.24                                | \$ 0.24     |

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

Unaudited

|                                                                                                                                                    | March 31<br>2010 | December 31<br>2009 |
|----------------------------------------------------------------------------------------------------------------------------------------------------|------------------|---------------------|
| <b>Assets</b>                                                                                                                                      |                  |                     |
| Current assets                                                                                                                                     |                  |                     |
| Cash and cash equivalents                                                                                                                          | \$ 61,896        | \$ 61,983           |
| Trade receivables, less allowance for doubtful accounts of \$7,221 and \$6,866                                                                     | 170,240          | 173,355             |
| Inventories                                                                                                                                        | 128,652          | 123,944             |
| Deferred tax assets                                                                                                                                | 20,196           | 25,109              |
| Income taxes receivable                                                                                                                            | 4,629            | 4,054               |
| Prepaid expenses and other current assets                                                                                                          | 36,578           | 45,580              |
| <b>Total current assets</b>                                                                                                                        | <b>422,191</b>   | <b>434,025</b>      |
| Property, less accumulated depreciation of \$305,080 and \$306,170                                                                                 | 140,128          | 144,575             |
| Prepaid pension cost                                                                                                                               | 109,060          | 105,812             |
| Deferred tax assets                                                                                                                                | 11,713           | 10,870              |
| Goodwill                                                                                                                                           | 84,105           | 84,727              |
| Other noncurrent assets                                                                                                                            | 109,251          | 95,219              |
| <b>Total assets</b>                                                                                                                                | <b>876,448</b>   | <b>875,228</b>      |
| <b>Liabilities</b>                                                                                                                                 |                  |                     |
| Current liabilities                                                                                                                                |                  |                     |
| Notes payable and current portion of long-term debt                                                                                                | \$ 34,750        | \$ 16,326           |
| Accounts payable                                                                                                                                   | 52,072           | 43,487              |
| Employees compensation                                                                                                                             | 23,559           | 25,811              |
| Insurance and product liability                                                                                                                    | 21,360           | 24,164              |
| Taxes on income                                                                                                                                    | 2,311            | 10,090              |
| Other current liabilities                                                                                                                          | 43,327           | 48,572              |
| <b>Total current liabilities</b>                                                                                                                   | <b>177,379</b>   | <b>168,450</b>      |
| Long-term debt                                                                                                                                     | 82,112           | 82,114              |
| Pensions and other employee benefits                                                                                                               | 125,427          | 125,387             |
| Deferred tax liabilities                                                                                                                           | 44,750           | 44,800              |
| Other noncurrent liabilities                                                                                                                       | 14,674           | 15,077              |
| <b>Total liabilities</b>                                                                                                                           | <b>444,342</b>   | <b>435,828</b>      |
| <b>Shareholders Equity</b>                                                                                                                         |                  |                     |
| Mine Safety Appliances Company shareholders equity:                                                                                                |                  |                     |
| Preferred stock, 4½% cumulative authorized 100,000 shares of \$50 par value; issued 71,373 and 71,373 shares, callable at \$52.50 per share        | 3,569            | 3,569               |
| Second cumulative preferred voting stock authorized 1,000,000 shares of \$10 par value; none issued                                                |                  |                     |
| Common stock authorized 180,000,000 shares of no par value; issued 62,081,391 and 62,081,391 shares (outstanding 36,097,275 and 35,972,518 shares) | 75,950           | 74,269              |
| Stock compensation trust 2,039,168 and 2,174,204 shares                                                                                            | (10,644)         | (11,349)            |
| Treasury shares, at cost:                                                                                                                          |                  |                     |

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|                                                           |                                  |           |           |
|-----------------------------------------------------------|----------------------------------|-----------|-----------|
| Preferred                                                 | 52,878 and 52,878 shares         | (1,753)   | (1,753)   |
| Common                                                    | 23,944,948 and 23,934,669 shares | (256,556) | (256,283) |
| Accumulated other comprehensive loss                      |                                  | (51,860)  | (45,856)  |
| Retained earnings                                         |                                  | 670,282   | 674,019   |
| Total Mine Safety Appliances Company shareholders' equity |                                  | 428,988   | 436,616   |
| Noncontrolling interests                                  |                                  | 3,118     | 2,784     |
| Total shareholders' equity                                |                                  | 432,106   | 439,400   |
| Total liabilities and equity                              |                                  | 876,448   | 875,228   |

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

|                                                                    | Three Months Ended<br>March 31 |                 |
|--------------------------------------------------------------------|--------------------------------|-----------------|
|                                                                    | 2010                           | 2009            |
| <b>Operating Activities</b>                                        |                                |                 |
| Net income                                                         | \$ 5,120                       | \$ 7,373        |
| Depreciation and amortization                                      | 6,960                          | 6,754           |
| Pensions                                                           | (204)                          | 4,350           |
| Net (gain) loss from investing activities                          | (710)                          | 263             |
| Stock-based compensation                                           | 2,502                          | 2,142           |
| Deferred income tax benefit                                        | (1,519)                        | (251)           |
| Other noncurrent assets and liabilities                            | (13,839)                       | (10,475)        |
| Currency exchange gains                                            | (2,158)                        | (926)           |
| Other, net                                                         | (1,790)                        | (275)           |
| <b>Operating cash flow before changes in working capital</b>       | <b>(5,638)</b>                 | <b>8,955</b>    |
| Trade receivables                                                  | 1,215                          | 20,045          |
| Inventories                                                        | (6,928)                        | 2,834           |
| Accounts payable and accrued liabilities                           | (3,188)                        | (16,740)        |
| Income taxes receivable, prepaid expenses and other current assets | 8,144                          | 7,402           |
| <b>(Increase) decrease in working capital</b>                      | <b>(757)</b>                   | <b>13,541</b>   |
| <b>Cash flow from operating activities</b>                         | <b>(6,395)</b>                 | <b>22,496</b>   |
| <b>Investing Activities</b>                                        |                                |                 |
| Property additions                                                 | (3,554)                        | (8,577)         |
| Property disposals                                                 | 70                             | 204             |
| Other investing                                                    | 1,250                          | (46)            |
| <b>Cash flow from investing activities</b>                         | <b>(2,234)</b>                 | <b>(8,419)</b>  |
| <b>Financing Activities</b>                                        |                                |                 |
| Proceeds from (payments on) short-term debt, net                   | 18,427                         | (4,491)         |
| Cash dividends paid                                                | (8,643)                        | (8,597)         |
| Company stock purchases                                            | (273)                          | (107)           |
| Exercise of stock options                                          | 69                             |                 |
| Excess tax provision related to stock plans                        | (185)                          | (441)           |
| <b>Cash flow from financing activities</b>                         | <b>9,395</b>                   | <b>(13,636)</b> |
| <b>Effect of exchange rate changes on cash</b>                     | <b>(853)</b>                   | <b>(1,675)</b>  |
| <b>Decrease in cash and cash equivalents</b>                       | <b>(87)</b>                    | <b>(1,234)</b>  |
| <b>Beginning cash and cash equivalents</b>                         | <b>61,983</b>                  | <b>50,894</b>   |
| <b>Ending cash and cash equivalents</b>                            | <b>61,896</b>                  | <b>49,660</b>   |

See notes to condensed consolidated financial statements.

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**MINE SAFETY APPLIANCES COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

We have prepared the condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the rules and regulations for reporting on Form 10-Q. Accordingly, they do not include certain information and disclosures required for comprehensive financial statements.

The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The other information in these financial statements is unaudited; however, we believe that all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of these interim periods have been included. The results for interim periods are not necessarily indicative of the results to be expected for the full year.

The condensed consolidated financial statements include the accounts of the company and all subsidiaries. Intercompany accounts and transactions have been eliminated.

Certain prior year amounts have been reclassified to conform with the current year presentation.

Management's Discussion and Analysis of Financial Condition and Results of Operations that is included elsewhere in this report contains additional information about our results of operations and financial position and should be read in conjunction with these notes.

**(2) Restructuring and Other Charges**

During the three months ended March 31, 2010, we recorded charges of \$6.8 million (\$4.7 million after tax). European segment charges of \$5.3 million related primarily to a focused voluntary retirement incentive program in Germany (German VRIP). During the first quarter of 2010, 27 employees made irrevocable elections to retire under the terms of the German VRIP. All of these employees had retired by March 31, 2010. German VRIP termination benefit expense of \$5.0 million was recorded in March 2010. North American segment charges of \$1.0 million included stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. European and International segment charges of \$0.3 million and \$0.5 million, respectively, were primarily for severance costs associated with staff reductions in Germany and South Africa.

During the three months ended March 31, 2009, we recorded charges of \$8.1 million (\$5.1 million after tax). North American segment charges of \$7.6 million related primarily to a focused voluntary retirement incentive program (North American VRIP). During January 2009, 61 employees made irrevocable elections to retire under the terms of the North American VRIP. These employees retired on January 31, 2009. North American VRIP non-cash special termination benefits expense of \$6.6 million was recorded in January 2009. The remaining \$1.0 million of North American segment charges related to costs associated with layoffs and stay bonuses and other costs related to the transfer of certain production activities. International segment charges of \$0.5 million were primarily for severance costs related to staff reductions in Brazil.



**(3) Comprehensive Loss**

Components of comprehensive loss are as follows:

| (In thousands)                                                    | Three Months Ended<br>March 31 |          |
|-------------------------------------------------------------------|--------------------------------|----------|
|                                                                   | 2010                           | 2009     |
| Net income                                                        | \$ 5,120                       | \$ 7,373 |
| Foreign currency translation adjustments                          | (6,004)                        | (7,943)  |
| Comprehensive loss                                                | (884)                          | (570)    |
| Comprehensive income attributable to noncontrolling interests     | (334)                          | (141)    |
| Comprehensive loss attributable to Mine Safety Appliances Company | (1,218)                        | (711)    |

Components of accumulated other comprehensive loss are as follows:

| (In thousands)                                      | March 31<br>2010 | December 31<br>2009 |
|-----------------------------------------------------|------------------|---------------------|
| Cumulative foreign currency translation adjustments | \$ 7,907         | \$ 13,911           |
| Pension and post-retirement plan adjustments        | (59,767)         | (59,767)            |
| Accumulated other comprehensive loss                | (51,860)         | (45,856)            |

**(4) Earnings per Share**

Basic earnings per share is computed on the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes the exercise of stock options and the vesting of restricted stock and performance stock, provided in each case that the effect is dilutive.

| (In thousands, except per share amounts)                  | Three Months Ended<br>March 31 |          |
|-----------------------------------------------------------|--------------------------------|----------|
|                                                           | 2010                           | 2009     |
| Net income attributable to Mine Safety Appliances Company | \$ 4,906                       | \$ 7,221 |
| Preferred stock dividends                                 | 10                             | 10       |
| Income available to common shareholders                   | 4,896                          | 7,211    |
| Basic earnings per common share                           | \$ 0.14                        | \$ 0.20  |
| Diluted earnings per common share                         | \$ 0.14                        | \$ 0.20  |
| Basic shares outstanding                                  | 35,697                         | 35,633   |
| Stock options and other stock compensation                | 527                            | 191      |
| Diluted shares outstanding                                | 36,224                         | 35,824   |
| Antidilutive stock options                                | 749                            | 967      |



**(5) Segment Information**

We are organized into three geographic operating segments: North America, Europe, and International. Reportable segment information is presented in the following table:

| (In thousands)                                                   | North<br>America | Europe    | International | Reconciling<br>Items | Consolidated<br>Totals |
|------------------------------------------------------------------|------------------|-----------|---------------|----------------------|------------------------|
| <b>Three Months Ended March 31, 2010</b>                         |                  |           |               |                      |                        |
| Sales to external customers                                      | \$ 99,114        | \$ 56,624 | \$ 56,696     | \$                   | \$ 212,434             |
| Intercompany sales                                               | 17,905           | 22,776    | 3,348         | (44,029)             |                        |
| Net income (loss) attributable to Mine Safety Appliances Company | 3,435            | (3,815)   | 3,925         | 1,361                | 4,906                  |
| <b>Three Months Ended March 31, 2009</b>                         |                  |           |               |                      |                        |
| Sales to external customers                                      | \$ 110,721       | \$ 60,382 | \$ 47,072     | \$                   | \$ 218,175             |
| Intercompany sales                                               | 13,596           | 24,996    | 1,427         | (40,019)             |                        |
| Net income attributable to Mine Safety Appliances Company        | 3,724            | 2,221     | 463           | 813                  | 7,221                  |

Reconciling items consist primarily of intercompany eliminations and items reported at the corporate level.

In 2010, we changed the composition of our European and International segments to reflect new management responsibilities. Under the new segment structure, our operations in the Middle East, Egypt and India are reported in the European segment. Previously these operations were reported in the International segment. Comparative 2009 amounts have been revised to conform to the current year presentation. The effect of the revisions for the three months ended March 31, 2009 increased European segment sales and net income by \$3.5 million and \$0.2 million, respectively, and decreased International segment sales and net income by the corresponding amounts.

**(6) Pensions and Other Postretirement Benefits**

Components of net periodic benefit (credit) cost consisted of the following:

| (In thousands)                     | Pension Benefits |          | Other Benefits |        |
|------------------------------------|------------------|----------|----------------|--------|
|                                    | 2010             | 2009     | 2010           | 2009   |
| <b>Three months ended March 31</b> |                  |          |                |        |
| Service cost                       | \$ 1,937         | \$ 1,910 | \$ 191         | \$ 181 |
| Interest cost                      | 4,683            | 4,589    | 432            | 470    |
| Expected return on plan assets     | (8,644)          | (8,631)  |                |        |
| Amortization of transition amounts | 1                | 1        |                |        |
| Amortization of prior service cost | 26               | 33       | (139)          | (88)   |
| Recognized net actuarial losses    | 136              | 58       | 210            | 262    |
| Settlement loss                    | 285              |          |                |        |
| Termination benefits               | 1,372            | 6,390    |                | 250    |
| Net periodic benefit (credit) cost | (204)            | 4,350    | 694            | 1,075  |

We made contributions of \$1.0 million to our pension plans during the three months ended March 31, 2010. We expect to make total contributions of approximately \$3.9 million to our pension plans in 2010.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets, net of accumulated amortization, during the three months ended March 31, 2010 were as follows:

| (In thousands)                  | Goodwill  | Intangibles |
|---------------------------------|-----------|-------------|
| Net balances at January 1, 2010 | \$ 84,727 | \$ 13,543   |
| Amortization expense            |           | (583)       |
| Currency translation and other  | (622)     | (7)         |
| Net balances at March 31, 2010  | 84,105    | 12,953      |

At March 31, 2010, goodwill of approximately \$63.5 million, \$16.8 million, and \$3.8 million related to the North American, European, and International operating segments, respectively.

**(8) Inventories**

| (In thousands)             | March 31<br>2010 | December 31<br>2009 |
|----------------------------|------------------|---------------------|
| Finished products          | \$ 59,777        | \$ 54,958           |
| Work in process            | 15,066           | 13,640              |
| Raw materials and supplies | 53,809           | 55,346              |
| Total inventories          | 128,652          | 123,944             |

**(9) Stock Plans**

The 2008 Management Equity Incentive Plan provides for various forms of stock-based compensation for eligible employees through May 2018. Management stock-based compensation includes stock options, restricted stock and performance stock units. The 2008 Non-Employee Directors Equity Incentive Plan provides for grants of stock options and restricted stock to non-employee directors through May 2018. Stock options are granted at market value option prices and expire after ten years. Stock options are exercisable beginning three years after the grant date. Restricted stock is granted without payment to the company and generally vests three years after the grant date. Certain restricted stock for management retention vests in three equal tranches four, five, and six years after the grant date. Unvested restricted stock for management retention is forfeited if the grantee's employment with the company terminates for any reason other than death or disability. Restricted stock and performance stock units are valued at the market value of the stock on the grant date. The final number of shares to be issued for performance stock units may range from zero to 200% of the target award based on achieving a targeted return on net assets (RONA) over a three year performance period relative to a pre-determined peer group of companies. We issue Stock Compensation Trust shares or new shares for stock option exercises, restricted stock grants, and performance stock unit grants.

Stock compensation expense was as follows:

| (In thousands)                                        | Three Months Ended<br>March 31 |          |
|-------------------------------------------------------|--------------------------------|----------|
|                                                       | 2010                           | 2009     |
| Stock compensation expense                            | \$ 2,502                       | \$ 2,142 |
| Income tax benefit                                    | 873                            | 745      |
| Stock compensation expense, net of income tax benefit | 1,629                          | 1,397    |

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A summary of stock option activity for the three months ended March 31, 2010 follows:

|                                | Shares    | Weighted<br>Average<br>Exercise Price |
|--------------------------------|-----------|---------------------------------------|
| Outstanding at January 1, 2010 | 2,085,075 | \$ 25.01                              |
| Granted                        | 294,258   | 24.63                                 |
| Exercised                      | (3,630)   | 19.01                                 |
| Expired                        | (2,189)   | 50.25                                 |
| Outstanding at March 31, 2010  | 2,373,514 | 24.95                                 |
| Exercisable at March 31, 2010  | 1,423,333 | 23.88                                 |

A summary of restricted stock activity for the three months ended March 31, 2010 follows:

|                             | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|----------|-------------------------------------------------|
| Unvested at January 1, 2010 | 338,206  | \$ 28.99                                        |
| Granted                     | 153,697  | 24.63                                           |
| Vested                      | (36,428) | 39.72                                           |
| Unvested at March 31, 2010  | 455,475  | 26.66                                           |

A summary of performance stock unit activity for the three months ended March 31, 2010 follows:

|                             | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|----------|-------------------------------------------------|
| Unvested at January 1, 2010 | 61,974   | \$ 17.83                                        |
| Granted                     | 41,984   | 24.63                                           |
| Performance adjustment      | (15,493) | 17.83                                           |
| Unvested at March 31, 2010  | 88,465   | 21.06                                           |

**(10) Derivative Financial Instruments**

As part of our currency exchange rate risk management strategy, we enter into certain derivative foreign currency forward contracts that do not meet the GAAP criteria for hedge accounting, but which have the impact of partially offsetting certain foreign currency exposures. We account for these forward contracts on a full mark-to-market basis and report the related gains or losses in currency exchange gains or losses. At March 31, 2010, the notional amount of open forward contracts was \$26.1 million and the unrealized loss on these contracts was \$0.4 million. All open forward contracts will mature during the second quarter of 2010.

The following table presents the balance sheet location and fair value of assets and liabilities associated with derivative financial instruments:

| (In thousands)                                     | Balance Sheet<br>Location       | Asset Derivatives<br>Fair Value    |                            | Liability Derivatives<br>Fair Value |                            |
|----------------------------------------------------|---------------------------------|------------------------------------|----------------------------|-------------------------------------|----------------------------|
|                                                    |                                 | Fair Value at<br>March 31,<br>2010 | at<br>December 31,<br>2009 | Fair Value at<br>March 31,<br>2010  | at<br>December 31,<br>2009 |
| Derivatives not designated as hedging instruments: |                                 |                                    |                            |                                     |                            |
| Foreign currency forward contracts                 | Other<br>current<br>liabilities | \$                                 | \$                         | \$ 384                              | \$ 289                     |

The following table presents the income statement location and impact of derivative financial instruments:

| (In thousands)                                     | Income Statement<br>Location | Amount of Loss<br>Recognized in Income<br>Three Months Ended<br>March 31 |        |
|----------------------------------------------------|------------------------------|--------------------------------------------------------------------------|--------|
|                                                    |                              | 2010                                                                     | 2009   |
| Derivatives not designated as hedging instruments: |                              |                                                                          |        |
| Foreign currency forward contracts                 | Currency exchange<br>gains   | \$ 532                                                                   | \$ 279 |

#### (11) Income Taxes

At March 31, 2010, we had a gross liability for unrecognized tax benefits of \$9.1 million. We have recognized tax benefits associated with these liabilities of \$7.4 million at March 31, 2010. These balances are unchanged since December 31, 2009. We do not expect that the total amount of the unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. Our liability for accrued interest and penalties related to uncertain tax positions was \$0.6 million at March 31, 2010.

#### (12) Fair Value Measurements

On January 1, 2008, we adopted the FASB statement on fair value measurements, as it relates to financial assets and liabilities that are remeasured and reported at least annually. On January 1, 2009, we adopted the FASB statement on fair value measurements as it relates to nonfinancial assets and liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis.

The FASB statement defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Our adoption of this statement, as it relates to financial and nonfinancial assets and liabilities, had no impact on consolidated results of operations, financial condition or liquidity.

The FASB statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

This standard is now the single source under generally accepted accounting principles for the definition of fair value, except for the fair value of leased property. The FASB statement establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

The valuation methodologies we used to measure financial assets and liabilities within the scope of the FASB statement were limited to the derivative financial instruments described in Note 10. We estimate the fair value of these financial instruments, consisting of foreign currency forward contracts, based upon valuation models with inputs that generally can be verified by observable market conditions and do not involve significant management judgment. Accordingly, the fair values of these financial instruments are classified within Level 2 of the fair value hierarchy.

### **(13) Fair Value of Financial Instruments**

With the exception of fixed rate long-term debt, we believe that the reported carrying amounts of our financial assets and liabilities approximate their fair values. At March 31, 2010, the reported carrying amount of our fixed rate long-term debt was \$84.0 million and the fair value was \$87.0 million. The fair value of our long-term debt was determined using cash flow valuation models to estimate the market value of similar transactions as of March 31, 2010.

### **(14) Contingencies**

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 2,600 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,900 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

With some limited exceptions, we maintain insurance against product liability claims. We also maintain a reserve for uninsured product liability based on expected settlement charges for pending

claims and an estimate of unreported claims derived from experience, sales volumes, and other relevant information. We evaluate our exposures on an ongoing basis and make adjustments to the reserve as appropriate. Based on information currently available, we believe that the disposition of matters that are pending will not have a materially adverse effect on our results of operations or financial condition.

In the normal course of business, we make payments to settle product liability claims and for related legal fees and record receivables for the amounts covered by insurance. Various factors could affect the timing and amount of recovery of insurance receivables, including: the outcome of negotiations with insurers, legal proceedings with respect to product liability insurance coverage, and the extent to which insurers may become insolvent in the future.

We are currently involved in coverage litigation with Century Indemnity Company (Century). We have sued Century in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that Century breached five insurance policies by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The Pennsylvania court has denied a motion by Century to stay or dismiss the Pennsylvania lawsuit. Our third motion for partial summary judgment was granted, confirming our position on the full multi-year policy limits. We expect the matter to be ready for trial in late 2010. We believe that Century's refusal to indemnify us under the policies for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with The North River Insurance Company (North River). We have sued North River in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program, in an attempt to resolve the dispute. The mediation was unsuccessful and the case will proceed to trial. We believe that North River's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

On April 9, 2010, North River filed a complaint against us and two excess insurance carriers in the Court of Common Pleas of Allegheny County, Pennsylvania seeking a declaratory judgment concerning their responsibilities under three additional policies shared with Northbrook Insurance Company. We believe that Pennsylvania law supports our position that North River has insurance responsibilities to indemnify us against various product liability claims to the full limits of these policies.

We are currently involved in coverage litigation with Columbia Casualty Company (CNA). We have sued CNA in the United States District Court for the Western District of Pennsylvania, alleging that CNA breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program, in an attempt to resolve the dispute. If mediation is unsuccessful, the case will proceed to trial. We believe that CNA's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Receivables from insurance carriers totaled \$97.4 million at March 31, 2010, of which \$19.3 million is reported in other current assets and \$78.1 million in other non-current assets. Receivables from insurance carriers totaled \$91.7



million at December 31, 2009. Based upon our evaluation of applicable insurance coverage and our ongoing insurance recovery efforts, we believe that the recorded balances are fully recoverable.

**(15) Recently Adopted and Recently Issued Accounting Standards**

In December 2007, the FASB issued a statement that requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest is to be included in consolidated net income on the face of the income statement. The statement also amended certain consolidation procedures and expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of the new statement on January 1, 2009 is reflected in these financial statements and did not have a material effect on our consolidated results of operations or financial condition.

In March 2008, the FASB issued a statement that requires companies to provide disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for, and (c) how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. We adopted the new statement on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued a staff position that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective of this staff position is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This staff position applies to all intangible assets, whether acquired in a business combination or otherwise, and is to be applied prospectively to intangible assets acquired on or after January 1, 2009. The adoption of this staff position did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued a staff position that requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. We adopted this staff position for our second quarter 2009 interim reporting period. See note 13 for disclosures related to the fair value of financial instruments.

In May 2009, the FASB issued a statement that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Our adoption of the new statement on June 30, 2009 had no impact on the financial statements as management already followed a similar approach prior to the adoption of this standard.

In June 2009, the FASB issued a statement that removes the concept of a qualifying special-purpose entity and clarifies the objective of determining whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. The adoption of this statement on January 1, 2010 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued a statement that amends the consolidation guidance applicable to variable interest entities. The adoption of this statement on January 1, 2010 did not have a material effect on our consolidated financial statements.

**(16) Subsequent Events**

On April 7, 2010, we entered into an agreement to lease our O Hara Township, Pennsylvania corporate headquarters building to Zoll Lifecor Corporation through April 30, 2021. The lease provides for a phase-in schedule under which Zoll Lifecor will assume full occupancy of the building no later than January 1, 2013. Under the terms of the lease, Zoll Lifecor has the option to purchase the building during the first fourteen months of the lease at a specified market price. The execution of this lease will enable us to reduce expenses and improve operating efficiency by relocating all functions and employees currently resident at the O Hara Township building to existing facilities at our Cranberry Woods campus. We plan to complete substantially all relocation activities by the end of 2010.

Management has evaluated subsequent events and has concluded that all events that would require recognition or disclosure are appropriately reflected in the financial statements.

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion and analysis should be read in conjunction with the historical financial statements and other financial information included elsewhere in this report on Form 10-Q. This discussion may contain forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business, and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors. These factors include, but are not limited to, spending patterns of government agencies, competitive pressures, product liability claims and our ability to collect related insurance receivables, the success of new product introductions, currency exchange rate fluctuations, the identification and successful integration of acquisitions, and the risks of doing business in foreign countries. For discussion of risk factors affecting our business, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.*

**BUSINESS OVERVIEW**

We are a global leader in the development, manufacture and supply of products that protect people's health and safety. Our safety products typically integrate any combination of electronics, mechanical systems, and advanced materials to protect users against hazardous or life threatening situations. Our comprehensive lines of safety products are used by workers around the world in the fire service, homeland security, construction, and other industries, as well as the military.

We are committed to providing our customers with service unmatched in the safety industry and, in the process, enhancing our ability to provide a growing line of safety solutions for customers in key global markets. Four strategic imperatives drive us toward our goal of building customer loyalty by delivering exceptional levels of protection, quality, and value:

Achieve sustainable growth through product leadership;

Expand market penetration through exceptional customer focus;

Control costs and increase efficiency in asset utilization; and

Build the depth, breadth, and diversity of our global team.

We tailor our product offerings and distribution strategy to satisfy distinct customer preferences that vary across geographic regions. We believe that we best serve these customer preferences by organizing our business into three geographic segments: North America, Europe, and International. Each segment includes a number of operating companies. In 2010, we changed the composition of our European and International segments to reflect new management responsibilities. Under the new segment structure, our operations in the Middle East, Egypt and India are reported in the European segment. Previously these operations were reported in the International segment. Comparative 2009 amounts have been revised to conform to the current year presentation. In 2009, approximately 48%, 28%, and 24% of our net sales were made by our North American, European, and International segments, respectively.

*North America.* Our largest manufacturing and research and development facilities are located in the United States. We serve our North American markets with sales and distribution functions in the U.S., Canada, and Mexico.

*Europe.* Our European segment includes well-established companies in most Western European countries and more recently established operations in a number of Eastern European and Middle Eastern locations. Our largest European companies, based in Germany and France, develop,

manufacture, and sell a wide variety of products. Operations in other European segment countries focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in Germany, France, and the U.S., or are purchased from third party vendors.

*International.* Our International segment includes operating entities located in Argentina, Australia, Brazil, Colombia, Chile, China, Hong Kong, Indonesia, Japan, Malaysia, Peru, Singapore, South Africa, Thailand, and Zambia, some of which are in developing regions of the world. Principal manufacturing operations are located in Australia, Brazil, South Africa, and China. These companies develop and manufacture products that are sold primarily in each company's home country and regional markets. The other companies in the International segment focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in the U.S., Germany, and France, or are purchased from third party vendors.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2010 Compared to Three Months Ended March 31, 2009

*Net sales.* Net sales for the three months ended March 31, 2010 were \$212.4 million, a decrease of \$5.8 million, or 3%, compared with \$218.2 million for the three months ended March 31, 2009.

| (In millions) | Three Months Ended<br>March 31 |          | Dollar                 | Percent                |
|---------------|--------------------------------|----------|------------------------|------------------------|
|               | 2010                           | 2009     | (Decrease)<br>Increase | (Decrease)<br>Increase |
| North America | \$ 99.1                        | \$ 110.7 | \$ (11.6)              | (10%)                  |
| Europe        | 56.6                           | 60.4     | (3.8)                  | (6)                    |
| International | 56.7                           | 47.1     | 9.6                    | 20                     |

Net sales by the North American segment were \$99.1 million for the first quarter of 2010, a decrease of \$11.6 million, or 10%, compared to \$110.7 million for the first quarter of 2009. Sales of SCBAs were \$13.0 million lower during the first quarter of 2010. Shipments of SCBAs in the first quarter 2009 included \$7.3 million in shipments to the U.S. Air Force. Excluding these shipments, SCBA sales were \$5.7 million lower in the current quarter, reflecting a delay in the release of funds under the U.S. federal government's Assistance to Firefighters Grants program. Shipments of Advanced Combat Helmets to the U.S. military were \$3.8 million lower, reflecting the transition to a new contract. These decreases were partially offset by higher shipments of head protection and instruments, up \$1.9 million and \$3.4 million, respectively, on modestly improved demand in industrial markets.

Net sales for the European segment were \$56.6 million for the first quarter of 2010, a decrease of \$3.8 million, or 6%, compared to \$60.4 million for the first quarter of 2009. Local currency sales in Europe decreased \$8.4 million during the first quarter of 2010. In France, local currency sales were \$2.6 million lower in the current quarter, reflecting lower shipments of ballistic helmets and fire helmets. In Germany, local currency sales were \$1.5 million lower for the quarter ended March 31, 2010, reflecting a \$1.6 million decrease in shipments of gas masks and a \$1.1 million decrease in ballistic helmet shipments, primarily to the military, partially offset by a \$0.8 increase in SCBA shipments. Local currency sales in other Western European companies and in Eastern Europe were down \$2.0 million and \$2.5 million, respectively, for the current quarter, reflecting the continuing effects of the recession. Favorable translation effects of a stronger euro in the current quarter increased European segment sales, when stated in U.S. dollars, by approximately \$4.6 million.

Net sales for the International segment were \$56.7 million in the first quarter of 2010, an increase of \$9.6 million, or 20%, compared to \$47.1 million for the first quarter of 2009. Local currency sales of the International segment were flat quarter-to-quarter. Currency translation effects increased International segment sales, when stated in U.S. dollars, by \$9.4 million, primarily related to a strengthening of the Australian dollar, South African rand, and Brazilian real.

**Cost of products sold.** Cost of products sold was \$130.0 million in the first quarter of 2010, compared to \$135.2 million in the first quarter of 2009. Cost of products sold, selling, general and administrative expenses, and research and development expenses include net periodic pension credits during the first quarters of 2010 and 2009 of \$1.6 million and \$2.0 million, respectively.

**Gross profit.** Gross profit for the first quarter of 2010 was \$82.5 million, which was \$0.5 million, or 1%, lower than gross profit of \$83.0 million in the first quarter of 2009. The ratio of gross profit to net sales was 38.8% in the first quarter of 2010 compared to 38.0% in the same quarter last year. The higher gross profit ratio in the first quarter of 2010 was primarily related to sales mix.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$61.9 million during the first quarter of 2010, an increase of \$5.1 million, or 9%, compared to \$56.8 million in the first quarter of 2009. Selling, general and administrative expenses were 29.1% of net sales in the first quarter of 2010 compared to 26.0% of net sales in the first quarter of 2009. First quarter selling, general and administrative expenses in the North American segment were \$1.4 million, or 6%, higher than in the same quarter last year. The increase in North American segment selling, general and administrative expenses was primarily related to legal fees and other professional services associated with our ongoing insurance litigation. Local currency selling, general and administrative expenses in the European and International segments were flat. Currency exchange increased first quarter 2010 selling, general and administrative expenses, when stated in U.S. dollars, by \$3.5 million.

**Research and development expense.** Research and development expense was \$7.7 million during the first quarter of 2010, an increase of \$0.7 million, or 10%, compared to \$7.0 million during the first quarter of 2009. The increase occurred in the United States, reflecting our focus on developing innovative new products.

**Restructuring and other charges.** During the first quarter of 2010, we recorded charges of \$6.8 million (\$4.7 million after tax). European segment charges of \$5.3 million related primarily to a focused voluntary retirement incentive program in Germany (German VRIP). During the first quarter of 2010, 27 employees made irrevocable elections to retire under the terms of the German VRIP. All of these employees had retired by March 31, 2010. German VRIP termination benefit expense of \$5.0 million was recorded in March 2010. North American segment charges of \$1.0 million included stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. European and International segment charges of \$0.3 million and \$0.5 million, respectively, were primarily for severance costs associated with staff reductions in Germany and South Africa.

During the first quarter of 2009, we recorded charges of \$8.1 million (\$5.1 million after tax). North American segment charges of \$7.6 million related primarily to a focused voluntary retirement incentive program (North American VRIP). During January 2009, 61 employees made irrevocable elections to retire under the terms of the North American VRIP. These employees retired on January 31, 2009. North American VRIP non-cash special termination benefits expense of \$6.6 million was recorded in January 2009. The remaining \$1.0 million of North American segment charges related to costs associated with layoffs and stay bonuses and other costs related to the transfer of certain production activities. International segment charges of \$0.5 million were primarily for severance costs related to staff reductions in Brazil.

**Interest expense.** Interest expense was \$1.5 million during the first quarter of 2010, a decrease of \$0.3 million, or 17%, compared to \$1.8 million in the same quarter last year. The decrease in interest expense was due to reductions in both short and long-term debt and lower short-term interest rates.

**Currency exchange gains.** We reported currency exchange gains of \$2.2 million in the first quarter of 2010, compared to gains of \$0.9 million in the first quarter of 2009. Currency exchange gains in both quarters were mostly unrealized and related to the favorable effect of a weaker euro on inter-company balances.

**Income taxes.** The effective tax rate for the first quarter of 2010 was 35.4% compared to 32.9% for the same quarter last year. The higher effective tax rate in the current quarter was primarily due to the expiration of the research and development tax credit in the U.S.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the first quarter of 2010 was \$4.9 million, or \$0.14 per basic share, compared to \$7.2 million, or \$0.20 per basic share, for the same quarter last year.

North American segment net income for the first quarter of 2010 was \$3.4 million, a decrease of \$0.3 million, or 8%, compared to \$3.7 million in the first quarter of 2009. North American segment net income for the first quarter of 2009 included a \$4.4 million after-tax charge related to voluntary retirement incentive program in the U.S. Excluding this one-time charge, North American segment net income was down \$4.7 million in the current quarter. The decrease reflects the negative effect of the previously-discussed decrease in sales.

The European segment reported a net loss for the first quarter of 2010 of \$3.8 million, compared to net income of \$2.2 million during the first quarter of 2009. The current quarter loss includes a \$3.7 million after-tax charge related to the voluntary retirement incentive program and severance costs in Germany. Excluding this one-time charge, European segment net income was down \$2.3 million in the current quarter. The decrease was primarily due to the previously discussed decrease in sales. Currency translation effects increased current period European segment net income, when stated in U.S. dollars, by \$0.9 million.

International segment net income for the first quarter of 2010 was \$3.9 million, an increase of \$3.4 million, compared to \$0.5 million in the same quarter last year. Higher local currency net income was primarily related to improved gross profits. Higher gross profits reflect a more favorable product and geographic sales mix. Currency translation effects increased current quarter International segment net income, when stated in U.S. dollars by approximately \$0.5 million.

Income reported in reconciling items for the first quarters 2010 and 2009 of \$1.4 million and \$0.8 million, respectively, was primarily related to unrealized currency exchange gains on inter-company balances.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our main source of liquidity is operating cash flows, supplemented by borrowings to fund significant transactions. Our principal liquidity requirements are for working capital, capital expenditures, acquisitions, and principal and interest payments on debt. We believe that our financial strength has been evident during the recession and the early stages of recovery. Our long-term debt is primarily at fixed interest rates with manageable repayment schedules through 2022. We recently increased our available credit and currently have over \$92.0 million in unused short-term bank lines of credit at competitive interest rates. All of our long-term borrowings and substantially all of our short-term borrowings originate in the U.S., which has limited our exposure to non-U.S. credit markets and to currency exchange rate fluctuations.

Cash and cash equivalents decreased \$0.1 million during the three months ended March 31, 2010, compared to a decrease of \$1.2 million during the three months ended March 31, 2009.

Operating activities used cash of \$6.4 million during the three months ended March 31, 2010, compared to providing cash of \$22.5 million during the three months ended March 31, 2009. Significantly lower operating cash flow in the first quarter of 2010 reflects a \$14.3 million unfavorable change associated with working capital and a \$14.6 million decrease in operating cash flow before changes in working capital. Lower operating cash flow before changes in working capital was primarily due to lower net income and less favorable adjustments for non-cash items. Trade receivables were \$170.2 million at March 31, 2010, compared to \$173.4 million at December 31, 2009. LIFO inventories were \$128.7 million at March 31, 2010, compared to \$123.9 million at December 31, 2009. The \$3.2 million decrease in trade receivables reflects a \$1.3 million decrease in local currency balances, primarily in North America, and a \$1.9 million reduction due to currency translation effects. The \$4.8 million increase in inventories reflects a \$6.9 million increase in local currency inventories, partially offset by a \$2.1 million reduction due to currency translation effects. Increased inventory levels are primarily in anticipation of higher customer demand.

Investing activities used cash of \$2.2 million during the three months ended March 31, 2010, compared to using \$8.4 million in the same quarter last year. The decrease related primarily to property additions. During the three months ended March 31, 2010 and 2009, we used cash of \$3.6 million and \$8.6 million, respectively, for property additions. Higher property additions in the first quarter of 2009 were related to the construction of our new facility in Suzhou, China, as well as major building improvement projects in Brazil and Australia.

Financing activities provided cash of \$9.4 million during the three months ended March 31, 2010, compared to using \$13.6 million during the first quarter of 2009. The change was primarily related to borrowing on our short-term line of credit. During the first quarter of 2010, we borrowed \$18.4 million, compared to making payments of \$4.5 million in the first quarter of 2009. We paid cash dividends of \$8.6 million in the first quarters of both 2010 and 2009.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at March 31, 2010 resulted in a translation loss of \$6.0 million being charged to the cumulative translation adjustments shareholders' equity account during the three months ended March 31, 2010, compared to a loss of \$7.9 million during the three months ended March 31, 2009. Translation losses during both quarters were primarily related to the weakening of the euro.

#### **COMMITMENTS AND CONTINGENCIES**

We expect to make net contributions of \$3.9 million to our pension plans during 2010.

We have purchase commitments for materials, supplies, services, and property, plant and equipment as part of our ordinary conduct of business.

In September 2006, we acquired Paraclete Armor and Equipment, Inc. Under the terms of the asset purchase agreement, we issued a \$10.0 million note payable to the former owners of Paraclete. The note is non-interest bearing and is payable in five annual installments of \$2.0 million beginning September 1, 2007. We recorded the note at a fair value of \$8.5 million at the time of issuance. The discount of \$1.5 million is being amortized over the term of the note.

During 2003, we sold our real property in Berlin, Germany for \$25.7 million, resulting in a gain of \$13.6 million. At the same time, we entered into an eight year agreement to lease back the portion of the property that we occupy. Under sale-leaseback accounting, \$12.1 million of the gain was deferred and is being amortized over the term of the lease.

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 2,600 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,900 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

With some limited exceptions, we maintain insurance against product liability claims. We also maintain a reserve for uninsured product liability based on expected settlement charges for pending claims and an estimate of unreported claims derived from experience, sales volumes, and other relevant information. We evaluate our exposures on an ongoing basis and make adjustments to the reserve as appropriate. Based on information currently available, we believe that the disposition of matters that are pending will not have a materially adverse effect on our results of operations or financial condition.

In the normal course of business, we make payments to settle product liability claims and for related legal fees and record receivables for the amounts covered by insurance. Various factors could affect the timing and amount of recovery of insurance receivables, including: the outcome of negotiations with insurers, legal proceedings with respect to product liability insurance coverage, and the extent to which insurers may become insolvent in the future.

We are currently involved in coverage litigation with Century Indemnity Company (Century). We have sued Century in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that Century breached five insurance policies by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The Pennsylvania court has denied a motion by Century to stay or dismiss the Pennsylvania lawsuit. Our third motion for partial summary judgment was granted, confirming our position on the full multi-year policy limits. We expect the matter to be ready for trial in late 2010. We believe that Century's refusal to indemnify us under the policies for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with The North River Insurance Company (North River). We have sued North River in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program, in an attempt to resolve the dispute. The mediation was unsuccessful and the case will proceed to trial. We believe that North River's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.



On April 9, 2010, North River filed a complaint against us and two excess insurance carriers in the Court of Common Pleas of Allegheny County, Pennsylvania seeking a declaratory judgment concerning their responsibilities under three additional policies shared with Northbrook Insurance Company. We believe that Pennsylvania law supports our position that North River has insurance responsibilities to indemnify us against various product liability claims to the full limits of these policies.

We are currently involved in coverage litigation with Columbia Casualty Company (CNA). We have sued CNA in the United States District Court for the Western District of Pennsylvania, alleging that CNA breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program, in an attempt to resolve the dispute. If mediation is unsuccessful, the case will proceed to trial. We believe that CNA's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Receivables from insurance carriers totaled \$97.4 million at March 31, 2010, of which \$19.3 million is reported in other current assets and \$78.1 million in other non-current assets. Receivables from insurance carriers totaled \$91.7 million at December 31, 2009. Based upon our evaluation of applicable insurance coverage and our ongoing insurance recovery efforts, we believe that the recorded balances are fully recoverable.

#### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. 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 the related disclosures. We evaluate these estimates and judgments on an on-going basis based on historical experience and various assumptions that we believe to be reasonable under the circumstances. However, different amounts could be reported if we had used different assumptions and in light of different facts and circumstances. Actual amounts could differ from the estimates and judgments reflected in our financial statements.

The more critical judgments and estimates used in the preparation of our financial statements are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009.

#### **RECENTLY ADOPTED AND RECENTLY ISSUED ACCOUNTING STANDARDS**

In December 2007, the FASB issued a statement that requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest is to be included in consolidated net income on the face of the income statement. The statement also amended certain consolidation procedures and expanded disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of the new statement on January 1, 2009 is reflected in these financial statements and did not have a material effect on our consolidated results of operations or financial condition.

In March 2008, the FASB issued a statement that requires companies to provide disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged

items are accounted for, and (c) how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. We adopted the new statement on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued a staff position that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset. The objective of this staff position is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This staff position applies to all intangible assets, whether acquired in a business combination or otherwise, and is to be applied prospectively to intangible assets acquired on or after January 1, 2009. The adoption of this staff position did not have a material effect on our consolidated financial statements.

In April 2009, the FASB issued a staff position that requires disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. We adopted this staff position for our second quarter 2009 interim reporting period. See note 13 for disclosures related to the fair value of financial instruments.

In May 2009, the FASB issued a statement that establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. Specifically, the statement sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. Our adoption of the new statement on June 30, 2009 had no impact on the financial statements as management already followed a similar approach prior to the adoption of this standard.

In June 2009, the FASB issued a statement that removes the concept of a qualifying special-purpose entity and clarifies the objective of determining whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. The adoption of this statement on January 1, 2010 did not have a material effect on our consolidated financial statements.

In June 2009, the FASB issued a statement that amends the consolidation guidance applicable to variable interest entities. The adoption of this statement on January 1, 2010 did not have a material effect on our consolidated financial statements.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Market risk represents the risk of adverse changes in the value of a financial instrument caused by changes in currency exchange rates, interest rates, and equity prices. We are exposed to market risks related to currency exchange rates and interest rates.

**Currency exchange rate sensitivity.** We are subject to the effects of fluctuations in currency exchange rates on various transactions and on the translation of the reported financial position and operating results of our non-U.S. companies from local currencies to U.S. dollars. A hypothetical 10% strengthening or weakening of the U.S. dollar would decrease or increase our reported sales for the three months ended March 31, 2010 by approximately \$11.3 million.

When appropriate, we may attempt to limit our transactional exposure to changes in currency exchange rates through contracts or other actions intended to reduce existing exposures by creating offsetting currency exposures. At March 31, 2010, we had open foreign currency forward contracts with a U.S. dollar notional value of \$26.1 million. A hypothetical 10% increase in March 31, 2010 forward exchange rates would result in a \$2.6 million increase in the fair value of these contracts.

**Interest rate sensitivity.** We are exposed to changes in interest rates primarily as a result of borrowing and investing activities used to maintain liquidity and fund business operations. Because of the relatively short maturities of temporary investments and the variable rate nature of industrial development debt, these financial instruments are reported at carrying values that approximate fair values.

We have \$84.0 million of fixed rate debt which matures at various dates through 2021. The incremental increase in the fair value of fixed rate long term debt resulting from a hypothetical 10% decrease in interest rates would be approximately \$1.5 million. However, our sensitivity to interest rate declines and the corresponding increase in the fair value of our debt portfolio would unfavorably affect earnings and cash flows only to the extent that we elected to repurchase or retire all or a portion of our fixed rate debt portfolio at prices above carrying values.

#### **Item 4. CONTROLS AND PROCEDURES**

- (a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.
  
- (b) *Changes in internal control.* There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

## (c) Issuer Purchases of Equity Securities

| <b>Period</b>                | <b>Total Number of<br/>Shares<br/>Purchased</b> | <b>Average Price Paid<br/>Per Share</b> | <b>Total Number of<br/>Shares Purchased<br/>As Part of Publicly<br/>Announced Plans or<br/>Programs</b> | <b>Maximum Number<br/>of Shares<br/>That May Yet Be<br/>Purchased Under<br/>the Plans or<br/>Programs</b> |
|------------------------------|-------------------------------------------------|-----------------------------------------|---------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------|
| January 1 January 31, 2010   |                                                 | \$                                      |                                                                                                         | 2,021,595                                                                                                 |
| February 1 February 28, 2010 |                                                 |                                         |                                                                                                         | 1,918,087                                                                                                 |
| March 1 March 31, 2010       | 10,279                                          | 26.61                                   |                                                                                                         | 1,741,782                                                                                                 |

On November 2, 2005, the Board of Directors authorized the purchase of up to \$100 million of common stock from time-to-time in private transactions and on the open market. The share purchase program has no expiration date. The maximum shares that may yet be purchased is calculated based on the dollars remaining under the program and the respective month-end closing share price.

We do not have any other share repurchase programs.

Shares purchased during March 2010 related to stock compensation transactions.

**Item 6. EXHIBITS**

## (a) Exhibits

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
- 32 Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. (S)1350

**SIGNATURE**

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

MINE SAFETY APPLIANCES COMPANY

April 29, 2010

/s/ Dennis L. Zeitler  
Dennis L. Zeitler  
Senior Vice President Finance;

Duly Authorized Officer and Principal Financial Officer

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