

MINE SAFETY APPLIANCES CO  
Form 10-Q  
April 30, 2009

# 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, 2009

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)

121 Gamma Drive

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

15238

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**RIDC Industrial Park**

**O Hara Township**

**Pittsburgh, Pennsylvania**  
(Address of principal executive offices)

(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 30, 2009 there were 35,938,703 shares of common stock outstanding, not including 2,220,084 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</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31</b>           |             |
|   | <b>2009</b>               | <b>2008</b> |
| Net sales   | \$ 218,175                | \$ 266,344  |
| Other income  | 859                       | 1,059       |
|   | 219,034                   | 267,403     |
| Costs and expenses  |                           |             |
| Cost of products sold   | 135,198                   | 159,992     |
| Selling, general and administrative                           | 56,820                    | 66,094      |
| Research and development                                      | 7,013                     | 7,352       |
| Restructuring and other charges                               | 8,095                     | 1,106       |
| Interest  | 1,847                     | 2,494       |
| Currency exchange (gains) losses                              | (926)                     | 4,094       |
|   | 208,047                   | 241,132     |
| Income before income taxes                                    | 10,987                    | 26,271      |
| Provision for income taxes                                    | 3,614                     | 10,101      |
| Net income  | 7,373                     | 16,170      |
| Less: Net income attributable to the noncontrolling interests | 152                       | 143         |
| Net income attributable to Mine Safety Appliances Company     | 7,221                     | 16,027      |
| Basic earnings per common share                               | \$ 0.20                   | \$ 0.45     |
| Diluted earnings per common share                             | \$ 0.20                   | \$ 0.44     |
| Dividends per common share                                    | \$ 0.24                   | \$ 0.22     |

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

Unaudited

|  | March 31<br>2009 | December 31<br>2008 |
|--|------------------|---------------------|
| <b>Assets</b>  |                  |                     |
| Current assets   |                  |                     |
| Cash and cash equivalents  | \$ 49,660        | \$ 50,894           |
| Trade receivables, less allowance for doubtful accounts of \$6,519 and \$6,050   | 175,231          | 198,622             |
| Inventories  | 152,439          | 159,428             |
| Deferred tax assets  | 22,929           | 23,023              |
| Income taxes receivable  | 14,830           | 21,362              |
| Prepaid expenses and other current assets  | 22,985           | 24,446              |
| <b>Total current assets</b>  | <b>438,074</b>   | <b>477,775</b>      |
| Property, less accumulated depreciation of \$284,755 and \$283,602   | 141,128          | 141,409             |
| Prepaid pension cost   | 75,010           | 78,037              |
| Deferred tax assets  | 7,262            | 7,651               |
| Goodwill   | 82,305           | 83,211              |
| Other noncurrent assets  | 95,862           | 87,727              |
| <b>Total assets</b>  | <b>839,641</b>   | <b>875,810</b>      |
| <b>Liabilities and Equity</b>  |                  |                     |
| Current liabilities  |                  |                     |
| Notes payable and current portion of long-term debt  | \$ 56,325        | \$ 60,849           |
| Accounts payable   | 44,671           | 50,126              |
| Employees' compensation  | 22,897           | 30,368              |
| Insurance and product liability  | 21,192           | 20,487              |
| Taxes on income  | 4,879            | 6,083               |
| Other current liabilities  | 45,103           | 51,774              |
| <b>Total current liabilities</b>   | <b>195,067</b>   | <b>219,687</b>      |
| Long-term debt   | 94,111           | 94,082              |
| Pensions and other employee benefits   | 117,618          | 120,494             |
| Deferred tax liabilities   | 36,297           | 36,491              |
| Other noncurrent liabilities   | 9,008            | 9,931               |
| <b>Total liabilities</b>   | <b>452,101</b>   | <b>480,685</b>      |
| Equity   |                  |                     |
| Preferred stock, 4 1/2% 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 35,938,703 and 35,786,290 shares) | 70,480           | 69,607              |
| Stock compensation trust 2,220,084 and 2,378,462 shares  | (11,589)         | (12,416)            |
| Treasury shares, at cost:  |                  |                     |
| Preferred 52,878 and 52,878 shares   | (1,753)          | (1,753)             |

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|  |           |           |
|--|-----------|-----------|
| Common 23,922,604 and 23,916,639 shares                  | (256,184) | (256,077) |
| Accumulated other comprehensive loss                     | (81,165)  | (73,233)  |
| Retained earnings  | 663,872   | 665,248   |
| Total Mine Safety Appliances Company shareholders equity | 387,230   | 394,945   |
| Noncontrolling interests                                 | 310       | 180       |
| Total equity   | 387,540   | 395,125   |
| Total liabilities and equity                             | 839,641   | 875,810   |

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 |                 |
|--|--------------------------------|-----------------|
|  | 2009                           | 2008            |
| <b>Operating Activities</b>                                  |                                |                 |
| Net income attributable to Mine Safety Appliances Company    | \$ 7,221                       | \$ 16,027       |
| Depreciation and amortization                                | 6,754                          | 6,769           |
| Pensions   | 4,350                          | (2,160)         |
| Net loss (gain) from investing activities property disposals | 263                            | (28)            |
| Stock-based compensation                                     | 2,142                          | 2,218           |
| Deferred income tax benefit                                  | (251)                          | (242)           |
| Other noncurrent assets and liabilities                      | (10,475)                       | (8,470)         |
| Currency exchange (gains) losses                             | (926)                          | 4,094           |
| Other, net   | (123)                          | 425             |
| <b>Operating cash flow before changes in working capital</b> | <b>8,955</b>                   | <b>18,633</b>   |
| Trade receivables  | 20,045                         | (8,643)         |
| Inventories  | 2,834                          | (18,648)        |
| Accounts payable and accrued liabilities                     | (16,740)                       | 1,283           |
| Prepaid expenses and other current assets                    | 7,402                          | 1,298           |
| <b>Decrease (increase) in working capital</b>                | <b>13,541</b>                  | <b>(24,710)</b> |
| <b>Cash flow from operating activities</b>                   | <b>22,496</b>                  | <b>(6,077)</b>  |
| <b>Investing Activities</b>                                  |                                |                 |
| Property additions   | (8,577)                        | (10,091)        |
| Property disposals   | 204                            |                 |
| Acquisitions, net of cash acquired and other investing       | (46)                           | (228)           |
| <b>Cash flow from investing activities</b>                   | <b>(8,419)</b>                 | <b>(10,319)</b> |
| <b>Financing Activities</b>                                  |                                |                 |
| (Payments on) proceeds from short-term debt, net             | (4,491)                        | 13,951          |
| Cash dividends paid  | (8,597)                        | (7,857)         |
| Company stock purchases                                      | (107)                          | (381)           |
| Exercise of stock options                                    |                                | 111             |
| Excess tax (provision) benefit related to stock plans        | (441)                          | 83              |
| <b>Cash flow from financing activities</b>                   | <b>(13,636)</b>                | <b>5,907</b>    |
| <b>Effect of exchange rate changes on cash</b>               | <b>(1,675)</b>                 | <b>2,726</b>    |
| <b>Decrease in cash and cash equivalents</b>                 | <b>(1,234)</b>                 | <b>(7,763)</b>  |
| <b>Beginning cash and cash equivalents</b>                   | <b>50,894</b>                  | <b>74,981</b>   |
| <b>Ending cash and cash equivalents</b>                      | <b>49,660</b>                  | <b>67,218</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, 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 (VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the VRIP. These employees retired on January 31, 2009. VRIP non-cash special termination benefits expense of \$6.6 million was recorded in January 2009. We expect that the staff reductions associated with the VRIP will result in annual pre-tax savings of approximately \$5.0 million. The remaining \$1.0 million of North American segment charges related to costs associated with layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities from our Evans City, Pennsylvania plant. International segment charges of \$0.5 million were primarily for severance costs related to staff reductions in Brazil.

During the three months ended March 31, 2008, we recorded charges of \$1.1 million (\$0.7 million after tax). These charges included \$0.6 million in North America, primarily related to stay bonuses and other costs associated with the transfer of certain production activities from our Evans City, Pennsylvania plant. International segment charges of \$0.5 million were severance costs related to staff reductions in Japan.



**(3) Comprehensive (Loss) Income**

Components of comprehensive (loss) income are as follows:

| <b>(In thousands)</b>  | <b>Three Months Ended<br/>March 31</b> |             |
|--|--|-------------|
|  | <b>2009</b>                            | <b>2008</b> |
| Net income   | \$ 7,373                               | \$ 16,170   |
| Foreign currency translation adjustments                                   | (7,943)                                | 11,285      |
| Comprehensive (loss) income  | (570)                                  | 27,455      |
| Comprehensive (income) loss attributable to the noncontrolling interests   | (141)                                  | 249         |
| Comprehensive (loss) income attributable to Mine Safety Appliances Company | (711)                                  | 27,704      |

Components of accumulated other comprehensive loss are as follows:

| <b>(In thousands)</b>                               | <b>March 31<br/>2009</b> | <b>December 31<br/>2008</b> |
|---|--------------------------|-----------------------------|
| Cumulative foreign currency translation adjustments | \$ (10,503)              | \$ (2,571)                  |
| Pension and post-retirement plan adjustments        | (70,662)                 | (70,662)                    |
| Accumulated other comprehensive loss                | (81,165)                 | (73,233)                    |

**(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 includes the effect of the weighted average stock options outstanding during the period, using the treasury stock method. Antidilutive options are not considered in computing diluted earnings per share.

| <b>(In thousands, except per share amounts)</b>           | <b>Three Months Ended<br/>March 31</b> |             |
|---|--|-------------|
|   | <b>2009</b>                            | <b>2008</b> |
| Net income attributable to Mine Safety Appliances Company | \$ 7,221                               | \$ 16,027   |
| Preferred stock dividends                                 | 10                                     | 10          |
| Income available to common shareholders                   | 7,211                                  | 16,017      |
| Basic earnings per common share                           | \$ 0.20                                | \$ 0.45     |
| Diluted earnings per common share                         | \$ 0.20                                | \$ 0.44     |
| Basic shares outstanding                                  | 35,633                                 | 35,540      |
| Stock options   | 191                                    | 481         |
| Diluted shares outstanding                                | 35,824                                 | 36,021      |
| Antidilutive stock options                                | 967                                    | 391         |



**(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, 2009</b>                  |                  |           |               |                      |                        |
| Sales to external customers                               | \$ 110,721       | \$ 56,917 | \$ 50,537     | \$                   | \$ 218,175             |
| Intercompany sales  | 13,596           | 24,993    | 1,430         | (40,019)             |                        |
| Net income attributable to Mine Safety Appliances Company | 3,724            | 2,069     | 615           | 813                  | 7,221                  |
| <b>Three Months Ended March 31, 2008</b>                  |                  |           |               |                      |                        |
| Sales to external customers                               | \$ 146,642       | \$ 60,405 | \$ 59,297     | \$                   | \$ 266,344             |
| Intercompany sales  | 12,600           | 26,449    | 2,053         | (41,102)             |                        |
| Net income attributable to Mine Safety Appliances Company | 14,582           | 688       | 3,566         | (2,809)              | 16,027                 |

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

In 2009, we changed our method of allocating research and development expenses to each segment. Comparative 2008 net income amounts have been revised to conform to the current year presentation. The effect of the revisions to net income for the three months ended March 31, 2008 increased North American and European segment net income by \$0.2 million and \$0.4 million, respectively, and decreased International segment net income by \$0.6 million.

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

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

| (In thousands)                          | Pension Benefits |          | Other Benefits |        |
|---|------------------|----------|----------------|--------|
|   | 2009             | 2008     | 2009           | 2008   |
| <b>Three months ended March 31</b>      |                  |          |                |        |
| Service cost                            | \$ 1,910         | \$ 2,387 | \$ 181         | \$ 168 |
| Interest cost                           | 4,589            | 4,770    | 470            | 394    |
| Expected return on plan assets          | (8,631)          | (9,112)  |                |        |
| Amortization of transition amounts      | 1                | 2        |                |        |
| Amortization of prior service cost      | 33               | 47       | (88)           | (89)   |
| Recognized net actuarial losses (gains) | 58               | (254)    | 262            | 195    |
| Termination benefits                    | 6,390            |          | 250            |        |
| Net periodic benefit cost (credit)      | 4,350            | (2,160)  | 1,075          | 668    |

We made contributions of \$0.6 million to our pension plans during the three month periods ended March 31, 2009 and March 31, 2008.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets, net of accumulated amortization, during the three months ended March 31, 2009 were as follows:

| (In thousands)                          | Goodwill  | Intangibles |
|---|-----------|-------------|
| Net balances at January 1, 2009         | \$ 83,211 | \$ 15,501   |
| Goodwill and intangible assets acquired |           | 150         |
| Amortization expense                    |           | (582)       |
| Currency translation and other          | (906)     | (36)        |
| Net balances at March 31, 2009          | 82,305    | 15,033      |

At March 31, 2009, goodwill of approximately \$63.5 million, \$15.7 million, and \$3.1 million related to the North American, European, and International operating segments, respectively.

**(8) Inventories**

| (In thousands)             | March 31<br>2009 | December 31<br>2008 |
|----------------------------|------------------|---------------------|
| Finished products          | \$ 69,572        | \$ 66,445           |
| Work in process            | 23,712           | 29,224              |
| Raw materials and supplies | 59,155           | 63,759              |
| Total inventories          | 152,439          | 159,428             |

**(9) Stock Plans**

On May 13, 2008, the shareholders approved the 2008 Management Equity Incentive Plan and the 2008 Non-Employee Directors Equity Incentive Plan. These plans replaced the 1998 Management Share Incentive Plan and the 1990 Non-Employee Directors Stock Option Plan. The 2008 Management Equity Incentive Plan provides for various forms of stock-based compensation for eligible key employees through May 2018. Management stock-based compensation includes stock options, restricted stock and, beginning in 2009, 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, with limited instances of option prices in excess of market value and expiration after five 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 is valued at the market value of the stock on the grant date. 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 and restricted stock grants.

Stock-based compensation expense was as follows:

| (In thousands)  | Three Months Ended<br>March 31 |          |
|---|--------------------------------|----------|
|   | 2009                           | 2008     |
| Stock compensation expense                            | \$ 2,142                       | \$ 2,218 |
| Income tax benefit                                    | 745                            | 770      |
| Stock compensation expense, net of income tax benefit | 1,397                          | 1,448    |

A summary of stock option activity for the three months ended March 31, 2009 follows:

|                                | Shares    | Weighted<br>Average<br>Exercise Price |
|--------------------------------|-----------|---------------------------------------|
| Outstanding at January 1, 2009 | 1,706,439 | \$ 26.65                              |
| Granted                        | 399,278   | 17.83                                 |
| Outstanding at March 31, 2009  | 2,105,717 | 24.98                                 |
| Exercisable at March 31, 2009  | 1,349,115 | 22.27                                 |

A summary of restricted stock activity for the three months ended March 31, 2009 follows:

|                             | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|----------|---|
| Unvested at January 1, 2009 | 189,062  | \$ 42.56  |
| Granted                     | 177,150  | 17.83   |
| Vested                      | (31,897) | 40.41   |
| Forfeited                   | (128)    | 40.10   |
| Unvested at March 31, 2009  | 334,187  | 29.66   |

During the three months ended March 31, 2009, we granted performance stock units for 64,780 shares with a grant date fair value of \$17.83 per share.

#### (10) Derivative Financial Instruments

In 2004, we entered into an eight year interest rate swap agreement, which was designated as a fair value hedge of a portion of our fixed rate 8.39% Senior Notes. Under the terms of the swap agreement, we received a fixed interest rate of 8.39% and paid a floating interest rate based on LIBOR. At December 31, 2008, the notional amount of the swap was \$16.0 million and the fair value was recorded as an asset of \$0.6 million that was included in other noncurrent assets, with an offsetting increase in the carrying value of long-term debt.

On January 15, 2009, we terminated the interest rate swap agreement and received a termination payment of \$0.6 million, which represented the fair value of the swap on that date. That value has been recorded as an increase in the carrying value of long-term debt and is being recognized as a reduction of interest expense over the original term of the interest rate swap agreement.

As part of our currency exchange rate risk management strategy, we enter into certain derivative foreign currency forward contracts that do not meet the criteria for hedge accounting under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, but which have the

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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

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gains or losses in currency exchange (gains) losses. At March 31, 2009, the notional amount of open forward contracts was \$9.3 million and the unrealized loss on these contracts was \$0.4 million. All of these contracts will mature during the second quarter of 2009.

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

|  | Balance Sheet Location    | Asset Derivatives Fair Value |                      | Liability Derivatives Fair Value |                      |
|--|---------------------------|------------------------------|----------------------|----------------------------------|----------------------|
|  |                           | Fair Value at March 31, 2009 | at December 31, 2008 | Fair Value at March 31, 2009     | at December 31, 2009 |
| Derivatives designated as hedging instruments under FAS No. 133:     |                           |                              |                      |                                  |                      |
| Interest rate swap   | Other noncurrent assets   | \$                           | \$ 574               | \$                               | \$                   |
| Derivatives not designated as hedging instruments under FAS No. 133: |                           |                              |                      |                                  |                      |
| Foreign currency forward contracts                                   | Other current liabilities |                              |                      | 380                              | 526                  |
| <b>Totals</b>  |                           |                              | <b>574</b>           | <b>380</b>                       | <b>526</b>           |

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

|  | Income Statement Location        | Amount of Loss (Gain) Recognized in Income Three Months Ended March 31 |                |
|--|----------------------------------|--|----------------|
|  |                                  | 2009   | 2008           |
| Derivatives designated as hedging instruments under FAS No. 133:     |                                  |  |                |
| Interest rate swap   | Interest expense                 | \$   | \$ 72          |
| Derivatives not designated as hedging instruments under FAS No. 133: |                                  |  |                |
| Foreign currency forward contracts                                   | Currency exchange (gains) losses | 279  | (1,172)        |
| <b>Totals</b>  |                                  | <b>279</b>   | <b>(1,100)</b> |

**(11) Income Taxes**

At March 31, 2009, we had a gross liability for unrecognized tax benefits of \$5.0 million. We have recognized tax benefits associated with these liabilities of \$3.5 million at March 31, 2009. These balances are unchanged since December 31, 2008. We do not expect that the total amount of the unrecognized tax benefit 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. At March 31, 2009, we had \$0.2 million of accrued interest related to unrecognized tax benefits.





## **(12) Fair Value Measurements**

On January 1, 2008, we adopted FAS No. 157, 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 FAS No. 157, as it relates to nonfinancial assets and liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis.

FAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. Our adoption of FAS No. 157, as it relates to financial and nonfinancial assets and liabilities, had no impact on consolidated results of operations, financial condition or liquidity.

FAS No. 157 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 as defined in FAS No. 13. FAS No. 157 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 under FAS No. 157 are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted 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 FAS No. 157 were limited to the derivative financial instruments described in Note 10. We estimate the fair value of these financial instruments, consisting of an interest rate swap and 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) 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 2,500 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,800 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 financial condition, operations or liquidity.

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. The court also denied certain preliminary motions filed by both parties to narrow the issues in dispute and matter is currently in discovery. We believe that Century's refusal to indemnify us under the policies 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). On March 23, 2009, we 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 (ADR) program which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful 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.

We are currently involved in coverage litigation with Columbia Casualty Company (CNA). On March 30, 2009, we 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. We expect that this case will also be assigned to the ADR program. 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 \$70.2 million and \$60.6 million at March 31, 2009 and December 31, 2008, respectively. Based upon our evaluation of applicable insurance coverage and the current status of the coverage litigation discussed in the preceding paragraphs, we believe that the recorded balance is fully recoverable from carriers.

#### **(14) Recently Adopted and Recently Issued Accounting Standards**

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51. FAS No. 160 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. It also amends certain ARB No. 51 consolidation procedures for consistency with the requirements of FAS No. 141(R), Business Combinations, and expands disclosure requirements

regarding the interests of the parent and its noncontrolling interest. The adoption of FAS No. 160 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 FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS No. 161 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 under FAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. We adopted FAS No. 161 on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141(R), Business Combinations. This FSP 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. We do not expect that the adoption of this FSP will have a material effect on our consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP amends FAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about defined benefit pension or other postretirement plan assets, including investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets, and significant concentrations of risk within plan assets. This FSP is effective on December 31, 2009. We are currently evaluating the disclosure requirements of this statement.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP will be effective for our second quarter 2009 interim reporting period. We are currently evaluating the disclosure requirements of this statement.

**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, 2008.*

**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 2008, approximately 52%, 25%, and 23% 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 locations. Our largest European companies, based in Germany and France, develop, manufacture, and sell a wide variety of products. Operations in other European 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 Abu Dhabi, Argentina, Australia, Brazil, Colombia, Chile, China, Egypt, Hong Kong, India, 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, 2009 Compared to Three Months Ended March 31, 2008

**Net sales.** Net sales for the three months ended March 31, 2009 were \$218.2 million, a decrease of \$48.1 million, or 18%, compared with \$266.3 million for the three months ended March 31, 2008.

| (In millions) | Three Months Ended<br>March 31 |          | Dollar<br>Decrease | Percent<br>Decrease |
|---------------|--------------------------------|----------|--------------------|---------------------|
|               | 2009                           | 2008     |                    |                     |
| North America | \$ 110.7                       | \$ 146.6 | (\$ 35.9)          | (24%)               |
| Europe        | 56.9                           | 60.4     | (3.5)              | (6)                 |
| International | 50.5                           | 59.3     | (8.8)              | (15)                |

Net sales by the North American segment were \$110.7 million for the first quarter of 2009, a decrease of \$35.9 million, or 24%, compared to \$146.6 million for the first quarter of 2008. The decrease generally reflects the effects of the economic slowdown, which has led to reduced end-user demand, especially in construction, oil and gas, and other industrial markets. In addition, many of our distributors worked-off inventory during the quarter, which further reduced the level of orders. Sales of self-contained breathing apparatus (SCBA) were \$5.4 million lower during the first quarter of 2009. Shipments of SCBAs were unusually high during the first quarter of 2008 due to an increase in orders that had been delayed during the second half of 2007 as manufacturers and the fire service market made the transition to a new National Fire Protection Association (NFPA) standard for SCBAs. Fire service market sales of thermal imaging cameras and fire helmets were also down \$5.1 million in the current quarter. Shipments of Advanced Combat Helmets to the U.S. military and CG634 helmets to the Canadian Forces were \$6.5 million and \$3.6 million lower, respectively, as current contracts wound down or were completed. Shipments of head protection were down \$5.2 million as the effect of the economic recession reduced demand from construction and industrial distributors.

Net sales for the European segment were \$56.9 million for the first quarter of 2009, a decrease of \$3.5 million, or 6%, compared to \$60.4 million for the first quarter of 2008. Local currency sales in Europe increased \$7.1 million during the first quarter of 2009. Local currency sales of ballistic helmets and gas masks, up \$2.3 million and \$1.1 million, respectively, reflect strong shipments to military and law enforcement customers in Germany and France. Local currency sales of fire helmets improved \$1.7 million, primarily in France. The remainder of the local currency sales increase occurred primarily in Eastern European markets. Unfavorable translation effects of weaker European currencies, particularly the euro, in the current quarter decreased European segment sales, when stated in U.S. dollars, by approximately \$10.6 million.

Net sales for the International segment were \$50.5 million in the first quarter of 2009, a decrease of \$8.8 million, or 15%, compared to \$59.3 million for the first quarter of 2008. Local currency sales of the International segment improved \$2.9 million during the current quarter. In China, local currency sales increased \$5.1 million, reflecting strong shipments of SCBAs to the Hong Kong Fire Services. Our continued focus on the mining industry in South Africa resulted in a local currency sales increase of \$2.5 million. These improvements were partially offset by lower local currency sales in Australia and Latin America, down \$3.0 million and \$1.9 million, respectively, primarily due to the economic recession. Currency translation effects reduced International segment sales, when stated in U.S. dollars, by \$11.7 million, primarily related to a weakening of the Australian dollar, South African rand, and Brazilian real.

**Cost of products sold.** Cost of products sold was \$135.2 million in the first quarter of 2009, compared to \$160.0 million in the first quarter of 2008. Cost of products sold, selling, general and administrative expenses, and research and development expenses include net periodic pension credits during the first quarters of 2009 and 2008 of \$2.0 million and \$2.2 million, respectively.

**Gross profit.** Gross profit for the first quarter of 2009 was \$83.0 million, which was \$23.4 million, or 22%, lower than gross profit of \$106.4 million in the first quarter of 2008. The ratio of gross profit to net sales was 38.0% in the first quarter of 2009 compared to 39.9% in the same quarter last year. The lower gross profit ratio in the first quarter of 2009 was primarily related to sales mix.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$56.8 million during the first quarter of 2009, a decrease of \$9.3 million, or 14%, compared to \$66.1 million in the first quarter of 2008. Selling, general and administrative expenses were 26.0% of net sales in the first quarter of 2009 compared to 24.8% of net sales in the first quarter of 2008. First quarter selling, general and administrative expenses in the North American segment were \$3.8 million, or 13%, lower than in the same quarter last year. The decrease was a direct result of cost-savings initiatives that we took during the current quarter in response to the effects of the global economic crisis. Local currency selling, general and administrative expenses in the European and International segments were flat, with modest expense reductions in Europe being offset by increases in International. Higher local currency selling, general and administrative expenses in the International segment reflect our increased focus on global initiatives to expand our business in these markets. Currency exchange reduced first quarter 2009 administrative expense, when stated in U.S. dollars, by \$5.9 million, primarily related to a weaker euro, Australian dollar, and Brazilian real.

**Research and development expense.** Research and development expense was \$7.0 million during the first quarter of 2009, a decrease of \$0.4 million, or 5%, compared to \$7.4 million during the first quarter of 2008. The decrease was primarily related to the currency translation effect of a weaker euro.

**Restructuring and other charges.** During the first quarter 2009, we recorded charges of \$8.1 million. North American segment charges of \$7.6 million related primarily to a voluntary retirement incentive program (VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the VRIP. These employees retired on January 31, 2009. During the current quarter, we recorded VRIP non-cash special termination benefits expense of \$6.6 million. We expect that staff reductions associated with the VRIP will result in annual pre-tax savings of approximately \$5.0 million. The remaining \$1.0 million of North American segment charges related to costs associated with layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities from our Evans City, Pennsylvania plant. International segment charges of \$0.5 million were primarily for severance costs related to staff reductions in Brazil.

During the first quarter 2008, we recorded charges of \$1.1 million. These charges included \$0.6 million in North America, primarily related to stay bonuses and other costs associated with the transfer certain production activities from our Evans City, Pennsylvania plant. International segment charges of \$0.5 million were severance costs related to staff reductions in Japan.

**Interest expense.** Interest expense was \$1.8 million during the first quarter of 2009, a decrease of \$0.7 million, or 26%, compared to \$2.5 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) losses.** We reported currency exchange gains of \$0.9 million in the first quarter of 2009, compared to losses of \$4.1 million in the first quarter of 2008. Currency exchange gains during the first quarter of 2009 were mostly unrealized, and related to the favorable effect of a weaker euro on inter-company balances. Currency exchange losses during the first quarter of 2008 were mostly unrealized, and related to the effects of a stronger euro and a weaker South African rand on inter-company balances and losses on Canadian dollar trade receivables.

**Income taxes.** The effective tax rate for the first quarter of 2009 was 32.9% compared to 38.4% for the same quarter last year. The lower effective tax rate in the current quarter reflects a more favorable non-U.S. tax rate and a lower U.S. rate due to the reinstatement of the research and development tax credit. The first quarter 2008 provision for income taxes also included a one-time charge of \$0.4 million in Germany, related to a tax law change that imposed a 3% flat tax on previously untaxed subsidies.

We file a U.S. federal income tax return along with various state and foreign income tax returns. Examinations of our federal returns have been completed through 2004. We also file in various state and foreign jurisdictions that may be subject to tax audits after 2003.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the first quarter of 2009 was \$7.2 million, or \$0.20 per basic share, compared to \$16.0 million, or \$0.45 per basic share, for the same quarter last year.

North American segment net income for the first quarter of 2009 was \$3.7 million, a decrease of \$10.9 million, or 75%, compared to \$14.6 million in the first quarter of 2008. First quarter 2009 net income in North America includes a \$4.4 million after-tax, non-cash charge related to a voluntary retirement incentive program that was completed in January. Excluding this one-time charge, North American segment net income was down \$6.5 million in the current quarter. The decrease was primarily related to the previously-discussed decrease in sales, partially offset by reductions in operating expenses.

European segment net income for the first quarter of 2009 was \$2.1 million, an increase of \$1.4 million, compared to net income of \$0.7 million during the first quarter of 2008. The increase in European segment net income was due to a reduction in operating expenses and a lower effective tax rate.

International segment net income for the first quarter of 2009 was \$0.6 million, a decrease of \$3.0 million, or 83%, compared to \$3.6 million in the same quarter last year. The decrease in International segment net income was primarily related to the previously-discussed decrease in sales. Currency translation effects decreased current quarter international segment net income, when stated in U.S. dollars by approximately \$1.1 million, largely due to the weakening of the Australian dollar, South African rand, and Brazilian real.

The first quarter 2009 income of \$0.8 million and the first quarter 2008 loss of \$2.8 million reported in reconciling items were primarily related to unrealized currency exchange gains and losses 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 growing crisis in the financial markets and the global economy. 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 \$60.0 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. In addition, we are pursuing actions to improve our cash flow during this period of economic uncertainty. During the first quarter of 2009, these actions have included a focus on reducing our working capital investment, selective staffing reductions, a salary and hiring freeze in the U.S. and Canada, lower salary increases than in prior years for international employees, and numerous cost reduction measures. We have significantly reduced our capital expenditure plans, but will continue to invest in critical capital projects, such as our new Chinese and Mexican factories.

Cash and cash equivalents decreased \$1.2 million during the three months ended March 31, 2009, compared to a decrease of \$7.8 million during the three months ended March 31, 2008.

Operating activities provided cash of \$22.5 million during the three months ended March 31, 2009, compared to using cash of \$6.1 million during the three months ended March 31, 2008. Significantly improved operating cash flow in the first quarter of 2009 was primarily related to a \$38.3 million favorable change associated with working capital. This change was partially offset by a \$9.7 million decrease in operating cash flow before changes in working capital, primarily due to the previously-discussed decrease in net income. Trade receivables were \$175.2 million at March 31, 2009 compared to \$198.6 million at December 31, 2008. LIFO inventories were \$152.4 million at March 31, 2009 compared to \$159.4 million at December 31, 2008. The \$23.4 million decrease in trade receivables reflects a \$20.0 million decrease in local currency balances, primarily in North America, and a \$3.4 million reduction due to currency translation effects. The \$7.0 million decrease in inventories reflects a \$2.8 million decrease in local currency inventories and a \$4.2 million reduction due to currency translation effects. The \$8.0 million decrease in prepaids and other current assets during the first quarter of 2009 was primarily related to income taxes receivable and a \$0.6 million reduction due to currency translation effects. The increase in other non-current assets \$8.1 million was due primarily to an increase in receivables due from insurance carriers.

Investing activities used cash of \$8.4 million during the three months ended March 31, 2009, compared to using \$10.3 million in the same quarter last year. During the three months ended March 31, 2009 and 2008, we used cash of \$8.6 million and \$10.1 million, respectively, for property additions. Higher property additions in the first quarter of 2008 were related to the construction of our new facility in Suzhou, China, as well as building improvement projects in Brazil and Australia.

Financing activities used cash of \$13.6 million during the three months ended March 31, 2009, compared to providing \$5.9 million during the first quarter of 2008. The change was primarily related to borrowing on our short-term line of credit. During the first quarter of 2009, we paid down \$4.5 million of short-term debt, compared to borrowing \$14.0 million in the first quarter of 2008. During the first three months of 2009, we paid cash dividends of \$8.6 million compared to paying dividends of \$7.9 million in the first quarter of 2008.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at March 31, 2009 resulted in a translation loss of \$7.9 million being charged to the cumulative translation adjustments shareholders' equity account during the three months ended March 31, 2009, compared to a gain of \$11.7 million during the three months ended March 31, 2008. Translation losses in the first quarter of 2009 were primarily related to the weakening of the euro. Translation gains in the first quarter of 2008 were primarily due to the strengthening of the euro, partially offset by a weakening of the South African rand.

#### **COMMITMENTS AND CONTINGENCIES**

We expect to make net contributions of \$2.5 million to our pension plans during 2009.

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 2,500 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,800 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 financial condition, operations or liquidity.

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. The court also denied certain preliminary motions filed by both parties to narrow the issues in dispute and matter is currently in discovery. We believe that Century's refusal to indemnify us under the policies 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). On March 23, 2009, we 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 (ADR) program, which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful 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.

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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 \$70.2 million and \$60.6 million at March 31, 2009 and December 31, 2008, respectively. Based upon our evaluation of applicable insurance coverage and the current status of the coverage litigation discussed in the preceding paragraphs, we believe that the recorded balance is fully recoverable from carriers.

#### **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, 2008.

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

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. FAS No. 160 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. It also amends certain ARB No. 51 consolidation procedures for consistency with the requirements of FAS No. 141(R), Business Combinations, and expands disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of FAS No. 160 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 FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS No. 161 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 under FAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. We adopted FAS No. 161 on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141(R), Business Combinations. This FSP 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. We do not expect that the adoption of this FSP will have a material effect on our consolidated financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers' Disclosures about Postretirement Benefit Plan Assets. This FSP amends FAS No. 132(R), Employers' Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer's disclosures about defined benefit pension or other postretirement plan assets, including investment policies and strategies, major categories of plan assets, inputs and valuation techniques used to measure the fair value of plan assets, and significant concentrations of risk within plan assets. This FSP is effective on December 31, 2009. We are currently evaluating the disclosure requirements of this statement.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. This FSP will be effective for our second quarter 2009 interim reporting period. We are currently evaluating the disclosure requirements of this statement.

**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 and net income for the three months ended March 31, 2009 by approximately \$10.8 million and \$0.3 million, respectively.

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, 2009, we had open foreign currency forward contracts with a U.S. dollar notional value of \$9.3 million. A hypothetical 10% increase in March 31, 2009 forward exchange rates would result in a \$0.9 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 \$92.0 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 \$1.7 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

| Period                         | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|--------------------------------|----------------------------------|------------------------------|--|--|
| January 1 - January 31, 2009   | 1,682                            | \$ 19.62                     |  | 2,482,172  |
| February 1 - February 28, 2009 |                                  |                              |  | 2,668,505  |
| March 1 - March 31, 2009       | 4,155                            | 17.79                        |  | 2,432,578  |

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 January and March 2009 related to stock compensation transactions.

**Item 6. EXHIBITS**

## (a) Exhibits

|       |  |
|-------|--|
| 10.1* | Form of Change-in-Control Severance Agreements between the registrant and its executive officers   |
| 10.2* | Supplemental Executive Retirement Plan, effective January 1, 2008                                  |
| 10.3* | Supplemental Pension Plan, as amended and restated effective January 1, 2005                       |
| 10.4* | 2005 MSA Supplemental Savings Plan, effective January 1, 2005                                      |
| 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 |

\* The exhibits marked by an asterisk are management contracts or compensatory plans or arrangements.

**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.

April 30, 2009

MINE SAFETY APPLIANCES COMPANY

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

Duly Authorized Officer and Principal Financial Officer

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