

MINE SAFETY APPLIANCES CO  
Form 10-Q  
April 28, 2011

# 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, 2011

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)  
1000 Cranberry Woods Drive

**25-0668780**  
(IRS Employer  
Identification No.)  
16066-5296

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**Cranberry Township, Pennsylvania**

(Address of principal executive offices)

(Zip Code)

**Registrant's telephone number, including area code: (724) 776-8600**

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 15, 2011 there were 36,600,252 shares of common stock outstanding, not including 1,265,118 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>2011</b>                            | <b>2010</b> |
| Net sales   | \$ 276,499                             | \$ 212,434  |
| Other income  | 796                                    | 1,305       |
|   | 277,295                                | 213,739     |
| Costs and expenses  |  |             |
| Cost of products sold   | 166,102                                | 129,981     |
| Selling, general and administrative   | 73,045                                 | 61,908      |
| Research and development  | 10,543                                 | 7,736       |
| Restructuring and other charges   | 3,087                                  | 6,809       |
| Interest  | 3,437                                  | 1,540       |
| Currency exchange losses (gains)  | 666                                    | (2,158)     |
|   | 256,880                                | 205,816     |
| Income before income taxes  | 20,415                                 | 7,923       |
| Provision for income taxes  | 6,919                                  | 2,803       |
| Net income  | 13,496                                 | 5,120       |
| Net income attributable to noncontrolling interests                                   | (187)                                  | (214)       |
| Net income attributable to Mine Safety Appliances Company                             | 13,309                                 | 4,906       |
| Earnings per share attributable to Mine Safety Appliances Company common shareholders |  |             |
| Basic   | \$ 0.36                                | \$ 0.14     |
| Diluted   | \$ 0.36                                | \$ 0.14     |
| Dividends per common share  | \$ 0.25                                | \$ 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>2011 | December 31<br>2010 |
|--|------------------|---------------------|
| <b>Assets</b>  |                  |                     |
| Current assets   |                  |                     |
| Cash and cash equivalents  | \$ 66,987        | \$ 59,760           |
| Trade receivables, less allowance for doubtful accounts of \$9,433 and \$9,391   | 210,073          | 198,551             |
| Inventories  | 156,752          | 150,581             |
| Deferred tax assets  | 26,837           | 25,714              |
| Income taxes receivable  | 6,322            | 12,936              |
| Prepaid expenses and other current assets  | 29,842           | 29,847              |
| <b>Total current assets</b>  | <b>496,813</b>   | <b>477,389</b>      |
| Property, less accumulated depreciation of \$325,927 and \$316,288   | 158,872          | 156,789             |
| Prepaid pension cost   | 124,016          | 121,631             |
| Deferred tax assets  | 8,488            | 8,285               |
| Goodwill   | 266,556          | 263,089             |
| Other noncurrent assets  | 176,218          | 170,005             |
| <b>Total assets</b>  | <b>1,230,963</b> | <b>1,197,188</b>    |
| <b>Liabilities</b>   |                  |                     |
| Current liabilities  |                  |                     |
| Notes payable and current portion of long-term debt  | \$ 10,107        | \$ 10,163           |
| Accounts payable   | 63,080           | 58,460              |
| Employees compensation   | 31,312           | 36,845              |
| Insurance and product liability  | 24,749           | 18,401              |
| Taxes on income  | 1,826            | 1,253               |
| Other current liabilities  | 52,666           | 56,619              |
| <b>Total current liabilities</b>   | <b>183,740</b>   | <b>181,741</b>      |
| Long-term debt   | 379,585          | 367,094             |
| Pensions and other employee benefits   | 129,934          | 126,479             |
| Deferred tax liabilities   | 48,689           | 49,177              |
| Other noncurrent liabilities   | 18,183           | 16,647              |
| <b>Total liabilities</b>   | <b>760,131</b>   | <b>741,138</b>      |
| <b>Shareholders Equity</b>   |                  |                     |
| Mine Safety Appliances Company shareholders 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 36,600,252 and 36,519,726 shares) | 90,674           | 88,629              |
| Stock compensation trust 1,265,118 and 1,360,714 shares  | (6,604)          | (7,103)             |

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Treasury shares, at cost:

|   |                  |                  |
|---|------------------|------------------|
| Preferred 52,878 and 52,878 shares                              | (1,753)          | (1,753)          |
| Common 24,216,021 and 24,200,951 shares                         | (264,372)        | (263,853)        |
| Accumulated other comprehensive loss                            | (35,725)         | (44,316)         |
| Retained earnings   | 680,362          | 676,195          |
| <b>Total Mine Safety Appliances Company shareholders equity</b> | <b>466,151</b>   | <b>451,368</b>   |
| Noncontrolling interests  | 4,681            | 4,682            |
| <b>Total shareholders equity</b>                                | <b>470,832</b>   | <b>456,050</b>   |
| <b>Total liabilities and equity</b>                             | <b>1,230,963</b> | <b>1,197,188</b> |

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 |                |
|--|--------------------------------|----------------|
|  | 2011                           | 2010           |
| <b>Operating Activities</b>  |                                |                |
| Net income   | \$ 13,496                      | \$ 5,120       |
| Depreciation and amortization                                      | 8,425                          | 6,960          |
| Pensions   | (1,262)                        | (204)          |
| Net gain from investing activities                                 | (25)                           | (710)          |
| Stock-based compensation   | 2,686                          | 2,502          |
| Deferred income tax benefit  | (2,101)                        | (1,519)        |
| Other noncurrent assets and liabilities                            | (7,087)                        | (13,839)       |
| Currency exchange losses (gains)                                   | 666                            | (2,158)        |
| Other, net   | 78                             | (1,790)        |
| <b>Operating cash flow before changes in working capital</b>       | <b>14,876</b>                  | <b>(5,638)</b> |
| Trade receivables  | (8,705)                        | 1,215          |
| Inventories  | (2,778)                        | (6,928)        |
| Accounts payable and accrued liabilities                           | (33)                           | (3,188)        |
| Income taxes receivable, prepaid expenses and other current assets | 7,283                          | 8,144          |
| <b>Increase in working capital</b>                                 | <b>(4,233)</b>                 | <b>(757)</b>   |
| <b>Cash flow from operating activities</b>                         | <b>10,643</b>                  | <b>(6,395)</b> |
| <b>Investing Activities</b>  |                                |                |
| Property additions   | (7,387)                        | (3,554)        |
| Other investing  | 33                             | 1,320          |
| <b>Cash flow from investing activities</b>                         | <b>(7,354)</b>                 | <b>(2,234)</b> |
| <b>Financing Activities</b>  |                                |                |
| (Payments on) proceeds from short-term debt, net                   | (72)                           | 18,427         |
| Proceeds from long-term debt                                       | 12,500                         |                |
| Cash dividends paid  | (9,142)                        | (8,643)        |
| Company stock purchases  | (518)                          | (273)          |
| Exercise of stock options  | 66                             | 69             |
| Excess tax provision related to stock plans                        | (208)                          | (185)          |
| <b>Cash flow from financing activities</b>                         | <b>2,626</b>                   | <b>9,395</b>   |
| <b>Effect of exchange rate changes on cash</b>                     | <b>1,312</b>                   | <b>(853)</b>   |
| <b>Increase (decrease) in cash and cash equivalents</b>            | <b>7,227</b>                   | <b>(87)</b>    |
| <b>Beginning cash and cash equivalents</b>                         | <b>59,760</b>                  | <b>61,983</b>  |
| <b>Ending cash and cash equivalents</b>                            | <b>66,987</b>                  | <b>61,896</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 (GAAP) 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, 2011, we recorded charges of \$3.1 million (\$2.0 million after tax). European segment charges of \$1.7 million related primarily to staff reductions in Germany and the transfer of certain production activities to China and the U.S. North American segment charges of \$0.5 million included costs associated with the collocation of certain administrative and production activities. International segment charges of \$0.9 million were related to severance costs associated with the relocation of our Wuxi, China operations to Suzhou.

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. North American segment charges of \$1.0 million included stay bonuses and other costs associated with the transfer of certain production activities to lower cost factories. International segment charges of \$0.5 million were primarily for severance costs associated with staff reductions in South Africa.



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

Components of comprehensive income (loss) are as follows:

| (In thousands)   | Three Months Ended<br>March 31 |          |
|--|--------------------------------|----------|
|  | 2011                           | 2010     |
| Net income   | \$ 13,496                      | \$ 5,120 |
| Foreign currency translation gain (loss)                                   | 8,591                          | (6,004)  |
| Comprehensive income (loss)  | 22,087                         | (884)    |
| Comprehensive loss (income) attributable to non-controlling interests      | 1                              | (334)    |
| Comprehensive income (loss) attributable to Mine Safety Appliances Company | 22,088                         | (1,218)  |

Components of accumulated other comprehensive loss as follows:

| (In thousands)                               | March 31  | December 31 |
|--|-----------|-------------|
|  | 2011      | 2010        |
| Cumulative translation adjustments           | \$ 24,070 | \$ 15,479   |
| Pension and post-retirement plan adjustments | (59,795)  | (59,795)    |
| Accumulated other comprehensive loss         | (35,725)  | (44,316)    |

**(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. Participating securities are defined as unvested stock-based payment awards that contain nonforfeitable rights to dividends.

| (In thousands, except per share amounts)                                   | Three Months Ended<br>March 31 |          |
|--|--------------------------------|----------|
|  | 2011                           | 2010     |
| Net income attributable to Mine Safety Appliances Company                  | \$ 13,309                      | \$ 4,906 |
| Preferred stock dividends  | (10)                           | (10)     |
| Income available to common equity  | 13,299                         | 4,896    |
| Dividends and undistributed earnings allocated to participating securities | (142)                          | (44)     |
| Income available to common shareholders                                    | 13,157                         | 4,852    |
| Basic earnings per common share  | \$ 0.36                        | \$ 0.14  |
| Diluted earnings per common share  | \$ 0.36                        | \$ 0.14  |
| Basic shares outstanding   | 36,165                         | 35,697   |
| Stock options and other stock compensation                                 | 630                            | 527      |
| Diluted shares outstanding   | 36,795                         | 36,224   |



**(5) Segment Information**

We are organized into five geographic operating segments based on management responsibilities. The operating segments have been aggregated (based on economic similarities, the nature of their products, end-user markets and methods of distribution) into three reportable 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, 2011</b>                         |                  |           |               |                      |                        |
| Sales to external customers                                      | \$ 130,916       | \$ 64,839 | \$ 80,744     | \$                   | \$ 276,499             |
| Intercompany sales   | 24,543           | 28,387    | 3,658         | (56,588)             |                        |
| Net income (loss) attributable to Mine Safety Appliances Company | 9,823            | 1,587     | 7,377         | (5,478)              | 13,309                 |
| <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 | 5,584            | (3,265)   | 4,378         | (1,791)              | 4,906                  |

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

In 2011, we changed our segment reporting to include corporate overhead and interest expense in reconciling items. Previously, these expenses were reported in the North American, European and International segments. Comparative 2010 amounts have been revised to conform with the current year presentation. The effect of the revisions for the three months ended March 31, 2010 improved North American, European and International segment results by \$2.1 million, \$0.6 million, and \$0.5 million, respectively, and increased the net loss in Reconciling Items by 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 |        |
|------------------------------------|------------------|----------|----------------|--------|
|                                    | 2011             | 2010     | 2011           | 2010   |
| <b>Three months ended March 31</b> |                  |          |                |        |
| Service cost                       | \$ 2,164         | \$ 1,937 | \$ 218         | \$ 191 |
| Interest cost                      | 4,875            | 4,683    | 435            | 432    |
| Expected return on plan assets     | (8,526)          | (8,644)  |                |        |
| Amortization of transition amounts | 1                | 1        |                |        |
| Amortization of prior service cost | 26               | 26       | (114)          | (139)  |
| Recognized net actuarial losses    | 198              | 136      | 213            | 210    |
| Settlement loss                    |                  | 285      |                |        |
| Termination benefits               |                  | 1,372    |                |        |
| Net periodic benefit (credit) cost | (1,262)          | (204)    | 752            | 694    |

We made contributions of \$1.1 million to our pension plans during the three months ended March 31, 2011. We expect to make total contributions of approximately \$4.3 million to our pension plans in 2011.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets, net of accumulated amortization, during the three months ended March 31, 2011 were as follows:

| (In thousands)                  | Goodwill   | Intangibles |
|---------------------------------|------------|-------------|
| Net balances at January 1, 2011 | \$ 263,089 | \$ 53,880   |
| Amortization expense            |            | (1,671)     |
| Currency translation and other  | 3,467      | 70          |
| Net balances at March 31, 2011  | 266,556    | 52,279      |

At March 31, 2011, goodwill of approximately \$200.1 million, \$62.5 million, and \$4.0 million related to the North American, European, and International reporting units, respectively.

**(8) Inventories**

| (In thousands)             | March 31<br>2011 | December 31<br>2010 |
|----------------------------|------------------|---------------------|
| Finished products          | \$ 76,789        | \$ 71,743           |
| Work in process            | 18,130           | 16,494              |
| Raw materials and supplies | 61,833           | 62,344              |
| Total inventories          | 156,752          | 150,581             |

**(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 or total shareholder return 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 |          |
|---|--------------------------------|----------|
|   | 2011                           | 2010     |
| Stock compensation expense                            | \$ 2,686                       | \$ 2,502 |
| Income tax benefit                                    | 870                            | 873      |
| Stock compensation expense, net of income tax benefit | 1,816                          | 1,629    |

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A summary of stock option activity for the three months ended March 31, 2011 follows:

|                                | Shares    | Weighted<br>Average<br>Exercise Price |
|--------------------------------|-----------|---------------------------------------|
| Outstanding at January 1, 2011 | 1,749,003 | \$ 29.74                              |
| Granted                        | 142,495   | 33.55                                 |
| Exercised                      | (3,730)   | 17.79                                 |
| Outstanding at March 31, 2011  | 1,887,768 | 30.06                                 |
| Exercisable at March 31, 2011  | 982,397   | 36.08                                 |

A summary of restricted stock activity for the three months ended March 31, 2011 follows:

|                             | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|----------|---|
| Unvested at January 1, 2011 | 473,637  | \$ 26.56  |
| Granted                     | 105,349  | 33.55   |
| Vested                      | (54,805) | 45.24   |
| Forfeited                   | (1,551)  | 23.70   |
| Unvested at March 31, 2011  | 522,630  | 26.02   |

A summary of performance stock unit activity for the three months ended March 31, 2011 follows:

|                             | Shares  | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|---------|---|
| Unvested at January 1, 2011 | 85,629  | \$ 20.53  |
| Granted                     | 41,320  | 33.55   |
| Unvested at March 31, 2011  | 126,949 | 24.77   |

**(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 at fair value and report the related gains or losses in currency exchange gains or losses. At March 31, 2011, the notional amount of open forward contracts was \$8.6 million and the unrealized gain on these contracts was immaterial.

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

Derivatives not designated as hedging instruments:

(In thousands)

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|   | March 31,<br>2011 | December 31,<br>2010 |
|---|-------------------|----------------------|
| Foreign exchange contracts:               |                   |                      |
| Prepaid expenses and other current assets | \$ 26             | \$ 4                 |

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

| (In thousands)                                     | Income Statement<br>Location        | Amount<br>Recognized in Income<br>Three Months Ended<br>March 31 |        |
|--|-------------------------------------|--|--------|
|  |                                     | 2011   | 2010   |
| Derivatives not designated as hedging instruments: |                                     |  |        |
| Foreign exchange contracts                         | Currency exchange<br>losses (gains) | \$ (254)   | \$ 532 |

#### (11) Income Taxes

At March 31, 2011, we had a gross liability for unrecognized tax benefits of \$11.8 million. We have recognized tax benefits associated with these liabilities of \$10.5 million at March 31, 2011. These balances are unchanged since December 31, 2010. 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 \$0.9 million at March 31, 2011.

#### (12) Fair Value Measurements

GAAP 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. GAAP 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 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, 2011, the reported carrying amount of our fixed rate long-term debt was \$176.0 million and the fair value was \$174.8 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, 2011.

**(14) Acquisitions**

On October 13, 2010, we acquired General Monitors, Inc. (GMI) and its affiliated companies, General Monitors Ireland Limited (GMIL) and General Monitors Transnational, LLC (GMT), collectively referred to as General Monitors, for \$278.2 million. There is no contingent consideration. At the same time, we entered into an escrow agreement with the sellers, pursuant to which approximately \$38.0 million of the purchase price was placed into escrow to be used, if necessary, to satisfy certain indemnification obligations of the sellers. The escrow agreement expires two years after the closing date.

Approximately \$264.0 million of the acquisition price was funded through the issuance of \$100.0 million in 4.00% Series A Senior Notes and borrowings on a \$250.0 million unsecured senior revolving credit facility. The Series A Senior Notes will mature on October 13, 2021 and are payable in five annual installments of \$20.0 million, commencing October 13, 2017. Interest is payable quarterly. The Series A Senior Notes are unsecured. Borrowings made under the unsecured senior revolving credit facility bear interest at a variable annual rate and may be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditures, and repayment of existing debt.

GMI, GMIL and GMT are now our wholly-owned subsidiaries. General Monitors is a leading innovator and developer of advanced flame and gas detection systems that are used in a broad range of oil and gas exploration and refining applications and in diverse industrial plant settings. In addition to providing us with greater access to the global oil and gas market, we believe that the acquisition significantly enhances our long-term corporate strategy in fixed gas detection by providing us with world-class research and development talent and an industry-leading product line.



The following table summarizes the fair values of the General Monitors assets acquired and liabilities assumed at the date of acquisition:

| (In millions)                                     | October 13,<br>2010 |
|---|---------------------|
| Current assets (including cash of \$18.6 million) | \$ 46.8             |
| Property  | 14.0                |
| Trade name  | 6.0                 |
| Acquired technology                               | 11.0                |
| Customer-related intangibles                      | 27.0                |
| Goodwill  | 179.9               |
| Other noncurrent assets                           | 3.5                 |
| <br>  |                     |
| Total assets acquired                             | 288.2               |
| Total liabilities assumed                         | 10.0                |
| <br>  |                     |
| Net assets acquired                               | 278.2               |

Assets acquired and liabilities assumed in connection with the acquisition have been recorded at their fair values. Fair values were determined by management based, in part, on an independent valuation performed by a third party valuation specialist. Identifiable intangible assets with finite lives are subject to amortization over their estimated useful lives. The identifiable intangible assets acquired in the General Monitors transaction are being amortized over an estimated weighted-average amortization period of 16 years. Estimated future amortization expense related to these identifiable intangible assets is approximately \$3.3 million in each of the next five years.

Goodwill is calculated as the excess of the purchase price over the fair value of net assets acquired and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Among the factors that contributed to a purchase price in excess of the fair value of the net tangible and intangible assets acquired were the acquisition of an assembled workforce, the expected synergies and other benefits that we believe will result from combining the operations of General Monitors with our operations, and the going concern element of General Monitors existing business. Goodwill related to the General Monitors acquisition was recorded in our reportable segments as follows: \$136.7 million in North American segment and \$43.2 million in the European segment. North American segment goodwill is expected to be tax deductible. The step up to fair value of acquired inventory as part of the purchase price allocation totaled \$4.8 million.

The operating results of General Monitors have been included in our consolidated financial statements since the acquisition date. Our results for the three months ended March 31, 2011 include General Monitors sales and net income of \$19.8 million and \$2.3 million, respectively. General Monitors net income for the three months ended March 31, 2011 includes a one-time increase in cost of sales of \$2.3 million (\$1.5 million after tax) related to the fair value step-up of inventories acquired from General Monitors.

The following unaudited pro forma information presents our combined results as if the acquisition had occurred at the beginning of 2010. The unaudited pro forma financial information was prepared to give effect to events that are (1) directly attributable to the merger; (2) factually supportable; and (3) expected to have a continuing impact on the combined company's results. There were no transactions between us and GMI, GMIL, or GMT during the three months ended March 31, 2010 that are required to be eliminated. Transactions between GMI, GMIL, and GMT during the three months ended March 31, 2010 have been eliminated in the unaudited pro forma condensed combined financial information. Pro forma adjustments have been made to the first quarter 2010 information to reflect the

incremental impact on earnings of interest costs on the borrowings that we made to acquire the General Monitors companies, amortization expense related to acquired intangible assets and income tax expense, net of benefits associated with the previously-discussed adjustments. Pro forma adjustments were made to the first quarter 2011 information to eliminate incremental one-time costs and related tax benefits associated with purchase accounting adjustments. The unaudited pro forma financial information does not reflect any cost savings, operating synergies or revenue enhancements that the combined company may achieve as a result of the acquisitions or the costs to integrate the operations or the costs necessary to achieve cost savings, operating synergies or revenue enhancements.

#### Pro forma financial information (Unaudited)

| (In millions, except per share amounts) | Three months ended<br>March 31 |          |
|---|--------------------------------|----------|
|   | 2011                           | 2010     |
| Net sales                               | \$ 276.5                       | \$ 231.6 |
| Net income                              | 15.0                           | 7.1      |
| Basic earnings per share                | 0.41                           | 0.20     |
| Diluted earnings per share              | 0.41                           | 0.20     |

The unaudited pro forma condensed combined financial information is presented for information purposes only and is not intended to represent or be indicative of the combined results of operations or financial position that we would have reported had the acquisitions been completed as of the date and for the periods presented, and should not be taken as representative of our consolidated results of operations or financial condition following the acquisitions. In addition, the unaudited pro forma condensed combined financial information is not intended to project the future financial position or results of operations of the combined company.

The unaudited pro forma financial information was prepared using the acquisition method of accounting under existing GAAP. MSA has been treated as the acquirer.

#### (15) Contingencies

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims, based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes, and other relevant information. The reserve for single incident product liability claims was \$5.4 million and \$5.2 million at March 31, 2011 and December 31, 2010, respectively. Single incident product liability expense during the three months ended March 31, 2011 and 2010 was \$0.4 million and \$0.5 million, respectively. We evaluate our single incident product liability exposures on an ongoing basis and make adjustments to the reserve as new information becomes available.

Cumulative trauma product liability claims involve exposures to harmful substances (*e.g.*, silica, asbestos, and coal dust) that occurred many years ago and may have developed over long periods of time into diseases such as silicosis, asbestosis, or coal worker's pneumoconiosis. We are presently named as a defendant in approximately 1,900 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged, the amount of damages sought, and potentially involve multiple defendants.

Cumulative trauma product liability litigation is difficult to predict. In our experience, until late in a lawsuit, we cannot reasonably determine whether it is probable that any given cumulative trauma lawsuit will ultimately result in a liability. This uncertainty is caused by many factors, including the following: cumulative trauma complaints generally do not provide information sufficient to determine if a loss is probable; cumulative trauma litigation is inherently unpredictable and information is often insufficient to determine if a lawsuit will develop into an actively litigated case; and even when a case is actively litigated, it is often difficult to determine if the lawsuit will be dismissed or otherwise resolved until late in the lawsuit. Moreover, even once it is probable that such a lawsuit will result in a loss, it is difficult to reasonably estimate the amount of actual loss that will be incurred. These amounts are highly variable and turn on a case-by-case analysis of the relevant facts, which are often not learned until late in the lawsuit.

Because of these factors, we cannot reliably determine our potential liability for such claims until late in the lawsuit. We, therefore, do not record cumulative trauma product liability losses when a lawsuit is filed, but rather, when we learn sufficient information to determine that it is probable that we will incur a loss and the amount of loss can be reasonably estimated. We record expenses for defense costs associated with open cumulative trauma product liability lawsuits as incurred.

We cannot estimate any amount or range of possible losses related to resolving pending and future cumulative trauma product liability claims that we may face because of the factors described above. As new information about cumulative trauma product liability cases and future developments becomes available, we reassess our potential exposures.

A summary of cumulative trauma product liability claims activity follows:

|                                  | <b>Three Months Ended<br/>March 31<br/>2011</b> | <b>Year Ended<br/>December 31<br/>2010</b> |
|----------------------------------|---|--|
| Open claims, beginning of period | 1,900   | 2,480                                      |
| New claims                       | 47  | 260  |
| Settled and dismissed claims     | (51)  | (840)                                      |
| Open claims, end of period       | 1,896   | 1,900                                      |

With some common contract exclusions, we maintain insurance for cumulative trauma product liability claims. We have purchased insurance policies from over 20 different insurance carriers that provide coverage for cumulative trauma product liability losses and related defense costs. In the normal course of business, we make payments to settle product liability claims and for related defense costs. We record receivables for the amounts that are covered by insurance. The available limits of these policies are many times our recorded insurance receivable balance.

Various factors could affect the timing and amount of recovery of our 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.

Our insurance receivables totaled \$97.1 million at March 31, 2011, all of which was reported in other non-current assets. Our insurance receivables totaled \$89.0 million December 31, 2010, all of which is reported in other non-current assets.

A summary of insurance receivable balances and activity related to cumulative trauma product liability losses follows:

| (In millions)               | Three months ended |      | Year ended  |
|-----------------------------|--------------------|------|-------------|
|                             | March 31           |      | December 31 |
|                             | 2011               |      | 2010        |
| Balance beginning of period | \$                 | 89.0 | \$ 91.7     |
| Additions                   |                    | 8.1  | 30.9        |
| Collections and settlements |                    |      | (33.6)      |
| Balance end of period       |                    | 97.1 | 89.0        |

Additions to insurance receivables in the above table represent insured cumulative trauma product liability settlements and related defense costs. There were no uninsured cumulative trauma product liability losses during the three month periods ended March 31, 2011 and 2010.

Our aggregate cumulative trauma product liability settlement, administrative and defense costs for the years ended December 31, 2010, 2009, and 2008 totaled approximately \$90.3 million, substantially all of which was insured.

We believe that the increase in the insurance receivable balance that we have experienced since 2005 is primarily due to disagreements among our insurance carriers, and consequently with us, as to when their individual obligations to pay us are triggered and the amount of each insurer's obligation, as compared to other insurers. We believe that our insurers do not contest that they have issued policies to us or that these policies cover cumulative trauma product liability claims. Our ability to resolve our insurance litigations with Century Indemnity Company and Columbia Casualty Company successfully during 2010 demonstrates that we had strong legal positions concerning our rights to coverage.

We regularly evaluate the collectability of the insurance receivables and record the amounts that we conclude are probable of collection. Our conclusion is based on our analysis of the terms of the underlying insurance policies, our experience in successfully recovering cumulative trauma product liability claims from our insurers under other policies, the financial ability of our insurance carriers to pay the claims, our understanding and interpretation of the relevant facts and applicable law, and the advice of legal counsel, who believe that our insurers are required to provide coverage based on the terms of the policies.

Although the outcome of cumulative trauma product liability matters cannot be predicted with certainty and unfavorable resolutions could materially affect our results of operations on a quarter-to-quarter basis, based on information currently available and the amounts of insurance coverage available to us, we believe that the disposition of cumulative trauma product liability lawsuits that are pending against us will not have a materially adverse effect on our future results of operations, financial condition, or liquidity.

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 pursuing the legal actions necessary to collect all amounts.

In April 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 filed a motion to dismiss the declaratory judgment claim and a counter claim for breach of contract against North River and the two excess carriers. The court stayed the declaratory judgment claim and the breach of contract claim is now in discovery. 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.

During May 2010, we resolved coverage litigation with Century Indemnity Company through a negotiated settlement. As part of this settlement, both parties dismissed all claims against one another under the previously-filed coverage litigation. The settlement did not have an impact on our operating results.

During July 2010, we resolved coverage litigation with Columbia Casualty Company through a negotiated settlement. As part of this settlement, both parties dismissed all claims against one another under the previously-filed coverage litigation. The settlement did not have an impact on our operating results.

In July 2010, we filed a complaint in the Superior Court of the State of Delaware seeking declaratory and other relief from the majority of our excess insurance carriers concerning the future rights and obligations of MSA and our excess insurance carriers under various insurance policies. The reason for this insurance coverage action is to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers.

In December 2010, North River filed a motion to dismiss or stay the Delaware action asserting that the previously-discussed cases in the United States District Court for the Western District of Pennsylvania and the Court of Common Pleas of Allegheny County, Pennsylvania were capable of resolving the claims presented in the Superior Court of the State of Delaware action. In January 2011, the Superior Court of the State of Delaware granted North River's motion to stay the Delaware insurance coverage action, pending resolution of the ongoing actions in the United States District Court for the Western District of Pennsylvania and the Court of Common Pleas of Allegheny County, Pennsylvania. We appealed the trial court's decision to stay this case and our appeal was denied. There will be no further activity in the Delaware action until the two Pennsylvania actions are resolved.

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

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.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements. This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are essential to the functionality, and scopes these products out of current software revenue guidance. The new guidance includes factors to help companies determine what software elements are considered essential to the functionality. The

amendments will subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The adoption of this ASU on January 1, 2011 did not have a material effect on our consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, Revenue Recognition Milestone Method. This ASU allows entities to make a policy election to use the milestone method of revenue recognition and provides guidance on defining a milestone and the criteria that should be met for applying the milestone method. The scope of this ASU is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, substantive milestones and factors considered in that determination. The adoption of this ASU on January 1, 2011 did not have a material effect on our consolidated financial statements.

**(17) Subsequent Events**

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, 2010.*

**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, approximately 48%, 26%, and 26% 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 companies in most Western European countries and 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 China, Germany, France, and the U.S., or are purchased from third party vendors.

*International.* Our International segment includes companies in South America, Africa and the Asia Pacific region, some of which are in developing regions of the world. Principal manufacturing operations are located in Australia, Brazil, China and South Africa. 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 China, Germany, France, and the U.S.; or are purchased from third party vendors.

## ACQUISITIONS

In October 2010, we strengthened our presence in oil, gas and petrochemical markets by acquiring General Monitors, Inc. (GMI) of Lake Forest, California and its affiliated companies, General Monitors Ireland Limited (GMIL) and General Monitors Transational, LLC (GMT), collectively referred to as General Monitors. General Monitors is a leading innovator and developer of advanced flame and gas detection systems that are used in a broad range of oil and gas exploration and refining applications and in diverse industrial plant settings. In addition to providing us with greater access to the global oil and gas market, we believe the acquisition significantly enhances our long-term corporate strategy in fixed gas detection by providing us with world-class research and development talent and an industry leading product line. We have assembled a joint cross functional integration team to ensure the successful integration of our operations.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

*Net sales.* Net sales for the three months ended March 31, 2011 were \$276.5 million, an increase of \$64.1 million, or 30.2%, compared with \$212.4 million for the three months ended March 31, 2010.

| (In millions) | Three Months Ended |         | Dollar Increase | Percent Increase |
|---------------|--------------------|---------|-----------------|------------------|
|               | 2011               | 2010    |                 |                  |
| North America | \$ 130.9           | \$ 99.1 | \$ 31.8         | 32%              |
| Europe        | 64.8               | 56.6    | 8.2             | 14               |
| International | 80.7               | 56.7    | 24.0            | 42               |

Net sales by the North American segment were \$130.9 million for the first quarter of 2011, an increase of \$31.8 million, or 32%, compared to \$99.1 million for the first quarter of 2010. North American sales for the first quarter of 2011 included \$14.1 million of General Monitors sales. During the current quarter we continued to see growing demand in the oil and gas market, as well as other core industrial markets. The improved demand in core industrial markets resulted in higher shipments of instruments (excluding General Monitors), head protection, fall protection and respirators, up \$2.7 million, \$1.6 million, \$1.5 million and \$1.0 million, respectively. We also saw improved demand in the quarter in the fire service and law enforcement markets, which led to increased sales of SCBAs and gas masks, up \$2.4 million and \$3.5 million, respectively. Shipments of Advanced Combat Helmets (ACH) to the U.S. military were \$6.7 million higher as we continued shipping on our current contract.

Net sales for the European segment were \$64.8 million for the first quarter of 2011, an increase of \$8.2 million, or 14%, compared to \$56.6 million for the first quarter of 2010. Net sales in the first quarter of 2011 in the European Segment included \$5.7 million of General Monitors sales. Excluding General Monitor sales, local currency sales in Europe increased \$1.8 million primarily related to a \$4.0 million increase in SCBA sales to fire service markets, partially offset by lower shipments of ballistic



helmets and gas masks to military markets. Favorable translation effects of a stronger euro in the current quarter increased European segment sales, when stated in U.S. dollars, by approximately \$0.7 million.

Net sales for the International segment were \$80.7 million in the first quarter of 2011, an increase of \$24.0 million, or 42%, compared to \$56.7 million for the first quarter of 2010. Local currency sales of the International segment increased \$19.4 million for the quarter due to strong demand in mining and core industrial markets. Local currency sales increased in most product lines, with the strongest improvements in SCBAs and eye and face protection, up \$3.8 million and \$3.1 million, respectively. Currency translation effects increased International segment sales, when stated in U.S. dollars, by \$4.6 million, primarily related to a strengthening of the Australian dollar and Brazilian real.

**Cost of products sold.** Cost of products sold was \$166.1 million in the first quarter of 2011, compared to \$130.0 million in the first quarter of 2010. Cost of products sold during the first quarter of 2011 includes \$2.3 million in incremental purchase accounting charges related to the fair value of General Monitors inventory at the acquisition date. Cost of products sold includes net periodic pension credits during the first quarters of 2011 and 2010 of \$0.9 million and \$1.2 million, respectively.

**Gross profit.** Gross profit for the first quarter of 2011 was \$110.4 million, which was \$27.9 million, or 34%, higher than gross profit of \$82.5 million in the first quarter of 2010. The ratio of gross profit to net sales was 39.9% in the first quarter of 2011 compared to 38.8% in the same quarter last year. The improved gross profit ratio in the current quarter was primarily related to product mix, including sales of General Monitors products.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$73.0 million during the first quarter of 2011, an increase of \$11.1 million, or 18.0%, compared to \$61.9 million in the first quarter of 2010. Selling, general and administrative expenses were 26.4% of net sales in the first quarter of 2011 compared to 29.1% of net sales in the first quarter of 2010. Higher selling, general and administrative expenses in the current quarter included \$5.2 million at General Monitors. The remainder of the increase occurred in the North American and International segments, primarily to support the higher sales volumes. Currency exchange increased first quarter 2011 selling, general and administrative expenses, when stated in U.S. dollars, by \$1.2 million.

**Research and development expense.** Research and development expense was \$10.5 million during the first quarter of 2011, an increase of \$2.8 million, or 36%, compared to \$7.7 million during the first quarter of 2010. The increase reflects our focus on developing innovative new products and additional expense of \$1.0 million related to activities at General Monitors.

**Restructuring and other charges.** During the first quarter of 2011, we recorded charges of \$3.1 million (\$2.0 million after tax). European segment charges of \$1.7 million related primarily to staff reductions and the transfer certain production activities to China and the U.S. North American segment charges of \$0.5 million included costs associated with the collocation of certain administrative and production activities. International segment charges of \$0.9 million were primarily severance costs associated with the closure of the Wuxi plant and move to the Suzhou manufacturing plant.

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. North American segment charges of \$1.0 million included stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. International segment charges of \$0.5 million were primarily for severance costs associated with staff reductions in South Africa.

**Interest expense.** Interest expense was \$3.4 million during the first quarter of 2011, an increase of \$1.9 million, or 127%, compared to \$1.5 million in the same quarter last year. The increase in interest expense was due to higher borrowings associated with the General Monitors acquisition.

**Currency exchange losses (gains).** We reported currency exchange losses of \$0.7 million in the first quarter of 2011, compared to gains of \$2.2 million in the first quarter of 2010. Currency exchange losses and gains in both quarters were mostly unrealized and related primarily to the effect of euro exchange rate fluctuations on euro-denominated inter-company balances.

**Income taxes.** The effective tax rate for the first quarter of 2011 was 33.9% compared to 35.4% for the same quarter last year. The lower effective tax rate in the first quarter of 2011 was primarily related to the recognition of the research and development tax credit in the U.S. First quarter 2010 income tax expense did not reflect this credit due to its expiration at the end of 2009. The credit was reinstated during the fourth quarter of 2010.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the first quarter of 2011 was \$13.3 million, or \$0.36 per basic share, compared to \$4.9 million, or \$0.14 per basic share, for the same quarter last year.

North American segment net income for the first quarter of 2011 was \$9.8 million, an increase of \$4.2 million, or 75%, compared to \$5.6 million in the first quarter of 2010. North American segment net income for the first quarter of 2011 included General Monitors net income of \$1.5 million. The remainder of the increase in net income was primarily due to the previously-discussed sales and gross margin growth, partially offset by higher research and development and selling expenses.

The European segment reported net income for the first quarter of 2011 of \$1.5 million, an improvement of \$4.8 million, compared to a net loss of \$3.3 million during the first quarter of 2010. The improvement in European segment net income reflects lower restructuring charges in the current quarter and includes \$0.8 million of General Monitors net income. Excluding these items, European segment net income improved \$1.5 million in the current quarter, reflecting a modest increase in sales and controlled operating costs.

International segment net income for the first quarter of 2011 was \$7.4 million, an increase of \$3.0 million, or 68%, compared to \$4.4 million in the same quarter last year. Higher local currency net income was primarily related to higher sales volumes, partially offset by higher selling expenses. Currency translation effects increased current quarter International segment net income, when stated in U.S. dollars by approximately \$0.6 million.

The loss reported in reconciling items for the first quarter of 2011 was \$5.5 million compared to a loss of \$1.8 million in the first quarter of 2010. The higher loss in the first quarter of 2011 reflects higher interest expense associated with borrowings made in October 2010 to finance the General Monitors acquisition. Additionally, the first quarter of 2010 benefited from currency exchange gains that did not repeat in the current quarter.

## **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, principal and interest payments on debt, and acquisitions. Approximately half of our long-term debt is at fixed interest rates with repayment schedules through 2021. The remainder of our long-term debt is at variable rates on an unsecured revolving credit facility that is due in 2015. Substantially all of our 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 increased \$7.2 million during the three months ended March 31, 2011, compared to decreasing \$0.1 million during the three months ended March 31, 2010.

Operating activities provided cash of \$10.6 million during the three months ended March 31, 2011, including \$2.8 million at General Monitors. Operating activities used cash of \$6.4 million during the three months ended March 31, 2010. Significantly improved operating cash flow in the first quarter of 2011 is primarily related to a significant increase in net income when compared with the first quarter of 2010, partially offset by a higher use of cash for working capital items. Trade receivables were \$210.1 million at March 31, 2011, compared to \$198.6 million at December 31, 2010. LIFO inventories were \$156.8 million at March 31, 2011, compared to \$150.6 million at December 31, 2010. The \$11.5 million increase in trade receivables reflects an \$8.7 million increase in local currency balances, primarily in North America, and a \$2.8 million increase due to currency translation effects. The \$6.2 million increase in inventories reflects a \$2.8 million increase in local currency inventories and a \$3.4 million increase due to currency translation effects. Higher trade receivables and inventories reflect increased sales and anticipated higher customer demand.

Investing activities used cash of \$7.4 million during the three months ended March 31, 2011, compared to using \$2.2 million in the same quarter last year. The increase related primarily to higher property additions. During the three months ended March 31, 2011 and 2010, we used cash of \$7.4 million and \$3.6 million, respectively, for property additions. Higher property additions in the first quarter of 2011 were related to production equipment additions in North America and Corporate Center building improvements.

Financing activities provided cash of \$2.6 million during the three months ended March 31, 2011, compared to \$9.4 million during the first quarter of 2010. The change was primarily related to borrowing on our short-term and long-term lines of credit. During the first quarter of 2011 we borrowed \$12.4 million compared to borrowing of \$18.4 million in the first quarter of 2010. We paid cash dividends of \$9.1 million in the first quarter of 2011 compared to \$8.6 million in the first quarter of 2010.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at March 31, 2011 resulted in a translation gain of \$8.6 million being credited to the cumulative translation adjustments shareholders' equity account during the three months ended March 31, 2011, compared to a loss of \$6.0 million during the three months ended March 31, 2010. The translation gain during the first quarter of 2011 was primarily related to the strengthening of the euro. The translation loss during the first quarter of 2010 was primarily related to a weakening of the euro.

#### **COMMITMENTS AND CONTINGENCIES**

We expect to make net contributions of \$4.3 million to our pension plans during 2011.

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.

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims, based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes, and other relevant information. The reserve for single incident product liability claims was \$5.4 million and \$5.2 million at March 31, 2011 and December 31, 2010, respectively. Single incident product liability expense during the three months ended March 31, 2011 and 2010 was \$0.4 million and \$0.5 million, respectively. We evaluate our single incident product liability exposures on an ongoing basis and make adjustments to the reserve as new information becomes available.

Cumulative trauma product liability claims involve exposures to harmful substances (*e.g.*, silica, asbestos, and coal dust) that occurred many years ago and may have developed over long periods of time into diseases such as silicosis, asbestosis, or coal worker's pneumoconiosis. We are presently named as a defendant in approximately 1,900 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged, the amount of damages sought, and potentially involve multiple defendants.

Cumulative trauma product liability litigation is difficult to predict. In our experience, until late in a lawsuit, we cannot reasonably determine whether it is probable that any given cumulative trauma lawsuit will ultimately result in a liability. This uncertainty is caused by many factors, including the following: cumulative trauma complaints generally do not provide information sufficient to determine if a loss is probable; cumulative trauma litigation is inherently unpredictable and information is often insufficient to determine if a lawsuit will develop into an actively litigated case; and even when a case is actively litigated, it is often difficult to determine if the lawsuit will be dismissed or otherwise resolved until late in the lawsuit. Moreover, even once it is probable that such a lawsuit will result in a loss, it is difficult to reasonably estimate the amount of actual loss that will be incurred. These amounts are highly variable and turn on a case-by-case analysis of the relevant facts, which are often not learned until late in the lawsuit.

Because of these factors, we cannot reliably determine our potential liability for such claims until late in the lawsuit. We, therefore, do not record cumulative trauma product liability losses when a lawsuit is filed, but rather, when we learn sufficient information to determine that it is probable that we will incur a loss and the amount of loss can be reasonably estimated. We record expenses for defense costs associated with open cumulative trauma product liability lawsuits as incurred.

We cannot estimate any amount or range of possible losses related to resolving pending and future cumulative trauma product liability claims that we may face because of the factors described above. As new information about cumulative trauma product liability cases and future developments becomes available, we reassess our potential exposures.

A summary of cumulative trauma product liability claims activity follows:

|                                  | Three Months Ended | Year Ended          |
|----------------------------------|--------------------|---------------------|
|                                  | March 31<br>2011   | December 31<br>2010 |
| Open claims, beginning of period | 1,900              | 2,480               |
| New claims                       | 47                 | 260                 |
| Settled and dismissed claims     | (51)               | (840)               |
| Open claims, end of period       | 1,896              | 1,900               |

With some common contract exclusions, we maintain insurance for cumulative trauma product liability claims. We have purchased insurance policies from over 20 different insurance carriers that provide coverage for cumulative trauma product liability losses and related defense costs. In the normal course of business, we make payments to settle product liability claims and for related defense costs. We record receivables for the amounts that are covered by insurance. The available limits of these policies are many times our recorded insurance receivable balance.

Various factors could affect the timing and amount of recovery of our 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.

Our insurance receivables totaled \$97.1 million at March 31, 2011, all of which was reported in other non-current assets. Our insurance receivables totaled \$89.0 million December 31, 2010, all of which is reported in other non-current assets.

A summary of insurance receivable balances and activity related to cumulative trauma product liability losses follows:

|                             | Three months ended | Year ended          |
|-----------------------------|--------------------|---------------------|
| (In millions)               | March 31<br>2011   | December 31<br>2010 |
| Balance beginning of period | \$ 89.0            | \$ 91.7             |
| Additions                   | 8.1                | 30.9                |
| Collections and settlements |                    | (33.6)              |
| Balance end of period       | 97.1               | 89.0                |

Additions to insurance receivables in the above table represent insured cumulative trauma product liability settlements and related defense costs. There were no uninsured cumulative trauma product liability losses during the three month periods ended March 31, 2011 and 2010.

Our aggregate cumulative trauma product liability settlement, administrative and defense costs for the years ended December 31, 2010, 2009, and 2008 totaled approximately \$90.3 million, substantially all of which was insured.

We believe that the increase in the insurance receivable balance that we have experienced since 2005 is primarily due to disagreements among our insurance carriers, and consequently with us, as to when their individual obligations to pay us are triggered and the amount of each insurer's obligation, as compared to other insurers. We believe that our insurers do not contest that they have issued policies to us or that these policies cover cumulative trauma product liability claims. Our ability to resolve our insurance litigations with Century Indemnity Company and Columbia Casualty Company successfully during 2010 demonstrates that we had strong legal positions concerning our rights to coverage.

We regularly evaluate the collectability of the insurance receivables and record the amounts that we conclude are probable of collection. Our conclusion is based on our analysis of the terms of the underlying insurance policies, our experience in successfully recovering cumulative trauma product liability claims from our insurers under other policies, the financial ability of our insurance carriers to pay the claims, our understanding and interpretation of the relevant facts and applicable law, and the advice of legal counsel, who believe that our insurers are required to provide coverage based on the terms of the policies.

Although the outcome of cumulative trauma product liability matters cannot be predicted with certainty and unfavorable resolutions could materially affect our results of operations on a quarter-to-quarter basis, based on information currently available and the amounts of insurance coverage available to us, we believe that the disposition of cumulative trauma product liability lawsuits that are pending against us will not have a materially adverse effect on our future results of operations, financial condition, or liquidity.

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 pursuing the legal actions necessary to collect all amounts.

In April 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 filed a motion to dismiss the declaratory judgment claim and a counter claim for breach of contract against North River and the two excess carriers. The court stayed the declaratory judgment claim and the breach of contract claim is now in discovery. 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.

During May 2010, we resolved coverage litigation with Century Indemnity Company through a negotiated settlement. As part of this settlement, both parties dismissed all claims against one another under the previously-filed coverage litigation. The settlement did not have an impact on our operating results.

During July 2010, we resolved coverage litigation with Columbia Casualty Company through a negotiated settlement. As part of this settlement, both parties dismissed all claims against one another under the previously-filed coverage litigation. The settlement did not have an impact on our operating results.

In July 2010, we filed a complaint in the Superior Court of the State of Delaware seeking declaratory and other relief from the majority of our excess insurance carriers concerning the future rights and obligations of MSA and our excess insurance carriers under various insurance policies. The reason for this insurance coverage action is to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers.

In December 2010, North River filed a motion to dismiss or stay the Delaware action asserting that the previously-discussed cases in the United States District Court for the Western District of Pennsylvania and the Court of Common Pleas of Allegheny County, Pennsylvania were capable of resolving the claims presented in the Superior Court of the State of Delaware action. In January 2011,

the Superior Court of the State of Delaware granted North River's motion to stay the Delaware insurance coverage action, pending resolution of the ongoing actions in the United States District Court for the Western District of Pennsylvania and the Court of Common Pleas of Allegheny County, Pennsylvania. We appealed the trial court's decision to stay this case and our appeal was denied. There will be no further activity in the Delaware action until the two Pennsylvania actions are resolved.

#### **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, 2010.

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

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.

In October 2009, the FASB issued ASU No. 2009-14, Certain Revenue Arrangements That Include Software Elements. This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are essential to the functionality, and scopes these products out of current software revenue guidance. The new guidance includes factors to help companies determine what software elements are considered essential to the functionality. The amendments will subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The adoption of this ASU on January 1, 2011 did not have a material effect on our consolidated financial statements.

In April 2010, the FASB issued ASU No. 2010-17, Revenue Recognition - Milestone Method. This ASU allows entities to make a policy election to use the milestone method of revenue recognition and provides guidance on defining a milestone and the criteria that should be met for applying the milestone method. The scope of this ASU is limited to the transactions involving milestones relating to research and development deliverables. The guidance includes enhanced disclosure requirements about each arrangement, individual milestones and related contingent consideration, substantive milestones and factors considered in that determination. The adoption of this ASU on January 1, 2011 did not have a material effect on our consolidated financial statements.

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**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, 2011 by approximately \$14.6 million and \$0.9 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, 2011, we had open foreign currency forward contracts with a U.S. dollar notional value of \$8.6 million. A hypothetical 10% increase in March 31, 2011 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 \$176.0 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 \$3.5 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 (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.
- (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, 2011   |                                  | \$                           |  | 1,561,906  |
| February 1 - February 28, 2011 |                                  |                              |  | 1,347,916  |
| March 1 - March 31, 2011       | 14,580                           | 35.33                        |  | 1,328,067  |

In November 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 2011 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 |
| 101.INS* | XBRL Instance Document   |
| 101.SCH* | XBRL Taxonomy Extension Schema Document  |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document  |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document   |

\* In accordance with Regulation S-T, the XBRL-related information in Exhibit 101 to this Quarterly Report on Form 10-Q shall be deemed to be furnished and not filed.

**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 28, 2011

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

Duly Authorized Officer and Principal Financial Officer

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