

MINE SAFETY APPLIANCES CO  
Form 10-Q  
October 28, 2010

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2010

Commission File No. 1-15579

# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of

incorporation or organization)

121 Gamma Drive

**25-0668780**  
(IRS Employer

Identification No.)

15238

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**RIDC Industrial Park**

**O Hara Township**

**Pittsburgh, Pennsylvania**

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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

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

On October 28, 2010 there were 36,326,886 shares of common stock outstanding, not including 1,709,411 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

	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net sales	\$ 242,019	\$ 228,486	\$ 691,626	\$ 673,893
Other income	1,039	150	2,359	1,681
	243,058	228,636	693,985	675,574
Costs and expenses				
Cost of products sold	151,340	145,354	428,268	422,469
Selling, general and administrative	61,185	57,313	184,005	170,174
Research and development	7,938	7,119	23,956	21,405
Restructuring and other charges	2,082	840	11,509	9,901
Interest	1,686	1,681	4,911	5,442
Currency exchange losses (gains)	3,545	42	(90)	(305)
	227,776	212,349	652,559	629,086
Income before income taxes	15,282	16,287	41,426	46,488
Provision for income taxes	5,297	5,154	14,387	15,754
Net income	9,985	11,133	27,039	30,734
Net income attributable to noncontrolling interests	(382)	(179)	(703)	(101)
Net income attributable to Mine Safety Appliances Company	9,603	10,954	26,336	30,633
Earnings per share attributable to Mine Safety Appliances Company common shareholders				
Basic	\$ 0.27	\$ 0.31	\$ 0.73	\$ 0.86
Diluted	\$ 0.26	\$ 0.30	\$ 0.72	\$ 0.85
Dividends per common share	\$ 0.25	\$ 0.24	\$ 0.74	\$ 0.72

See notes to condensed consolidated financial statements.



**MINE SAFETY APPLIANCES COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

(In thousands, except share amounts)

Unaudited

	September 30 2010	December 31 2009
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 47,413	\$ 61,983
Trade receivables, less allowance for doubtful accounts of \$7,462 and \$6,866	186,128	173,355
Inventories	142,600	123,944
Deferred tax assets	21,256	25,109
Income taxes receivable	8,001	4,054
Prepaid expenses and other current assets	33,198	45,580
<b>Total current assets</b>	<b>438,596</b>	<b>434,025</b>
Property, less accumulated depreciation of \$314,104 and \$306,170	141,114	144,575
Prepaid pension cost	115,415	105,812
Deferred tax assets	12,167	10,870
Goodwill	84,874	84,727
Other noncurrent assets	118,783	95,219
<b>Total assets</b>	<b>910,949</b>	<b>875,228</b>
<b>Liabilities</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 51,447	\$ 16,326
Accounts payable	55,589	43,487
Employees compensation	32,025	25,811
Insurance and product liability	14,244	24,164
Taxes on income	5,252	10,090
Other current liabilities	47,544	48,572
<b>Total current liabilities</b>	<b>206,101</b>	<b>168,450</b>
Long-term debt	72,106	82,114
Pensions and other employee benefits	126,973	125,387
Deferred tax liabilities	45,075	44,800
Other noncurrent liabilities	14,012	15,077
<b>Total liabilities</b>	<b>464,267</b>	<b>435,828</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

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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 36,324,686 and 35,972,518 shares)	80,550	74,269
Stock compensation trust 1,711,611 and 2,174,204 shares	(8,935)	(11,349)
Treasury shares, at cost:		
Preferred 52,878 and 52,878 shares	(1,753)	(1,753)
Common 24,045,094 and 23,934,669 shares	(259,264)	(256,283)
Accumulated other comprehensive loss	(45,088)	(45,856)
Retained earnings	673,559	674,019
<b>Total Mine Safety Appliances Company shareholders equity</b>	<b>442,638</b>	<b>436,616</b>
Noncontrolling interests	4,044	2,784
<b>Total shareholders equity</b>	<b>446,682</b>	<b>439,400</b>
<b>Total liabilities and equity</b>	<b>910,949</b>	<b>875,228</b>

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

	Nine Months Ended September 30	
	2010	2009
<b>Operating Activities</b>		
Net income	\$ 27,039	\$ 30,734
Depreciation and amortization	20,541	20,282
Pensions	(3,902)	184
Net (gain) loss from investing activities	(834)	261
Stock-based compensation	5,875	4,622
Deferred income tax benefit	(2,115)	(1,271)
Other noncurrent assets and liabilities	(26,574)	(21,864)
Other, net	(3,980)	(2,979)
<b>Operating cash flow before changes in working capital</b>	<b>16,050</b>	<b>29,969</b>
Trade receivables	(11,783)	23,869
Inventories	(17,841)	30,672
Accounts payable and accrued liabilities	6,439	(15,450)
Income taxes receivable, prepaid expenses and other current assets	8,700	18,081
<b>(Increase) decrease in working capital</b>	<b>(14,485)</b>	<b>57,172</b>
<b>Cash flow from operating activities</b>	<b>1,565</b>	<b>87,141</b>
<b>Investing Activities</b>		
Property additions	(16,629)	(20,729)
Property disposals	164	244
Other investing	1,250	(134)
<b>Cash flow from investing activities</b>	<b>(15,215)</b>	<b>(20,619)</b>
<b>Financing Activities</b>		
Proceeds from (payments on) short-term debt, net	35,108	(23,185)
Payments on long-term debt	(10,000)	(12,000)
Cash dividends paid	(26,796)	(25,881)
Company stock purchases	(2,981)	(107)
Exercise of stock options	3,049	84
Excess tax provision related to stock plans	(229)	(495)
<b>Cash flow from financing activities</b>	<b>(1,849)</b>	<b>(61,584)</b>
<b>Effect of exchange rate changes on cash</b>	<b>929</b>	<b>2,749</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(14,570)</b>	<b>7,687</b>
<b>Beginning cash and cash equivalents</b>	<b>61,983</b>	<b>50,894</b>

<b>Ending cash and cash equivalents</b>	47,413	58,581
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See notes to condensed consolidated financial statements.



**MINE SAFETY APPLIANCES COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

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

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

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

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

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

**(2) Restructuring and Other Charges**

During the three and nine month periods ended September 30, 2010, we recorded charges of \$2.1 million (\$1.4 million after tax) and \$11.5 million (\$7.5 million after tax), respectively. European segment charges of \$8.3 million for the nine months ended September 30, 2010 related primarily to a focused voluntary retirement incentive program in Germany (German VRIP). During the first quarter of 2010, 27 employees made irrevocable elections to retire under the terms of the German VRIP. German VRIP termination benefit expense of \$5.0 million was recorded in March 2010. The remaining \$3.3 million European segment charges related primarily to staff reductions and our ongoing efforts to reorganize our European operations. North American segment charges for the nine months ended September 30, 2010 of \$2.4 million included stay bonuses and other costs associated with our initiative to transfer certain production activities. International segment charges for the nine months ended September 30, 2010 of \$0.8 million were primarily related to severance costs associated with staff reductions in South Africa and China.

During the three and nine month periods ended September 30, 2009, we recorded charges of \$0.8 million (\$0.5 million after tax) and \$9.9 million (\$6.3 million after tax), respectively. North American segment charges of \$8.7 million for the nine months ended September 30, 2009 related primarily to a focused voluntary retirement incentive program (North American VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the North American VRIP. North American VRIP non-cash special termination benefits expense of \$6.7 million was recorded in January 2009. The remaining \$2.0 million of North American segment charges related to layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. European and International segment charges for the nine months ended September 30, 2009 of \$0.4 million and \$0.8 million, respectively, were primarily for severance costs related to staff reductions in Germany, Brazil, Australia and South Africa.

**(3) Comprehensive Income**

Components of comprehensive income are as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net income	\$ 9,985	\$ 11,133	\$ 27,039	\$ 30,734
Foreign currency translation adjustments	20,985	8,875	768	18,393
Comprehensive income	30,970	20,008	27,807	49,127
Comprehensive income attributable to noncontrolling interests	(1,131)	(322)	(1,260)	(1,398)
Comprehensive income attributable to Mine Safety Appliances Company	29,839	19,686	26,547	47,729

Components of accumulated other comprehensive loss are as follows:

(In thousands)	September 30 2010	December 31 2009
Cumulative foreign currency translation adjustments	\$ 14,679	\$ 13,911
Pension and post-retirement plan adjustments	(59,767)	(59,767)
Accumulated other comprehensive loss	(45,088)	(45,856)

**(4) Earnings per Share**

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

(In thousands, except per share amounts)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Net income attributable to Mine Safety Appliances Company	\$ 9,603	\$ 10,954	\$ 26,336	\$ 30,633
Preferred stock dividends	10	10	30	30
Income available to common shareholders	9,593	10,944	26,306	30,603
Basic earnings per common share	\$ 0.27	\$ 0.31	\$ 0.73	\$ 0.86
Diluted earnings per common share	\$ 0.26	\$ 0.30	\$ 0.72	\$ 0.85
Basic shares outstanding	35,917	35,680	35,819	35,662
Stock options and other stock compensation	474	258	547	198
Diluted shares outstanding	36,391	35,938	36,366	35,860
Antidilutive stock options	1,263	749	1,263	749



**(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 America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended September 30, 2010</b>					
Sales to external customers	\$ 111,915	\$ 61,539	\$ 68,565	\$	\$ 242,019
Intercompany sales	22,987	21,242	4,450	(48,679)	
Net income (loss) attributable to Mine Safety Appliances Company	10,463	(301)	3,317	(3,876)	9,603
<b>Nine Months Ended September 30, 2010</b>					
Sales to external customers	\$ 327,803	\$ 174,569	\$ 189,254	\$	\$ 691,626
Intercompany sales	61,659	64,908	11,920	(138,487)	
Net income (loss) attributable to Mine Safety Appliances Company	24,732	(7,247)	10,266	(1,415)	26,336
<b>Three Months Ended September 30, 2009</b>					
Sales to external customers	\$ 107,054	\$ 64,937	\$ 56,495	\$	\$ 228,486
Intercompany sales	13,771	17,773	5,094	(36,638)	
Net income (loss) attributable to Mine Safety Appliances Company	10,767	(1,060)	1,666	(419)	10,954
<b>Nine Months Ended September 30, 2009</b>					
Sales to external customers	\$ 330,133	\$ 186,611	\$ 157,149	\$	\$ 673,893
Intercompany sales	42,637	63,294	10,585	(116,516)	
Net income attributable to Mine Safety Appliances Company	25,403	2,155	3,031	44	30,633

Reconciling items consist primarily of intercompany eliminations and items reported at the corporate level. The loss of \$3.9 million reported in reconciling items for the three months ended September 30, 2010 was primarily related to currency exchange losses and costs associated with acquisition activities.

In 2010, we changed the composition of our European and International segments to reflect new management responsibilities. Under the new structure, our operations in the Middle East, Egypt and India are reported in the European segment. Previously these operations were reported in the International segment. Comparative 2009 amounts have been revised to conform to the current year presentation. The effect of the revisions for the three months ended September 30, 2009 increased European segment sales and net income by \$5.6 million and \$0.6 million, respectively, and decreased International segment sales and net income by the corresponding amounts. The effect for the nine months ended September 30, 2009 increased European segment sales and net income by \$14.5 million and \$1.3 million, respectively, and decreased International segment sales and net income by the corresponding amounts.

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

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

(In thousands)	Pension Benefits		Other Benefits	
	2010	2009	2010	2009
<b>Three months ended September 30</b>				
Service cost	\$ 1,938	\$ 2,016	\$ 191	\$ 181
Interest cost	4,682	4,742	432	469
Expected return on plan assets	(8,643)	(8,905)		
Amortization of transition amounts	1	1		
Amortization of prior service cost	25	34	(138)	(87)
Recognized net actuarial losses	160	65	210	263
Net periodic benefit (credit) cost	(1,837)	(2,047)	695	826
<b>Nine months ended September 30</b>				
Service cost	\$ 5,811	\$ 5,907	\$ 572	\$ 543
Interest cost	14,048	14,005	1,297	1,409
Expected return on plan assets	(25,931)	(26,428)		
Amortization of transition amounts	3	4		
Amortization of prior service cost	77	103	(416)	(263)
Recognized net actuarial losses	433	182	630	787
Settlement loss	285			
Termination benefits	1,372	6,411		250
Net periodic benefit (credit) cost	(3,902)	184	2,083	2,726

We made contributions of \$3.5 million to our pension plans during the nine month period ended September 30, 2010. We expect to make total contributions of approximately \$4.6 million to our pension plans in 2010.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets, net of accumulated amortization, during the nine months ended September 30, 2010 were as follows:

(In thousands)	Goodwill	Intangibles
Net balances at January 1, 2010	\$ 84,727	\$ 13,543
Amortization expense		(1,750)
Currency translation and other	147	34
Net balances at September 30, 2010	84,874	11,827

At September 30, 2010, goodwill of approximately \$63.5 million, \$17.5 million, and \$3.9 million related to the North American, European, and International operating segments, respectively.

**(8) Inventories**

(In thousands)

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	September 30 2010	December 31 2009
Finished products	\$ 69,818	\$ 54,958
Work in process	18,000	13,640
Raw materials and supplies	54,782	55,346
Total inventories	142,600	123,944

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**(9) Stock Plans**

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

Stock compensation expense was as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2010	2009	2010	2009
Stock compensation expense	\$ 1,471	\$ 1,248	\$ 5,875	\$ 4,622
Income tax benefit	539	445	2,118	1,642
Stock compensation expense, net of income tax benefit	932	803	3,757	2,980

A summary of stock option activity for the nine months ended September 30, 2010 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2010	2,085,075	\$ 25.01
Granted	323,978	25.06
Exercised	(314,060)	9.71
Expired	(9,485)	46.73
Outstanding at September 30, 2010	2,085,508	27.23
Exercisable at September 30, 2010	1,128,264	27.90

A summary of restricted stock activity for the nine months ended September 30, 2010 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2010	338,206	\$ 28.99
Granted	170,824	25.08
Vested	(45,989)	39.93
Unvested at September 30, 2010	463,041	26.46





A summary of performance stock unit activity for the nine months ended September 30, 2010 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2010	61,974	\$ 17.83
Granted	41,984	24.63
Performance adjustment	(15,494)	17.83
Unvested at September 30, 2010	88,464	21.06

#### (10) Derivative Financial Instruments

As part of our currency exchange rate risk management strategy, we enter into certain derivative foreign currency forward contracts that do not meet the GAAP criteria for hedge accounting, but which have the impact of partially offsetting certain foreign currency exposures. We account for these forward contracts on a full mark-to-market basis and report the related gains or losses in currency exchange gains or losses. At September 30, 2010, the notional amount of open forward contracts was \$40.3 million and the unrealized gain on these contracts was \$0.7 million. All open forward contracts will mature during the fourth quarter of 2010.

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)	September 30, 2010	December 31, 2009
Foreign exchange contracts:		
Prepaid expenses and other current assets	\$ 711	\$
Other current liabilities		289

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

(In thousands)	Income Statement Location	Amount Recognized in Income Nine Months Ended September 30	2010	2009
Derivatives not designated as hedging instruments:				
Foreign exchange contracts	Currency exchange losses (gains)		\$ 857	\$ 2,822

#### (11) Income Taxes

At September 30, 2010, we had a gross liability for unrecognized tax benefits of \$9.1 million. We have recognized tax benefits associated with these liabilities of \$7.4 million at September 30, 2010. There have been no significant changes to the balances since December 31, 2009. We do not expect that the total amount of the unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. Our liability for accrued interest and penalties related to uncertain tax positions was \$0.7 million at September 30, 2010.

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

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

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

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

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

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

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

The valuation methodologies we used to measure financial assets and liabilities within the scope of the FASB statement were limited to the derivative financial instruments described in Notes 10 and 13. We estimate the fair value of these financial instruments, consisting of foreign currency forward contracts and fixed rate long-term debt, 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 September 30, 2010, the reported carrying amount of our fixed rate long-term debt was \$76.0 million and the fair value was \$85.0 million. The fair value of our long-term debt was determined using cash flow valuation models to estimate the market value of similar transactions as of September 30, 2010.

**(14) Contingencies**

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 1,900 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 8,900 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

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

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

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

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

During May 2010, we resolved the 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 impact our operating results.

During July 2010, we resolved the 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 impact our operating results.

On July 26, 2010, we filed a complaint in Delaware state court 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 was to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Insurance receivables totaled \$78.0 million at September 30, 2010, all of which is reported in other non-current assets. Insurance receivables totaled \$91.7 million at December 31, 2009. Based upon our evaluation of applicable insurance coverage and our ongoing insurance recovery efforts, we believe that the recorded balances are fully recoverable.

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

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

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

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

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

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

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

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

#### **(16) Subsequent Events**

On October 13, 2010, we acquired 100% of General Monitors for \$280.0 million in cash, along with the assumption of certain liabilities. The purchase price is subject to a working capital adjustment. There is no contingent consideration. General Monitors, which is headquartered in Lake Forest, California, 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 of General Monitors significantly enhances our fixed gas detection capabilities by providing us with world-class research and development talent and an industry-leading product line.

Goodwill related to the General Monitors acquisition, which is expected to be primarily included in the North American and European operating segments, is expected to be deductible for tax purposes.

Our results for the three and nine months ended September 30, 2010 include transaction and integration costs of \$2.5 million (\$1.6 million after tax). These costs are reported in selling, general and administrative expenses. We expect that additional transaction and integration costs of approximately \$4.5 million (\$2.9 million after tax) will be incurred during the fourth quarter of 2010.

General Monitors operating results will be included in our financial statements from the acquisition date.

At the date of issuance of these financial statements, the initial purchase accounting was not complete.

On October 13, 2010, we entered into a credit agreement establishing an unsecured senior revolving credit facility. The revolving facility provides for borrowings of up to \$250.0 million and matures in October 2015. Borrowings made under the facility may be used for general corporate purposes, including working capital, permitted acquisitions, capital expenditures and repayment of existing debt. Borrowings under the revolving credit facility will bear interest at a variable annual rate. The credit agreement also provides for an uncommitted incremental facility that permits us to request an increase in the senior revolving credit facility of up to \$50.0 million.

On October 13, 2010, we issued \$100.0 million in 4.00% Series A Senior Notes. The 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 beginning January 13, 2011. The notes are unsecured.

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

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

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

**BUSINESS OVERVIEW**

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

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

Achieve sustainable growth through product leadership;

Expand market penetration through exceptional customer focus;

Control costs and increase efficiency in asset utilization; and

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

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

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

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

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

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

## ACQUISITION OF GENERAL MONITORS

On October 13, 2010, we strengthened our presence in oil, gas and petrochemical markets by acquiring General Monitors of Lake Forest, California. 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. We have assembled a joint cross-functional integration team to ensure the successful integration of our operations.

## RESULTS OF OPERATIONS

### Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

*Net sales.* Net sales for the three months ended September 30, 2010 were \$242.0 million, an increase of \$13.5 million, or 6%, compared with \$228.5 million for the three months ended September 30, 2009.

(In millions)	Three Months Ended September 30		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2010	2009		
North America	\$ 111.9	\$ 107.1	\$ 4.8	5%
Europe	61.5	64.9	(3.4)	(5)
International	68.6	56.5	12.1	21

Net sales by the North American segment were \$111.9 million for the third quarter of 2010, an increase of \$4.8 million, or 5%, compared to \$107.1 million for the third quarter of 2009. During the third quarter, we continued to see strong demand in our core industrial markets, which led to higher shipments of instruments and head protection, up \$5.4 million and \$4.5 million, respectively. These increases were partially offset by lower sales of self contained breathing apparatus (SCBAs) in the fire service market, down \$2.6 million, and gas masks in homeland security and law enforcement markets, down \$2.2 million.

Net sales for the European segment were \$61.5 million for the third quarter of 2010, a decrease of \$3.4 million, or 5%, compared to \$64.9 million for the third quarter of 2009. Local currency sales in Europe increased \$2.1 million during the third quarter of 2010, reflecting improved sales of SCBAs in Germany and instruments in northern Europe. The unfavorable translation effects of a weaker euro in the current quarter decreased European segment sales, when stated in U.S. dollars, by \$5.5 million.

Net sales for the International segment were \$68.6 million in the third quarter of 2010, an increase of \$12.1 million, or 21%, compared to \$56.5 million for the third quarter of 2009. Local currency sales in the International segment increased \$9.1 million in the current quarter, reflecting strong sales in Africa and Latin America, primarily in mining markets. Currency translation effects increased International segment sales, when stated in U.S. dollars, by \$3.0 million, primarily related to the strengthening of the Australian dollar, South African rand, and Brazilian real.

**Cost of products sold.** Cost of products sold was \$151.3 million in the third quarter of 2010, compared to \$145.4 million in the third quarter of 2009. Higher cost of products sold in the current quarter reflects the previously-discussed sales growth.

**Gross profit.** Gross profit for the third quarter of 2010 was \$90.7 million, which was \$7.6 million, or 9%, higher than gross profit of \$83.1 million in the third quarter of 2009. The ratio of gross profit to net sales was 37.5% in the third quarter of 2010 compared to 36.4% in the same quarter last year. The higher gross profit ratio in the third quarter of 2010 was primarily related to sales mix.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$61.2 million during the third quarter of 2010, an increase of \$3.9 million, or 7%, compared to \$57.3 million in the third quarter of 2009. Selling, general and administrative expenses were 25.3% of net sales in the third quarter of 2010, compared to 25.1% of net sales in the third quarter of 2009. The increase in selling, general, and administrative expenses for the third quarter 2010 includes \$2.5 million in charges related to the acquisition of General Monitors. Excluding these charges, selling, general and administrative expenses were 24.2% of net sales in the third quarter of 2010. Local currency selling, general and administrative expenses in the European and International segments were up \$0.5 million and \$1.2 million, respectively, in the current period, primarily to support increased sales activity. Currency exchange effects decreased third quarter 2010 selling, general and administrative expenses, when stated in U.S. dollars, by \$0.8 million.

**Research and development expense.** Research and development expense was \$7.9 million during the third quarter of 2010, an increase of \$0.8 million, or 12%, compared to \$7.1 million during the third quarter of 2009. The increase reflects our continued focus on developing innovative new products.

**Restructuring and other charges.** During the third quarters of 2010 and 2009, we recorded charges of \$2.1 million (\$1.4 million after tax) and \$0.8 million (\$0.5 million after tax), respectively. The charges in both quarters related to the transfer of certain production activities in North America and our ongoing efforts to reorganize our European operations.

**Currency exchange.** We reported currency exchange losses of \$3.5 million in the third quarter of 2010. The losses in the third quarter of 2010 were largely unrealized and related to the effect of a stronger euro on inter-company balances.

**Income taxes.** The effective tax rate for the third quarter of 2010 was 34.7%, compared to 31.6% for the same quarter last year. The third quarter 2009 provision for income taxes included a tax benefit of \$1.0 million to recognize a deferred tax asset related to net operating losses in South Africa. Excluding this benefit, the third quarter 2009 effective tax rate was 37.8%. The lower effective tax rate in the current quarter was primarily due to a more favorable foreign tax profile.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the third quarter of 2010 was \$9.6 million, or \$0.27 per basic share, compared to \$11.0 million, or \$0.31 per basic share, for the same quarter last year. The \$1.4 million decrease in net income for the third quarter of 2010 was related to currency exchange losses and costs associated with the acquisition of General Monitors, partially offset by improved operating results in the International and European segments.



North American segment net income for the third quarter of 2010 was \$10.5 million, a decrease of \$0.3 million, or 3%, compared to \$10.8 million in the third quarter of 2009.

The European segment reported a net loss for the third quarter of 2010 of \$0.3 million, compared to a net loss of \$1.1 million during the third quarter of 2009. The improvement related to the modest increase in local currency sales. Currency translation effects reduced the current quarter loss, when stated in U.S. dollars, by \$0.2 million.

International segment net income for the third quarter of 2010 was \$3.3 million, an increase of \$1.6 million, compared to \$1.7 million in the same quarter last year. Higher net income was primarily related to higher sales, partially offset by higher selling, general and administrative expenses. Currency translation effects were not significant.

The loss of \$3.9 million reported in reconciling items for the third quarter of 2010 was primarily related to currency exchange losses and costs associated with the acquisition of General Monitors.

### Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

**Net sales.** Net sales for the nine months ended September 30, 2010 were \$691.6 million, an increase of \$17.7 million, or 3%, compared with \$673.9 million for the nine months ended September 30, 2009.

(In millions)	Nine Months Ended September 30		Dollar (Decrease) Increase	Percent (Decrease) Increase
	2010	2009		
North America	\$ 327.8	\$ 330.1	\$ (2.3)	(1%)
Europe	174.6	186.6	(12.0)	(6)
International	189.3	157.1	32.2	20

Net sales by the North American segment were \$327.8 million for the nine months ended September 30, 2010, a decrease of \$2.3 million, or 1%, compared to \$330.1 million for the same period in 2009. During the nine months ended September 30, 2010, we have seen growing demand in core industrial markets, resulting in higher shipments of instruments, head protection and respirators, up \$13.5 million, \$10.6 million and \$3.7 million, respectively. These increases were offset by lower sales of SCBAs, ballistic helmets and gas masks. SCBA sales in the current period were down \$16.1 million, reflecting continued weakness in the fire service market and lower sales of our Firehawk® M7 Responder to the U.S. Air Force. Sales of the Advanced Combat Helmet (ACH) were \$3.8 million lower in the current period, as we transitioned to a new contract. Gas mask shipments were \$6.4 million lower, primarily in homeland security and law enforcement markets.

Net sales for the European segment were \$174.6 million for the nine months ended September 30, 2010, a decrease of \$12.0 million, or 6%, compared to \$186.6 million for the same period in 2009. Local currency sales in Europe decreased \$7.7 million for the nine months ended September 30, 2010. The decrease occurred primarily in Eastern Europe where sales were down \$6.5 million on lower shipments of SCBAs and fire helmets to the fire service market. Sales in Western Europe were \$1.2 million lower in the current period, reflecting lower shipments of disposable respirators. Disposable respirator sales were unusually high in 2009 in response to the swine flu epidemic. Unfavorable translation effects of weaker European currencies, particularly the euro, in the current period decreased European segment sales, when stated in U.S. dollars, by approximately \$4.3 million.

Net sales for the International segment were \$189.3 million for the nine months ended September 30, 2010, an increase of \$32.2 million, or 20%, compared to \$157.1 million in the same

period in 2009. Local currency sales of the International segment increased \$15.2 million during the current period. Local currency sales in Latin America were up \$18.9 million, reflecting higher sales of head protection, and instruments, primarily in mining markets. This increase was partially offset by a \$5.6 million decrease in sales in China, primarily due to lower shipments of SCBAs. Prior year sales in China benefited from a large SCBA order for the Hong Kong Fire Service. Currency translation effects increased International segment sales, when stated in U.S. dollars, by \$17.0 million, primarily related to a strengthening of the Australian dollar, South African rand, and Brazilian real.

**Cost of products sold.** Cost of products sold was \$428.3 million for the nine months ended September 30, 2010, compared to \$422.5 million in the same period in 2009. Higher cost of products sold in the current period reflects the previously-discussed sales growth.

**Gross profit.** Gross profit for the nine months ended September 30, 2010 was \$263.4 million, which was \$12.0 million, or 5%, higher than gross profit of \$251.4 million in the same period in 2009. The ratio of gross profit to net sales was 38.1% in the current period compared to 37.3% in the same period last year. The higher gross profit ratio in the nine months ended September 30, 2010 was primarily related to sales mix.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$184.0 million during the nine months ended September 30, 2010, an increase of \$13.8 million, or 8%, compared to \$170.2 million in the same period in 2009. Selling, general and administrative expenses were 26.6% of net sales in the current period compared to 25.3% of net sales in the same period last year. Selling, general, and administrative expenses for the current period includes \$2.5 million in charges related to the acquisition of General Monitors. Current period selling, general and administrative expenses in the North American segment were \$3.3 million or 5% higher than the same period last year. The increase in North America selling, general and administrative expenses was primarily related to legal fees and other professional services associated with our ongoing insurance coverage litigation and higher selling expenses. Local currency selling, general and administrative expenses in the European and International segments were up \$1.0 million and \$4.0 million, respectively, in the current period, primarily to support increased selling activity. Currency exchange effects increased European and International segment administrative expenses for the nine months ended September 30, 2010, when stated in U.S. dollars, by \$3.0 million, primarily related to the strengthening of the Australian dollar, South African rand, and Brazilian real, partially offset by the weakening of the euro.

**Research and development expense.** Research and development expense was \$24.0 million during the nine months ended September 30, 2010, an increase of \$2.6 million, or 12.0%, compared to \$21.4 million during the same period last year. The increase reflects our ongoing focus on developing innovative new products.

**Restructuring and other charges.** During the nine months ended September 30, 2010, we recorded charges of \$11.5 million (\$7.5 million after tax). European segment charges of \$8.3 million for the nine months ended September 30, 2010 related primarily to a focused voluntary retirement incentive program in Germany (German VRIP). During the first quarter of 2010, 27 employees made irrevocable elections to retire under the terms of the German VRIP. German VRIP termination benefit expense of \$5.0 million was recorded in March 2010. The remaining \$3.3 million European segment charges related primarily to staff reductions and our ongoing efforts to reorganize our European operations. North American segment charges for the nine months ended September 30, 2010 of \$2.4 million included stay bonuses and other costs associated with our initiative to transfer certain production activities. International segment charges for the nine months ended September 30, 2010 of \$0.8 million were primarily related to severance costs associated with staff reductions in South Africa and China.

During the nine months ended September 30, 2009, we recorded charges of \$9.9 million (\$6.3 million after tax). North American segment charges of \$8.7 million for the nine months ended September 30, 2009 related primarily to a focused voluntary retirement incentive program (North American VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the North American VRIP. These employees retired on January 31, 2009. North American VRIP non-cash special termination benefits expense of \$6.7 million was recorded in January 2009. The remaining \$2.0 million of North American segment charges related to costs associated with layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. European and International segment charges for the nine months ended September 30, 2009 of \$0.4 million and \$0.8 million, respectively, were primarily for severance costs related to staff reductions in Germany, Brazil, Australia and South Africa.

**Income taxes.** The effective tax rate for the nine months ended September 30, 2010 was 34.7% compared to 33.9% for the same period last year. The provision for income taxes for the nine months ended September 30, 2009, included a tax benefit of \$1.0 million to recognize a deferred tax asset related to net operating losses in South Africa. Excluding this benefit, the 2009 effective tax rate was 36.0%. The lower effective tax rate in the current period was primarily due to the domestic production deduction in the U.S., partially offset by the expiration of the research and development tax credit.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the nine months ended September 30, 2010 was \$26.3 million, or \$0.73 per basic share, compared to \$30.6 million, or \$0.86 per basic share, for the same period last year.

North American segment net income for the nine months ended September 30, 2010 was \$24.7 million, a decrease of \$0.7 million, or 3%, compared to \$25.4 million in the same period last year. North American segment net income for the nine months ended September 30, 2009 included a \$4.4 million after-tax non-cash charge related to the voluntary retirement incentive program in the U.S. Excluding this one-time charge, North American segment net income was down \$5.1 million in the current period. The decrease reflects lower sales and higher operating expenses in the current period.

The European segment reported a net loss for the nine months ended September 30, 2010 of \$7.2 million, compared to net income of \$2.2 million in the same period last year. The decrease in European segment net income during the nine months ended September 30, 2010 includes after-tax charges of \$5.6 million related to the German VRIP and other costs associated with our ongoing efforts to reorganize European operations. The remainder of the decrease was primarily due to the previously discussed decrease in sales. Currency translation effects increased current period European segment net income, when stated in U.S. dollars, by approximately \$0.9 million.

International segment net income for the nine months ended September 30, 2010 was \$10.3 million, an increase of \$7.3 million, compared to \$3.0 million during the same period last year. Higher net income was primarily related to the increase in sales, partially offset by higher selling, general, and administrative expense. Currency translation effects increased current period International segment net income, when stated in U.S. dollars by approximately \$0.7 million.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our main source of liquidity is operating cash flows, supplemented by borrowings to fund significant transactions. Our principal liquidity requirements are for working capital, capital expenditures, acquisitions, principal and interest payments on debt and dividends. We believe that our financial strength has been evident during the recession and the early stages of the recovery. All of our long-term borrowings and substantially all of our short-term borrowings originate in the U.S., which has limited our exposure to non-U.S. credit markets and to currency exchange rate fluctuations.

Cash and cash equivalents decreased \$14.6 million during the nine months ended September 30, 2010, compared to increasing \$7.7 million during the same period in 2009.

Operating activities provided cash of \$1.6 million during the nine months ended September 30, 2010, compared to providing cash of \$87.1 million during the same period in 2009. Significantly lower operating cash flow during the nine months ended September 30, 2010 reflects a \$71.7 million unfavorable change associated with working capital and a \$13.9 million decrease in operating cash flow before changes in working capital. Lower operating cash flow before changes in working capital was primarily due to lower net income and less favorable adjustments for non-cash items. Trade receivables were \$186.1 million at September 30, 2010, compared to \$173.4 million at December 31, 2009. LIFO inventories were \$142.6 million at September 30, 2010, compared to \$123.9 million at December 31, 2009. The \$12.7 million increase in trade receivables reflects a \$11.8 million increase in local currency balances, primarily in North America, and a \$0.9 million increase, when stated in U.S. dollars, due to currency translation effects. The increase in trade receivables occurred primarily in North America and reflects the impact of higher sales. The \$18.7 million increase in inventories reflects a \$17.8 million increase in local currency inventories, and a \$0.9 million increase, when stated by U.S. dollars, due to currency translation effects. Increased inventory levels are primarily in anticipation of higher customer demand.

Investing activities used cash of \$15.2 million during the nine months ended September 30, 2010, compared to using \$20.6 million in the same period last year. The decrease in cash used for investing activities related primarily to lower property additions in the current period. During the nine months ended September 30, 2010 and 2009, we used cash of \$16.6 million and \$20.7 million, respectively, for property additions. Higher property additions in 2009 were related primarily to production equipment and software purchases in North America.

Financing activities used cash of \$1.8 million during the nine months ended September 30, 2010, compared to using \$61.6 million during the same period in 2009. During the third quarter 2010, we borrowed \$35.1 million on our short-term line of credit, compared to making payments of \$23.2 million for the same period last year. We paid cash dividends of \$26.8 million and \$25.9 million in the nine months ended September 30, 2010 and 2009, respectively.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at September 30, 2010 resulted in a translation gain of \$0.8 million being credited to the cumulative translation adjustments shareholders' equity account during the nine months ended September 30, 2010, compared to a gain of \$18.4 million during the same period in 2009. The translation gain during the nine months ended September 30, 2009 was primarily related to the strengthening of the euro, South African rand, the Brazilian real and the Australian dollar.

#### **COMMITMENTS AND CONTINGENCIES**

We expect to make net contributions of \$4.6 million to our pension plans during 2010.

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

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

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

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 1,900 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 8,900 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

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

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

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

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

During May 2010, we resolved the 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 impact our operating results.

During July 2010, we resolved the 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 impact our operating results.

On July 26, 2010, we filed a complaint in Delaware state court 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 was to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Insurance receivables totaled \$78.0 million at September 30, 2010, all of which is reported in other non-current assets. Insurance receivables totaled \$91.7 million at December 31, 2009. Based upon our evaluation of applicable insurance coverage and our ongoing insurance recovery efforts, we believe that the recorded balances are fully recoverable.

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

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

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

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

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

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

In April 2008, the FASB issued a staff position that amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized

intangible asset. The objective of this staff position is to improve the consistency between the useful life of a recognized intangible asset and the period of expected cash flows used to measure the fair value of the asset. This staff position applies to all intangible assets, whether acquired in a business combination or otherwise, and is to be applied prospectively to intangible assets acquired on or after January 1, 2009. The adoption of this staff position did not have a material effect on our consolidated financial statements.

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

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

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

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

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

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

**Currency exchange rate sensitivity.** We are subject to the effects of fluctuations in currency exchange rates on various transactions and on the translation of the reported financial position and operating results of our non-U.S. companies from local currencies to U.S. dollars. A hypothetical 10% strengthening or weakening of the U.S. dollar would decrease or increase our reported sales and net income for the nine months ended September 30, 2010 by approximately \$36.4 million and \$0.3 million, respectively.

When appropriate, we may attempt to limit our transactional exposure to changes in currency exchange rates through contracts or other actions intended to reduce existing exposures by creating offsetting currency exposures. At September 30, 2010, we had open foreign currency forward contracts with a U.S. dollar notional value of \$40.3 million. A hypothetical 10% increase in September 30, 2010 forward exchange rates would result in a \$4.0 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 \$76.0 million of fixed rate debt which matures at various dates through 2021. The incremental increase in the fair value of fixed rate long-term debt resulting from a hypothetical 10% decrease in interest rates would be approximately \$1.3 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.* The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures, as of the end of the period covered by this report, were effective and provided reasonable assurance that the information required to be disclosed by the Company in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required 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
July 1 July 31, 2010		\$		1,944,120
August 1 August 31, 2010				2,135,974
September 1 September 30, 2010	49,485	24.53		1,797,056

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 September 2010 related to stock compensation transactions.

**Item 6. EXHIBITS**

## (a) Exhibits

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

October 28, 2010

MINE SAFETY APPLIANCES COMPANY

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

Duly Authorized Officer and Principal Financial Officer

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