

MINE SAFETY APPLIANCES CO  
Form 10-Q  
July 28, 2009

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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

SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 2009

Commission File No. 1-15579

# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

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

121 Gamma Drive

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

15238

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**RIDC Industrial Park**

**O Hara Township**

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

(Zip Code)

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

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

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

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

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

reporting company)

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

On July 28, 2009 there were 35,962,603 shares of common stock outstanding, not including 2,190,068 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<br>June 30 |            | Six Months Ended<br>June 30 |            |
|--|-------------------------------|------------|-----------------------------|------------|
|  | 2009                          | 2008       | 2009                        | 2008       |
| Net sales  | \$ 227,232                    | \$ 293,162 | \$ 445,407                  | \$ 559,506 |
| Other income   | 672                           | 1,464      | 1,531                       | 2,523      |
|  | 227,904                       | 294,626    | 446,938                     | 562,029    |
| Costs and expenses   |                               |            |                             |            |
| Cost of products sold  | 141,917                       | 181,573    | 277,115                     | 341,565    |
| Selling, general and administrative  | 56,041                        | 68,919     | 112,861                     | 135,013    |
| Research and development   | 7,273                         | 9,202      | 14,286                      | 16,554     |
| Restructuring and other charges  | 966                           | 1,125      | 9,061                       | 2,231      |
| Interest   | 1,914                         | 2,281      | 3,761                       | 4,775      |
| Currency exchange losses (gains)   | 579                           | (76)       | (347)                       | 4,018      |
|  | 208,690                       | 263,024    | 416,737                     | 504,156    |
| Income before income taxes   | 19,214                        | 31,602     | 30,201                      | 57,873     |
| Provision for income taxes   | 6,986                         | 11,676     | 10,600                      | 21,777     |
| Net income   | 12,228                        | 19,926     | 19,601                      | 36,096     |
| Net loss (income) attributable to noncontrolling interests                               | 230                           | 28         | 78                          | (115)      |
| Net income attributable to Mine Safety Appliances Company                                | 12,458                        | 19,954     | 19,679                      | 35,981     |
| Earnings per share attributable to Mine Safety Appliances Company<br>common shareholders |                               |            |                             |            |
| Basic  | \$ 0.35                       | \$ 0.56    | \$ 0.55                     | \$ 1.01    |
| Diluted  | \$ 0.35                       | \$ 0.55    | \$ 0.55                     | \$ 1.00    |
| Dividends per common share   | \$ 0.24                       | \$ 0.24    | \$ 0.48                     | \$ 0.46    |

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

Unaudited

|  | June 30<br>2009 | December 31<br>2008 |
|--|-----------------|---------------------|
| <b>Assets</b>  |                 |                     |
| Current assets   |                 |                     |
| Cash and cash equivalents  | \$ 62,667       | \$ 50,894           |
| Trade receivables, less allowance for doubtful accounts of \$6,627 and \$6,050   | 173,978         | 198,622             |
| Inventories  | 145,312         | 159,428             |
| Deferred tax assets  | 23,658          | 23,023              |
| Income taxes receivable  | 12,310          | 21,362              |
| Prepaid expenses and other current assets  | 24,548          | 24,446              |
| <b>Total current assets</b>  | <b>442,473</b>  | <b>477,775</b>      |
| Property, less accumulated depreciation of \$294,716 and \$283,602   |                 |                     |
| Prepaid pension cost   | 78,411          | 78,037              |
| Deferred tax assets  | 7,526           | 7,651               |
| Goodwill   | 83,638          | 83,211              |
| Other noncurrent assets  | 102,281         | 87,727              |
| <b>Total assets</b>  | <b>859,766</b>  | <b>875,810</b>      |
| <b>Liabilities</b>   |                 |                     |
| Current liabilities  |                 |                     |
| Notes payable and current portion of long-term debt  | \$ 49,191       | \$ 60,849           |
| Accounts payable   | 45,865          | 50,126              |
| Employees compensation   | 28,029          | 30,368              |
| Insurance and product liability  | 17,782          | 20,487              |
| Taxes on income  | 3,571           | 6,083               |
| Other current liabilities  | 42,738          | 51,774              |
| <b>Total current liabilities</b>   | <b>187,176</b>  | <b>219,687</b>      |
| Long-term debt   |                 |                     |
| Pensions and other employee benefits   | 94,118          | 94,082              |
| Deferred tax liabilities   | 122,158         | 120,494             |
| Other noncurrent liabilities   | 36,318          | 36,491              |
|  | 8,996           | 9,931               |
| <b>Total liabilities</b>   | <b>448,766</b>  | <b>480,685</b>      |
| Equity   |                 |                     |
| 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 35,962,603 and 35,786,290 shares) | 71,571          | 69,607              |
| Stock compensation trust 2,190,068 and 2,378,462 shares  | (11,432)        | (12,416)            |

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|   |                |                |
|---|----------------|----------------|
| Treasury shares, at cost:                                       |                |                |
| Preferred 52,878 and 52,878 shares                              | (1,753)        | (1,753)        |
| Common 23,928,720 and 23,916,639 shares                         | (256,184)      | (256,077)      |
| Accumulated other comprehensive loss                            | (64,893)       | (74,412)       |
| Retained earnings   | 667,687        | 665,248        |
| <b>Total Mine Safety Appliances Company shareholders equity</b> | <b>408,565</b> | <b>393,766</b> |
| Noncontrolling interests  | 2,435          | 1,359          |
| <b>Total equity</b>   | <b>411,000</b> | <b>395,125</b> |
| <b>Total liabilities and equity</b>                             | <b>859,766</b> | <b>875,810</b> |

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

|   | Six Months Ended<br>June 30 |                 |
|---|-----------------------------|-----------------|
|   | 2009                        | 2008            |
| <b>Operating Activities</b>   |                             |                 |
| Net income attributable to Mine Safety Appliances Company           | \$ 19,679                   | \$ 35,981       |
| Depreciation and amortization                                       | 13,431                      | 13,857          |
| Pensions  | 2,231                       | (4,475)         |
| Net loss (gain) from investing activities property disposals        | 248                         | (674)           |
| Stock-based compensation  | 3,374                       | 3,444           |
| Deferred income tax benefit   | (364)                       | (1,586)         |
| Other noncurrent assets and liabilities                             | (17,668)                    | (14,189)        |
| Currency exchange (gains) losses                                    | (347)                       | 4,018           |
| Other, net  | (2,193)                     | (71)            |
| <b>Operating cash flow before changes in working capital</b>        | <b>18,391</b>               | <b>36,305</b>   |
| Trade receivables   | 28,962                      | (10,743)        |
| Inventories   | 21,145                      | (22,430)        |
| Accounts payable and accrued liabilities                            | (23,219)                    | 8,463           |
| Income taxes receivable, prepaid expenses and other current assets  | 9,486                       | (3,103)         |
| <b>Decrease (increase) in working capital</b>                       | <b>36,374</b>               | <b>(27,813)</b> |
| <b>Cash flow from operating activities</b>                          | <b>54,765</b>               | <b>8,492</b>    |
| <b>Investing Activities</b>   |                             |                 |
| Property additions  | (14,606)                    | (19,582)        |
| Property disposals  | 221                         | 1,230           |
| Other, net  | 9                           | (379)           |
| <b>Cash flow from investing activities</b>                          | <b>(14,376)</b>             | <b>(18,731)</b> |
| <b>Financing Activities</b>   |                             |                 |
| (Payments on) proceeds from short-term debt, net                    | (12,123)                    | 15,022          |
| Cash dividends paid   | (17,240)                    | (16,456)        |
| Company stock purchases   | (107)                       | (875)           |
| Exercise of stock options   | 70                          | 601             |
| Excess tax (provision) benefit related to stock plans               | (495)                       | 852             |
| <b>Cash flow from financing activities</b>                          | <b>(29,895)</b>             | <b>(856)</b>    |
| <b>Effect of exchange rate changes on cash and cash equivalents</b> | <b>1,279</b>                | <b>3,123</b>    |
| <b>Increase (decrease) in cash and cash equivalents</b>             | <b>11,773</b>               | <b>(7,972)</b>  |
| <b>Beginning cash and cash equivalents</b>                          | <b>50,894</b>               | <b>74,981</b>   |
| <b>Ending cash and cash equivalents</b>                             | <b>62,667</b>               | <b>67,009</b>   |

See notes to condensed consolidated financial statements.

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**MINE SAFETY APPLIANCES COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

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

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

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

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

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

**(2) Restructuring and Other Charges**

During the three and six month periods ended June 30, 2009, we recorded charges of \$1.0 million (\$0.7 million after tax) and \$9.1 million (\$5.8 million after tax), respectively. North American segment charges of \$8.3 million for the six months ended June 30, 2009 related primarily to a focused voluntary retirement incentive program (VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the VRIP. These employees retired on January 31, 2009. VRIP non-cash special termination benefits expense of \$6.7 million was recorded in January 2009. We expect that the staff reductions associated with the VRIP will result in annual pre-tax savings of approximately \$5.0 million. The remaining \$1.6 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. International segment charges of \$0.8 million were primarily for severance costs related to staff reductions in Brazil, Australia and South Africa.

During the three and six month periods ended June 30, 2008, we recorded charges of \$1.1 million (\$0.7 million after tax) and \$2.2 million (\$1.4 million after tax), respectively. These charges for the six months ended June 30, 2008 included \$1.7 million in North America, primarily related to stay bonuses and other costs associated with our Project Magellan initiative to outsource or transfer certain production activities from our Evans City, Pennsylvania plant. International segment charges of \$0.5 million were severance costs related to staff reductions associated with our strategic initiative to improve our business in Japan.



**(3) Comprehensive Income**

Components of comprehensive income are as follows:

| (In thousands)   | Three Months Ended<br>June 30 |           | Six Months Ended<br>June 30 |           |
|--|-------------------------------|-----------|-----------------------------|-----------|
|  | 2009                          | 2008      | 2009                        | 2008      |
| Net income   | \$ 12,228                     | \$ 19,926 | \$ 19,601                   | \$ 36,096 |
| Foreign currency translation adjustments                             | 18,627                        | 2,160     | 10,673                      | 13,053    |
| Comprehensive income   | 30,855                        | 22,086    | 30,274                      | 49,149    |
| Comprehensive (income) loss attributable to noncontrolling interests | (935)                         | (86)      | (1,076)                     | 163       |
| Comprehensive income attributable to Mine Safety Appliances Company  | 29,920                        | 22,000    | 29,198                      | 49,312    |

Components of accumulated other comprehensive loss are as follows:

| (In thousands)                                      | June 30<br>2009 | December 31<br>2008 |
|---|-----------------|---------------------|
| Cumulative foreign currency translation adjustments | \$ 5,769        | \$ (3,750)          |
| Pension and post-retirement plan adjustments        | (70,662)        | (70,662)            |
| Accumulated other comprehensive loss                | (64,893)        | (74,412)            |

**(4) Earnings per Share**

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

| (In thousands, except per share amounts)                  | Three Months Ended<br>June 30 |           | Six Months Ended<br>June 30 |           |
|---|-------------------------------|-----------|-----------------------------|-----------|
|   | 2009                          | 2008      | 2009                        | 2008      |
| Net income attributable to Mine Safety Appliances Company | \$ 12,458                     | \$ 19,954 | \$ 19,679                   | \$ 35,981 |
| Preferred stock dividends                                 | 10                            | 10        | 20                          | 20        |
| Income available to common shareholders                   | 12,448                        | 19,944    | 19,659                      | 35,961    |
| Basic earnings per common share                           | \$ 0.35                       | \$ 0.56   | \$ 0.55                     | \$ 1.01   |
| Diluted earnings per common share                         | \$ 0.35                       | \$ 0.55   | \$ 0.55                     | \$ 1.00   |
| Basic shares outstanding                                  | 35,672                        | 35,594    | 35,652                      | 35,567    |
| Stock options and other stock compensation                | 146                           | 393       | 169                         | 437       |
| Diluted shares outstanding                                | 35,818                        | 35,987    | 35,821                      | 36,004    |
| Antidilutive stock options                                | 951                           | 434       | 951                         | 434       |



**(5) Segment Information**

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

| (In thousands)  | North<br>America | Europe     | International | Reconciling<br>Items | Consolidated<br>Totals |
|---|------------------|------------|---------------|----------------------|------------------------|
| <b>Three Months Ended June 30, 2009</b>   |                  |            |               |                      |                        |
| Sales to external customers   | \$ 112,358       | \$ 55,834  | \$ 59,040     | \$                   | \$ 227,232             |
| Intercompany sales  | 15,270           | 20,528     | 4,061         | (39,859)             |                        |
| Net income attributable to Mine Safety Appliances Company   | 10,912           | 428        | 1,468         | (350)                | 12,458                 |
| <b>Six Months Ended June 30, 2009</b>   |                  |            |               |                      |                        |
| Sales to external customers   | \$ 223,079       | \$ 112,751 | \$ 109,577    | \$                   | \$ 445,407             |
| Intercompany sales  | 28,866           | 45,521     | 5,491         | (79,878)             |                        |
| Net income attributable to Mine Safety Appliances Company   | 14,636           | 2,497      | 2,083         | 463                  | 19,679                 |
| <b>Three Months Ended June 30, 2008</b>   |                  |            |               |                      |                        |
| Sales to external customers   | \$ 148,682       | \$ 76,853  | \$ 67,627     | \$                   | \$ 293,162             |
| Intercompany sales  | 14,660           | 29,964     | 4,842         | (49,466)             |                        |
| Net income attributable to Mine Safety Appliances Company   | 11,612           | 4,810      | 3,556         | (24)                 | 19,954                 |
| <b>Six Months Ended June 30, 2008</b>   |                  |            |               |                      |                        |
| Sales to external customers   | \$ 295,324       | \$ 137,258 | \$ 126,924    | \$                   | \$ 559,506             |
| Intercompany sales  | 27,260           | 56,413     | 6,895         | (90,568)             |                        |
| Net income attributable to Mine Safety Appliances Company   | 26,194           | 5,498      | 7,122         | (2,833)              | 35,981                 |
| Reconciling items consist primarily of intercompany eliminations and items reported at the corporate level. |                  |            |               |                      |                        |

In 2009, we changed our method of allocating research and development expenses to each segment. Comparative 2008 net income amounts have been revised to conform to the current year presentation. The effect of the revisions to net income for the three months ended June 30, 2008 increased North American and European segment net income by \$0.1 million and \$0.7 million, respectively, and decreased International segment net income by \$0.8 million. The effect of the revisions to net income for the six months ended June 30, 2008 increased North American and European segment net income by \$0.3 million and \$1.1 million, respectively, and decreased International segment net income by \$1.4 million.

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

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

| (In thousands)                          | Pension Benefits |          | Other Benefits |        |
|---|------------------|----------|----------------|--------|
|   | 2009             | 2008     | 2009           | 2008   |
| <b>Three months ended June 30</b>       |                  |          |                |        |
| Service cost                            | \$ 1,981         | \$ 2,408 | \$ 181         | \$ 179 |
| Interest cost                           | 4,674            | 4,809    | 470            | 534    |
| Expected return on plan assets          | (8,892)          | (9,330)  |                |        |
| Amortization of transition amounts      | 2                | 3        |                |        |
| Amortization of prior service cost      | 36               | 45       | (88)           | (90)   |
| Recognized net actuarial losses (gains) | 59               | (250)    | 262            | 412    |
| Termination benefits                    | 21               |          |                |        |
| Net periodic benefit (credit) cost      | (2,119)          | (2,315)  | 825            | 1,035  |
| <b>Six months ended June 30</b>         |                  |          |                |        |
| Service cost                            | \$ 3,891         | \$ 4,795 | \$ 362         | \$ 347 |
| Interest cost                           | 9,263            | 9,579    | 940            | 928    |
| Expected return on plan assets          | (17,523)         | (18,442) |                |        |
| Amortization of transition amounts      | 3                | 5        |                |        |
| Amortization of prior service cost      | 69               | 92       | (176)          | (179)  |
| Recognized net actuarial losses (gains) | 117              | (504)    | 524            | 607    |
| Termination benefits                    | 6,411            |          | 250            |        |
| Net periodic benefit cost (credit)      | 2,231            | (4,475)  | 1,900          | 1,703  |

We made contributions of \$1.3 million to our pension plans during the six month period ended June 30, 2009. We expect to make contributions of approximately \$2.5 million to our pension plans in 2009.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets, net of accumulated amortization, during the six months ended June 30, 2009 were as follows:

| (In thousands)                          | Goodwill  | Intangibles |
|---|-----------|-------------|
| Net balances at January 1, 2009         | \$ 83,211 | \$ 15,501   |
| Goodwill and intangible assets acquired |           | 150         |
| Amortization expense                    |           | (1,171)     |
| Currency translation                    | 427       | 202         |
| Net balances at June 30, 2009           | 83,638    | 14,682      |

At June 30, 2009, goodwill of approximately \$63.5 million, \$16.5 million, and \$3.6 million related to the North American, European, and International operating segments, respectively.

**(8) Inventories**

(In thousands)

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|                            | <b>June 30<br/>2009</b> | <b>December 31<br/>2008</b> |
|----------------------------|-------------------------|-----------------------------|
| Finished products          | \$ 62,703               | \$ 66,445                   |
| Work in process            | 23,605                  | 29,224                      |
| Raw materials and supplies | 59,004                  | 63,759                      |
| Total inventories          | 145,312                 | 159,428                     |

**(9) Stock Plans**

On May 13, 2008, the shareholders approved the 2008 Management Equity Incentive Plan and the 2008 Non-Employee Directors Equity Incentive Plan. These plans replaced the 1998 Management Share Incentive Plan and the 1990 Non-Employee Directors Stock Option Plan. The 2008 Management Equity Incentive Plan provides for various forms of stock-based compensation for eligible key employees through May 2018. Management stock-based compensation includes stock options, restricted stock and, beginning in 2009, performance stock units. The 2008 Non-Employee Directors Equity Incentive Plan provides for grants of stock options and restricted stock to non-employee directors through May 2018. Stock options are granted at market value option prices and expire after ten years, with limited instances of option prices in excess of market value and expiration after five years. Stock options are exercisable beginning three years after the grant date. Restricted stock is granted without payment to the company and generally vests three years after the grant date. Certain restricted stock for management retention vests in three equal tranches four, five, and six years after the grant date. Unvested restricted stock for management retention is forfeited if the grantee's employment with the company terminates for any reason other than death or disability. Restricted stock is valued at the market value of the stock on the grant date. Performance stock units are valued at the market value of the stock on the grant date. The final number of shares to be issued for performance stock units may range from zero to 200% of the target award based on achieving a targeted return on net assets (RONA) over a three year performance period relative to a pre-determined peer group of companies. We issue Stock Compensation Trust shares or new shares for stock option exercises and restricted stock grants.

Stock-based compensation expense was as follows:

| (In thousands)  | Three Months Ended<br>June 30 |          | Six Months Ended<br>June 30 |          |
|---|-------------------------------|----------|-----------------------------|----------|
|   | 2009                          | 2008     | 2009                        | 2008     |
| Stock compensation expense                            | \$ 1,232                      | \$ 1,226 | \$ 3,374                    | \$ 3,444 |
| Income tax benefit                                    | 452                           | 432      | 1,197                       | 1,202    |
| Stock compensation expense, net of income tax benefit | 780                           | 794      | 2,177                       | 2,242    |

A summary of stock option activity for the six months ended June 30, 2009 follows:

|                                | Shares    | Weighted<br>Average<br>Exercise Price |
|--------------------------------|-----------|---------------------------------------|
| Outstanding at January 1, 2009 | 1,706,439 | \$ 26.65                              |
| Granted                        | 438,110   | 18.17                                 |
| Exercised                      | (9,702)   | 7.19                                  |
| Forfeited                      | (33,908)  | 30.16                                 |
| Outstanding at June 30, 2009   | 2,100,939 | 24.81                                 |
| Exercisable at June 30, 2009   | 1,339,413 | 22.38                                 |

A summary of restricted stock activity for the six months ended June 30, 2009 follows:

|                             | Shares   | Weighted<br>Average<br>Grant Date<br>Fair Value |
|-----------------------------|----------|---|
| Unvested at January 1, 2009 | 189,062  | \$ 42.56  |
| Granted                     | 197,464  | 18.25   |
| Vested                      | (39,319) | 40.57   |
| Forfeited                   | (6,244)  | 28.62   |
| Unvested at June 30, 2009   | 340,963  | 28.96   |

On February 23, 2009, we granted performance stock units for 64,780 shares with a grant date fair value of \$17.83 per share. During June, performance stock units for 2,806 shares were forfeited. The estimated final number of shares to be issued did not change significantly during the six months ended June 30, 2009.

#### (10) Derivative Financial Instruments

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

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

As part of our currency exchange rate risk management strategy, we enter into certain derivative foreign currency forward contracts that do not meet the criteria for hedge accounting under FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, but which have the 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 losses (gains). At June 30, 2009, the notional amount of open forward contracts was \$9.3 million and the unrealized loss on these contracts was \$0.3 million. All open forward contracts will mature during the third quarter of 2009.

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

|  | Balance Sheet Location    | Asset Derivatives           |                                 | Liability Derivatives       |                                 |
|--|---------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|  |                           | Fair Value at June 30, 2009 | Fair Value at December 31, 2008 | Fair Value at June 30, 2009 | Fair Value at December 31, 2008 |
| Derivatives designated as hedging instruments under FAS No. 133:     |                           |                             |                                 |                             |                                 |
| Interest rate swap   | Other noncurrent assets   | \$                          | \$ 574                          | \$                          | \$                              |
| Derivatives not designated as hedging instruments under FAS No. 133: |                           |                             |                                 |                             |                                 |
| Foreign currency forward contracts                                   | Other current liabilities |                             |                                 | 345                         | 526                             |
| <b>Totals</b>  |                           |                             | 574                             | 345                         | 526                             |

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

|  | Income Statement Location        | Amount of Loss (Gain) Recognized in Income Six Months Ended June 30 |       |
|--|----------------------------------|---|-------|
|  |                                  | 2009  | 2008  |
| Derivatives designated as hedging instruments under FAS No. 133:     |                                  |   |       |
| Interest rate swap   | Interest expense                 | \$  | \$ 17 |
| Derivatives not designated as hedging instruments under FAS No. 133: |                                  |   |       |
| Foreign currency forward contracts                                   | Currency exchange losses (gains) | 2,388   | (504) |
| <b>Totals</b>  |                                  | 2,388   | (487) |

**(11) Income Taxes**

At June 30, 2009, we had a gross liability for unrecognized tax benefits of \$5.0 million. We have recognized tax benefits associated with these liabilities of \$3.5 million at June 30, 2009. These balances are unchanged since December 31, 2008. We do not expect that the total amount of the unrecognized tax benefit will significantly increase or decrease within twelve months of the reporting date.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. At June 30, 2009, we had \$0.2 million of accrued interest related to unrecognized tax benefits.





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

On January 1, 2008, we adopted FAS No. 157, Fair Value Measurements, as it relates to financial assets and liabilities that are remeasured and reported at least annually. On January 1, 2009, we adopted FAS No. 157, as it relates to nonfinancial assets and liabilities that are recognized and disclosed at fair value in the financial statements on a nonrecurring basis.

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

FAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard is now the single source under generally accepted accounting principles for the definition of fair value, except for the fair value of leased property as defined in FAS No. 13. FAS No. 157 establishes a fair value hierarchy that distinguishes between (1) market participant assumptions developed based on market data obtained from independent sources (observable inputs) and (2) an entity's own assumptions about market participant assumptions developed based on the best information available in the circumstances (unobservable inputs). The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FAS No. 157 are:

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

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

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

The valuation methodologies we used to measure financial assets and liabilities within the scope of FAS No. 157 were limited to the derivative financial instruments described in Note 10. We estimate the fair value of these financial instruments, consisting of an interest rate swap and foreign currency forward contracts, based upon valuation models with inputs that generally can be verified by observable market conditions and do not involve significant management judgment. Accordingly, the fair values of these financial instruments are classified within Level 2 of the fair value hierarchy.

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

With the exception of long-term debt, we believe that the reported carrying amounts of our financial assets and liabilities approximate their fair values. At June 30, 2009, the reported carrying amount of our long-term debt was \$98.0 million and the fair value was \$94.4 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 June 30, 2009.

## **(14) Contingencies**

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in

approximately 2,500 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,900 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

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

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

We are currently involved in coverage litigation with Century Indemnity Company (Century). We have sued Century in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that Century breached five insurance policies by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The Pennsylvania court has denied a motion by Century to stay or dismiss the Pennsylvania lawsuit. The court also denied certain preliminary motions filed by both parties to narrow the issues in dispute and matter is currently in discovery. We believe that Century's refusal to indemnify us under the policies is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with The North River Insurance Company (North River). On March 23, 2009, we sued North River in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful the case will proceed to trial. We believe that North River's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with Columbia Casualty Company (CNA). On March 30, 2009, we sued CNA in the United States District Court for the Western District of Pennsylvania, alleging that CNA breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful the case will proceed to trial. We believe that CNA's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Receivables from insurance carriers totaled \$77.2 million and \$60.6 million at June 30, 2009 and December 31, 2008, respectively. Based upon our evaluation of applicable insurance coverage and the current status of the coverage litigation discussed in the preceding paragraphs, we believe that the recorded balance is fully recoverable from carriers.

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

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51. FAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest is to be included in consolidated net income on the face of the income statement. It also amends certain ARB No. 51 consolidation procedures for consistency with the requirements of FAS No. 141(R), Business Combinations, and expands disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of FAS No. 160 on January 1, 2009 is reflected in these financial statements and did not have a material effect on our consolidated results of operations or financial condition.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS No. 161 requires companies to provide disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for under FAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the company’s financial position, financial performance, and cash flows. We adopted FAS No. 161 on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about the fair value of financial instruments for interim reporting periods as well as in annual financial statements. We adopted this FSP 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 FAS No. 165, Subsequent Events. FAS No. 165 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, FAS No. 165 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 FAS No. 165 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. See note 16 for disclosures related to the subsequent events evaluation period.

In June 2009, the FASB issued FAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. Among other items, FAS No. 166 removes the concept of a qualifying special-purpose entity and clarifies that the objective of paragraph 9 of FAS No. 140 is to

determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. FAS No. 166 is effective January 1, 2010. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued FAS No. 167, Amendments to FASB Interpretation No. 46(R). FAS No. 167 amends the consolidation guidance applicable to variable interest entities and is effective January 1, 2010. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles a replacement of FAS Statement No. 162. The FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). The Codification, which changes the referencing of financial standards, will be effective for our third quarter 2009 financial statements. The Codification is not intended to change or alter existing U.S. GAAP.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141(R), Business Combinations. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise, and is to be applied prospectively to intangible assets acquired on or after January 1, 2009. We do not expect that the adoption of this FSP will have a material effect on our consolidated financial statements.

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

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

Management has evaluated all activity of the company through July 28, 2009 (the issue date of the financial statements) and has concluded that all subsequent events that would require recognition or disclosure are appropriately reflected in the financial statements.

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

*The following discussion and analysis should be read in conjunction with the historical financial statements and other financial information included elsewhere in this report on Form 10-Q. This discussion may contain forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business, and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors. These factors include, but are not limited to, spending patterns of government agencies, competitive pressures, product liability claims and our ability to collect related insurance receivables, the success of new product introductions, currency exchange rate fluctuations, the identification and successful integration of acquisitions, and the risks of doing business in foreign countries. For discussion of risk factors affecting our business, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2008.*

**BUSINESS OVERVIEW**

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

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

Achieve sustainable growth through product leadership;

Expand market penetration through exceptional customer focus;

Control costs and increase efficiency in asset utilization; and

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

We tailor our product offerings and distribution strategy to satisfy distinct customer preferences that vary across geographic regions. We believe that we best serve these customer preferences by organizing our business into three geographic segments: North America, Europe, and International. Each segment includes a number of operating companies. In 2008, approximately 52%, 25%, and 23% of our net sales were made by our North American, European, and International segments, respectively.

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

*Europe.* Our European segment includes well-established companies in most Western European countries and more recently established operations in a number of Eastern European locations. Our largest European companies, based in Germany and France, develop, manufacture, and sell a wide variety of products. Operations in other European countries focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in Germany, France, and the U.S., or are purchased from third party vendors.

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

## RESULTS OF OPERATIONS

### Three Months Ended June 30, 2009 Compared to Three Months Ended June 30, 2008

**Net sales.** Net sales for the three months ended June 30, 2009 were \$227.2 million, a decrease of \$66.0 million, or 22%, compared with \$293.2 million for the three months ended June 30, 2008.

| (In millions) | Three Months Ended<br>June 30 |          | Dollar<br>Decrease | Percent<br>Decrease |
|---------------|-------------------------------|----------|--------------------|---------------------|
|               | 2009                          | 2008     |                    |                     |
| North America | \$ 112.4                      | \$ 148.7 | (\$ 36.3)          | (24%)               |
| Europe        | 55.8                          | 76.9     | (21.1)             | (27)                |
| International | 59.0                          | 67.6     | (8.6)              | (13)                |

Net sales by the North American segment were \$112.4 million for the second quarter of 2009, a decrease of \$36.3 million, or 24%, compared to \$148.7 million for the second quarter of 2008. The decrease continues to reflect the effects of the economic recession, which has led to reduced end-user demand, especially in construction, oil and gas, and other industrial markets. Sales of self-contained breathing apparatus (SCBA) were \$12.2 million lower during the second quarter of 2009. Second quarter of 2008 SCBA shipments included \$12.6 million of our Firehawk® M7 Responder to the U.S. Air Force. Excluding these shipments, SCBA sales were flat quarter-to-quarter. Shipments of Advanced Combat Helmets to the U.S. military and CG634 helmets to the Canadian Forces were \$8.8 million and \$3.9 million lower, respectively, as certain contracts wound down or were completed. Shipments of head protection and fall protection were down \$6.6 million and \$2.4 million, respectively, as the effects of the economic recession reduced demand in construction and industrial markets.

Net sales for the European segment were \$55.8 million for the second quarter of 2009, a decrease of \$21.1 million, or 27%, compared to \$76.9 million for the second quarter of 2008. Local currency sales in Europe decreased \$8.8 million during the second quarter of 2009. In France, local currency sales of fire helmets and ballistic helmets were down \$2.8 million and \$1.4 million, respectively, on lower shipments to military and law enforcement customers. In Germany, local currency sales of gas masks were down \$3.1 million, on lower shipments to the military. Local currency sales in Eastern Europe were flat quarter-to-quarter. Unfavorable translation effects of weaker European currencies, particularly the euro, in the current quarter decreased European segment sales, when stated in U.S. dollars, by approximately \$12.3 million.

Net sales for the International segment were \$59.0 million in the second quarter of 2009, a decrease of \$8.6 million, or 13%, compared to \$67.6 million for the second quarter of 2008. Local currency sales of the International segment were flat for the current quarter. Lower local currency sales in Latin America, Australia, and Africa, primarily due to the effects of the economic recession on the mining industry, were substantially offset by higher sales in China and the Middle East, reflecting our increased presence in those areas. Currency translation effects reduced International segment sales, when stated in U.S. dollars, by \$8.3 million, primarily due to a weakening of the Australian dollar, South African rand, and Brazilian real.

**Cost of products sold.** Cost of products sold was \$141.9 million in the second quarter of 2009, compared to \$181.6 million in the second quarter of 2008. Cost of products sold, selling, general and administrative expenses, and research and development expenses include net periodic pension credits during the second quarters of 2009 and 2008 of \$2.1 million and \$2.3 million, respectively.

**Gross profit.** Gross profit for the second quarter of 2009 was \$85.3 million, which was \$26.3 million, or 24%, lower than gross profit of \$111.6 million in the second quarter of 2008. The ratio of gross profit to net sales was 37.5% in the second quarter of 2009 compared to 38.1% in the same quarter last year. The lower gross profit ratio in the second quarter of 2009 occurred primarily in the European and International segments and related to sales mix and recessionary pricing pressures.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$56.0 million during the second quarter of 2009, a decrease of \$12.9 million, or 19%, compared to \$68.9 million in the second quarter of 2008. Selling, general and administrative expenses were 24.7% of net sales in the second quarter of 2009 compared to 23.5% of net sales in the second quarter of 2008. Second quarter selling, general and administrative expenses in the North American segment were \$21.1 million, a decrease of \$7.1 million, or 25%, from \$28.2 million in the second quarter of 2008. The decrease was a direct result of cost-savings initiatives that we have taken in response to the effects of the economic recession. Local currency selling, general and administrative expenses in the European and International segments were \$0.7 million lower, with expense reductions in the International segment being partially offset by a modest increase in the European segment. Currency exchange effects reduced second quarter 2009 administrative expenses for the European and International segments, when stated in U.S. dollars, by \$4.9 million, primarily related to a weaker euro, Australian dollar, and Brazilian real.

**Research and development expense.** Research and development expense was \$7.3 million during the second quarter of 2009, a decrease of \$1.9 million, or 21%, compared to \$9.2 million during the second quarter of 2008. The decrease reflects cost savings realized by shifting a portion of our research and development efforts to our new China technology center, as well as various other cost reduction initiatives in North America and Europe. Currency exchange effects decreased research and development expense, when stated in U.S. dollars, by \$0.5 million.

**Restructuring and other charges.** During the second quarter 2009, we recorded charges of \$1.0 million. Substantially all of these charges were incurred in North America and related to costs associated with layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities.

During the second quarter 2008, we recorded charges of \$1.1 million. These charges were primarily related to stay bonuses and other costs associated with our initiative to outsource or transfer certain production activities from our Evans City, Pennsylvania plant.

**Interest expense.** Interest expense was \$1.9 million during the second quarter of 2009, a decrease of \$0.4 million, or 16%, compared to \$2.3 million in the same quarter last year. The decrease in interest expense was due to reductions in both short and long-term debt and lower short-term interest rates.

**Currency exchange losses (gains).** We reported currency exchange losses of \$0.6 million in the second quarter of 2009, compared to gains of \$0.1 million in the second quarter of 2008. Currency exchange losses during the second quarter of 2009 were primarily related to the euro and the Mexican peso.

**Other income.** Other income for the second quarter of 2009 was \$0.7 million, a reduction of \$0.8 million, compared to \$1.5 million in the second quarter of 2008. Other income for the second quarter of 2008 included a gain of \$0.7 million on the sale of property in France.



**Income taxes.** The effective tax rate for the second quarter of 2009 was 36.4% compared to 36.9% for the same quarter last year.

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

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the second quarter of 2009 was \$12.5 million, or \$0.35 per basic share, compared to \$20.0 million, or \$0.56 per basic share, for the same quarter last year.

North American segment net income for the second quarter of 2009 was \$10.9 million, a decrease of \$0.7 million, or 6%, compared to \$11.6 million in the second quarter of 2008. The decrease reflects the negative effect of a 24% decrease in sales, which was substantially offset by the positive effect of our ongoing efforts to reduce operating expenses.

European segment net income for the second quarter of 2009 was \$0.4 million, a decrease of \$4.4 million, or 91%, compared to net income of \$4.8 million during the second quarter of 2008. The decrease in European segment net income was primarily related to the previously-discussed decrease in sales. Currency translation effects reduced European segment net income, when stated in U.S. dollars, by approximately \$1.1 million.

International segment net income for the second quarter of 2009 was \$1.5 million, a decrease of \$2.1 million, or 59%, compared to \$3.6 million in the same quarter last year. The decrease in International segment net income was primarily related to the previously-discussed decrease in sales. Currency translation effects decreased current quarter international segment net income, when stated in U.S. dollars by approximately \$0.9 million.

#### Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008

**Net sales.** Net sales for the six months ended June 30, 2009 were \$445.4 million, a decrease of \$114.1 million, or 20%, compared with \$559.5 million for the six months ended June 30, 2008.

| (In millions) | Six Months Ended<br>June 30 |          | Dollar<br>Decrease | Percent<br>Decrease |
|---------------|-----------------------------|----------|--------------------|---------------------|
|               | 2009                        | 2008     |                    |                     |
| North America | \$ 223.1                    | \$ 295.3 | (\$ 72.2)          | (24%)               |
| Europe        | 112.8                       | 137.3    | (24.5)             | (18)                |
| International | 109.6                       | 126.9    | (17.3)             | (14)                |

Net sales by the North American segment were \$223.1 million for the six months ended June 30, 2009, a decrease of \$72.2 million, or 24%, compared to \$295.3 million for the same period in 2008. The decrease continues to reflect the effects of the economic recession, which has led to reduced end-user demand, especially in construction, oil and gas, and other industrial markets. In addition, many of our distributors worked-off inventory early in the year, which further reduced the level of orders. Sales of self-contained breathing apparatus (SCBA) were \$17.6 million lower during the first half of 2009. SCBA sales during the first half of 2008 included \$12.6 million in shipments of our Firehawk® M7 Responder to the U.S. Air Force. Excluding these shipments, SCBA sales were \$5.0 million lower in the current period. Shipments of SCBAs to the fire service market were unusually high during the first half of 2008 due to an increase in orders that had been delayed in late 2007 as manufacturers and the fire service market made the transition to a new National Fire Protection Association (NFPA) standard for SCBAs. Fire service market sales of thermal imaging cameras and

fire helmets were also down \$5.0 million in the current period. Shipments of Advanced Combat Helmets to the U.S. military and CG634 helmets to the Canadian Forces were \$15.4 million and \$7.5 million lower, respectively, as certain contracts wound down or were completed. Shipments of head protection and fall protection were down \$11.7 million and \$3.9 million, respectively, as the effects of the economic recession reduced demand in construction and industrial markets. Shipments of instruments were \$3.3 million lower in the current period, also due to reduced demand in industrial markets.

Net sales for the European segment were \$112.8 million for the six months ended June 30, 2009, a decrease of \$24.5 million, or 18%, compared to \$137.3 million for the same period in 2008. Local currency sales in Europe decreased \$1.6 million for the six months ended June 30, 2009. The decrease in local currency sales reflects higher sales in Eastern Europe, substantially offset by lower sales in France and Germany, where shipments of helmets and gas masks to fire service and law enforcement markets were down \$2.7 million and \$1.8 million, respectively. 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 \$22.9 million.

Net sales for the International segment were \$109.6 million for the six months ended June 30, 2009, a decrease of \$17.3 million, or 14%, compared to \$126.9 million in the same period in 2008. Local currency sales of the International segment improved \$2.7 million during the current period. In China, local currency sales increased \$10.2 million, reflecting strong shipments of SCBAs to the Hong Kong Fire Service, as well as a continued focus on growing our business in the region. Local currency sales in Australia and Latin America were down \$5.9 million and \$4.8 million, respectively, primarily due to the economic recession. Currency translation effects reduced International segment sales, when stated in U.S. dollars, by \$20.0 million, primarily related to a weakening of the Australian dollar and the Brazilian real.

**Cost of products sold.** Cost of products sold was \$277.1 million for the six months ended June 30, 2009, compared to \$341.6 million in the same period in 2008. Cost of products sold, selling, general and administrative expenses, and research and development expenses include net periodic pension credits during the six month periods ended June 30 2009 and 2008 of \$4.2 million and \$4.5 million, respectively.

**Gross profit.** Gross profit for the six months ended June 30, 2009 was \$168.3 million, which was \$49.6 million, or 23%, lower than gross profit of \$217.9 million in the same period in 2008. The ratio of gross profit to net sales was 37.8% in the second quarter of 2009 compared to 39.0% in the same period last year. The lower gross profit ratio in the current period occurred primarily in the European and International segments and related to sales mix and recessionary pricing pressures.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$112.9 million during the six months ended June 30, 2009, a decrease of \$22.1 million, or 16%, compared to \$135.0 million in the same period in 2008. Selling, general and administrative expenses were 25.3% of net sales in the first half of 2009 compared to 24.1% of net sales in the same period last year. First half selling, general and administrative expenses in the North American segment were \$45.4 million, a decrease of \$11.2 million, or 20%, from \$56.6 million in the same period last year. The decrease was a direct result of cost-savings initiatives that we have taken in response to the effects of the economic recession. Local currency selling, general and administrative expenses in the European and International segments were \$0.8 million lower in the current period. Currency exchange effects reduced European and International segment administrative expenses for the six months ended June 30, 2009, when stated in U.S. dollars, by \$10.5 million, primarily related to a weaker euro, Australian dollar, and Brazilian real.

**Research and development expense.** Research and development expense was \$14.3 million during the first half of 2009, a decrease of \$2.3 million, or 14%, compared to \$16.6 million during the same period last year. The decrease reflects cost savings realized by shifting a portion of our research and development efforts to our new China technology center, as well as, various other cost reduction initiatives in North America and Europe. Currency exchange effects decreased research and development expense, when stated in U.S. dollars, by \$0.9 million.

**Restructuring and other charges.** During the six months ended June 30, 2009, we recorded charges of \$9.1 million. North American segment charges of \$8.3 million related primarily to a voluntary retirement incentive program (VRIP). During January 2009, 61 North American segment employees made irrevocable elections to retire under the terms of the VRIP. These employees retired on January 31, 2009. We recorded VRIP non-cash special termination benefits expense of \$6.7 million. We expect that staff reductions associated with the VRIP will result in annual pre-tax savings of approximately \$5.0 million. The remaining \$1.6 million of North American segment charges related primarily to costs associated with layoffs and stay bonuses and other costs associated with our ongoing initiative to transfer certain production activities. International segment charges of \$0.8 million were primarily for severance costs related to staff reductions in Brazil, Australia and South Africa.

During the six months ended June 30, 2008, we recorded charges of \$2.2 million. These charges were primarily related to stay bonuses and other costs associated with our initiative to outsource or transfer certain production activities from our Evans City, Pennsylvania plant.

**Interest expense.** Interest expense was \$3.8 million during the six months ended June 30, 2009, a decrease of \$1.0 million, or 21%, compared to \$4.8 million in the same period last year. The decrease in interest expense was due to reductions in both short and long-term debt and lower short-term interest rates.

**Currency exchange losses (gains).** Currency exchange gains were \$0.3 million during the six months ended June 30, 2009, compared to losses of \$4.0 million during the same period last year. Currency exchange losses during the first half of 2008 were mostly unrealized, and related to the effects of a stronger euro and a weaker South African rand on inter-company balances and losses on Canadian dollar trade receivables.

**Other income.** Other income for the six months ended June 30, 2009 was \$1.5 million, a reduction of \$1.0 million, compared to \$2.5 million in the same period last year. Other income for the first six months of 2008 included a gain of \$0.7 million on the sale of property in France.

**Income taxes.** The effective tax rate for the six months ended June 30, 2009 was 35.1% compared to 37.6% for the same period last year. The lower effective tax rate in the current quarter reflects a more favorable non-U.S. tax rate and a lower U.S. rate due to the reinstatement of the research and development tax credit. The income tax provision for the six months ended June 30, 2008 also included a one-time charge of \$0.4 million in Germany, related to a tax law change that imposed a 3% flat tax on previously untaxed subsidies.

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

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the six months ended June 30, 2009 was \$19.7 million, or \$0.55 per basic share, compared to \$36.0 million, or \$1.01 per basic share, for the same period last year.

North American segment net income for the six months ended June 30, 2009 was \$14.6 million, a decrease of \$11.6 million, or 44%, compared to \$26.2 million in the same period last year. North American segment net income for the six months ended June 30, 2009 includes a \$4.4 million after-tax non-cash charge related to the voluntary retirement incentive program that was completed in January. Excluding this one-time charge, North American segment net income was down \$7.2 million in the current period. The decrease reflects the negative effect of a 24% decrease in sales, partially offset by the positive effect of our ongoing efforts to reduce operating expenses.

European segment net income for the six months ended June 30, 2009 was \$2.5 million, a decrease of \$3.0 million, or 55%, compared to net income of \$5.5 million during the same period last year. The decrease in European segment net income during the first half of 2009 was primarily due to the previously-discussed decrease in sales. Currency translation effects decreased current period European segment net income, when stated in U.S. dollars, by approximately \$1.2 million, largely due to the weakening of the euro.

International segment net income for the six months ended June 30, 2009 was \$2.1 million, a decrease of \$5.0 million, or 71%, compared to \$7.1 million during the same period last year. The decrease in International segment net income was primarily related to the previously-discussed decrease in sales. Currency translation effects decreased current period International segment net income, when stated in U.S. dollars by approximately \$2.0 million, largely due to the weakening of the Australian dollar and Brazilian real.

The loss of \$2.8 million for the six months ended June 30, 2008 reported in reconciling items was primarily related to unrealized currency exchange losses.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our main source of liquidity is operating cash flows, supplemented by borrowings to fund significant transactions. Our principal liquidity requirements are for working capital, capital expenditures, acquisitions, and principal and interest payments on debt. We believe that our financial strength has been evident during the current recession and the continuing crisis in the financial markets. Our long-term debt is primarily at fixed interest rates with manageable repayment schedules through 2022. We recently increased our available credit and currently have over \$70.0 million in unused short-term bank lines of credit at competitive interest rates. All of our long-term borrowings and substantially all of our short-term borrowings originate in the U.S., which has limited our exposure to non-U.S. credit markets and to currency exchange rate fluctuations. In addition, we are pursuing actions to improve our cash flow during this period of economic uncertainty. During the first half of 2009, these actions have included a focus on reducing our working capital investment, selective staffing reductions, a salary and hiring freeze in the U.S. and Canada, lower salary increases than in prior years for international employees, and numerous other cost reduction measures. In June 2009, we suspended company matching contributions to the 401K plan and implemented temporary pay reductions for executive and senior level managers. We have significantly reduced our capital expenditure plans, but continue to invest in critical capital projects, such as our new Chinese and Mexican factories.

Cash and cash equivalents increased \$11.8 million during the six months ended June 30, 2009, compared to decrease of \$8.0 million during the six months ended June 30, 2008.

Operating activities provided cash of \$54.8 million during the six months ended June 30, 2009, compared to providing cash of \$8.5 million during the six months ended June 30, 2008. Significantly improved operating cash flow in the six months ended June 30, 2009 was primarily related to a \$64.2 million favorable change associated with working capital. This change was partially offset by a \$17.9 million decrease in operating cash flow before changes in working capital, primarily due to the

previously-discussed decrease in net income. Trade receivables were \$174.0 million at June 30, 2009 and \$198.6 million at December 31, 2008. LIFO inventories were \$145.3 million at June 30, 2009 compared to \$159.4 million at December 31, 2008. The \$24.6 million decrease in trade receivables reflects a \$29.0 million decrease in local currency balances, primarily due to lower sales, partially offset by a \$4.4 million increase due to currency translation effects. The \$14.1 million decrease in inventories reflects a \$21.1 million decrease in local currency inventories, partially offset by a \$7.0 million increase due to currency translation effects. The \$9.5 million local currency decrease in income taxes receivable, prepaids and other current assets was primarily related to a local currency reduction of \$9.2 million in income taxes receivable. The increase in other non-current assets of \$14.6 million was due primarily to an increase in receivables due from insurance carriers.

Investing activities used cash of \$14.4 million during the six months ended June 30, 2009, compared to using \$18.7 million the same period last year. During the six months ended June 30, 2009 and 2008, we used cash of \$14.6 million and \$19.6 million, respectively, for property additions. Higher property additions in the first half of 2008 were related to the construction of our new facility in Suzhou, China, as well as building improvement projects in Brazil and Australia.

Financing activities used cash of \$30.0 million during the six months ended June 30, 2009, compared to using \$0.9 million during the same period in 2008. The change was primarily related to borrowing on our short-term line of credit. During the first half of 2009, we paid down \$12.1 million of short-term debt, compared to borrowing \$15.0 million in the same period last year. During the six months ended June 30, 2009, we paid cash dividends of \$17.2 million compared to paying dividends of \$16.5 million during the same period in 2008.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at June 30, 2009 resulted in a translation gain of \$9.5 million being credited to the cumulative translation adjustments shareholders' equity account during the six months ended June 30, 2009, compared to a gain of \$13.3 million during the six months ended June 30, 2008. Translation gains in the six months ended June 30, 2009 were primarily related to the strengthening of the South African rand, the Brazilian real, and the Australian dollar. Translation gains in the six months ended June 30, 2008 were primarily due to the strengthening of the euro.

#### **COMMITMENTS AND CONTINGENCIES**

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

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

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

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

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 2,500 lawsuits, primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 11,900 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 exceptions, we maintain insurance against product liability claims. We also maintain a reserve for uninsured product liability based on expected settlement charges for pending claims and an estimate of unreported claims derived from experience, sales volumes, and other relevant information. We evaluate our exposures on an ongoing basis and make adjustments to the reserve as appropriate. Based on information currently available, we believe that the disposition of matters that are pending will not have a materially adverse effect on our financial condition, operations or liquidity.

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

We are currently involved in coverage litigation with Century Indemnity Company (Century). We have sued Century in the Court of Common Pleas of Allegheny County, Pennsylvania, alleging that Century breached five insurance policies by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The Pennsylvania court has denied a motion by Century to stay or dismiss the Pennsylvania lawsuit. The court also denied certain preliminary motions filed by both parties to narrow the issues in dispute and matter is currently in discovery. We believe that Century's refusal to indemnify us under the policies is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with The North River Insurance Company (North River). On March 23, 2009, we sued North River in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program, which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful the case will proceed to trial. We believe that North River's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We are currently involved in coverage litigation with Columbia Casualty Company (CNA). On March 30, 2009, we sued CNA in the United States District Court for the Western District of Pennsylvania, alleging that CNA breached one insurance policy by failing to pay amounts owing to us and that its refusal to pay constitutes bad faith. The case was assigned to the Court's mandatory Alternative Dispute Resolution program which requires the parties to mediate the dispute within the next few months in an attempt to resolve the dispute. If mediation is unsuccessful the case will proceed

to trial. We believe that CNA's refusal to indemnify us under the policy for settlements and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all amounts.

We regularly evaluate the collectibility of insurance receivables and record the amounts that we conclude are probable of collection based on our analysis of our various policies, pertinent case law interpreting comparable policies and our experience with similar claims. Receivables from insurance carriers totaled \$77.2 million and \$60.6 million at June 30, 2009 and December 31, 2008, respectively. Based upon our evaluation of applicable insurance coverage and the current status of the coverage litigation discussed in the preceding paragraphs, we believe that the recorded balance is fully recoverable from carriers.

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

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

The more critical judgments and estimates used in the preparation of our financial statements are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

In December 2007, the FASB issued FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51. FAS No. 160 requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements and separate from the parent's equity. The amount of net income attributable to the noncontrolling interest is to be included in consolidated net income on the face of the income statement. It also amends certain ARB No. 51 consolidation procedures for consistency with the requirements of FAS No. 141(R), Business Combinations, and expands disclosure requirements regarding the interests of the parent and its noncontrolling interest. The adoption of FAS No. 160 on January 1, 2009 is reflected in these financial statements and did not have a material effect on our consolidated results of operations or financial condition.

In March 2008, the FASB issued FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS No. 161 requires companies to provide disclosures about (a) how and why derivative instruments are used, (b) how derivative instruments and related hedged items are accounted for under FAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect the company's financial position, financial performance, and cash flows. We adopted FAS No. 161 on January 1, 2009. See note 10 for disclosures related to derivative instruments and hedging activities.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP amends FAS No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about the fair value of financial instruments for

interim reporting periods as well as in annual financial statements. We adopted this FSP 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 FAS No. 165, Subsequent Events. FAS No. 165 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, FAS No. 165 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 FAS No. 165 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. See note 16 for disclosures related to the subsequent events evaluation period.

In June 2009, the FASB issued FAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. Among other items, FAS No. 166 removes the concept of a qualifying special-purpose entity and clarifies that the objective of paragraph 9 of FAS No. 140 is to determine whether a transferor and all of the entities included in the transferor's financial statements being presented have surrendered control over transferred financial assets. FAS No. 166 is effective January 1, 2010. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued FAS No. 167, Amendments to FASB Interpretation No. 46(R). FAS No. 167 amends the consolidation guidance applicable to variable interest entities and is effective January 1, 2010. We do not expect the adoption of this pronouncement to have a material effect on our consolidated financial statements.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FAS Statement No. 162. The FASB Accounting Standards Codification will become the source of authoritative U.S. generally accepted accounting principles (U.S. GAAP). The Codification, which changes the referencing of financial standards, will be effective for our third quarter 2009 financial statements. The Codification is not intended to change or alter existing U.S. GAAP.

In April 2008, the FASB issued FASB Staff Position No. FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FAS No. 142, Goodwill and Other Intangible Assets. The objective of this FSP is to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141(R), Business Combinations. This FSP applies to all intangible assets, whether acquired in a business combination or otherwise, and is to be applied prospectively to intangible assets acquired on or after January 1, 2009. We do not expect that the adoption of this FSP will have a material effect on our consolidated financial statements.

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



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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 six months ended June 30, 2009 by approximately \$22.2 million and \$0.5 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 June 30, 2009, we had open foreign currency forward contracts with a U.S. dollar notional value of \$9.3 million. A hypothetical 10% increase in June 30, 2009 forward exchange rates would result in a \$0.9 million increase in the fair value of these contracts.

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

We have \$98.0 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 \$1.6 million. However, our sensitivity to interest rate declines and the corresponding increase in the fair value of our debt portfolio would unfavorably affect earnings and cash flows only to the extent that we elected to repurchase or retire all or a portion of our fixed rate debt portfolio at prices above carrying values.

**Item 4. CONTROLS AND PROCEDURES**

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

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

## (c) Issuer Purchases of Equity Securities

| Period                   | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs |
|--------------------------|----------------------------------|------------------------------|--|--|
| April 1 - April 30, 2009 |                                  | \$                           |  | 1,975,668  |
| May 1 - May 31, 2009     |                                  |                              |  | 2,079,429  |
| June 1 - June 30, 2009   |                                  |                              |  | 2,020,756  |

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

We do not have any other share repurchase programs.

**Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The annual meeting of shareholders was held on May 12, 2009. The following matters were acted upon:

**Election of Directors**

Thomas B. Hotopp, John T. Ryan III, Thomas H. Witmer were elected to serve until the annual meeting in 2012 by the following votes:

|                  | Votes For  | Votes Withheld |
|------------------|------------|----------------|
| Thomas B. Hotopp | 32,523,857 | 992,820        |
| John T. Ryan III | 32,783,269 | 733,408        |
| Thomas H. Witmer | 32,749,082 | 767,595        |

Directors whose term of office continued after the meeting are Robert A. Bruggeworth, James A. Cederna, William M. Lambert, Diane M. Pearse, L. Edward Shaw, Jr., and John C. Unkovic.

**Selection of Independent Registered Public Accounting Firm**

PricewaterhouseCoopers LLP was selected as the independent registered public accounting firm for the year ending December 31, 2009 by the following votes:

| Votes For  | Votes Against | Abstentions/Broker Nonvotes |
|------------|---------------|-----------------------------|
| 33,206,178 | 297,570       | 12,929                      |

**Item 6. EXHIBITS**

(a) Exhibits

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

**SIGNATURE**

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

July 28, 2009

MINE SAFETY APPLIANCES COMPANY

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

Duly Authorized Officer and Principal Financial Officer

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