

MINE SAFETY APPLIANCES CO  
Form 10-Q  
May 09, 2007

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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## FORM 10-Q

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### QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2007

Commission File No. 1-15579

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# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

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

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

**121 Gamma Drive**

**RIDC Industrial Park**

**O Hara Township**

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

**15238**  
(Zip Code)

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

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

There were 35,924,730 shares of common stock, not including 2,669,709 shares held by the Mine Safety Appliances Company Stock Compensation Trust, outstanding as of May 7, 2007.

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

(In thousands, except per share amounts)

Unaudited

	<b>Three Months Ended March 31</b>	
	<b>2007</b>	<b>2006</b>
Net sales	\$ 225,939	\$ 228,350
Other income	401	285
	226,340	228,635
Costs and expenses		
Cost of products sold	136,770	135,776
Selling, general and administrative	56,572	53,553
Research and development	5,927	5,548
Restructuring and other charges	234	5,997
Interest	1,993	1,188
Currency exchange losses	233	1,068
	201,729	203,130
Income before income taxes	24,611	25,505
Provision for income taxes	8,543	9,767
Net income	16,068	15,738
Basic earnings per common share	\$ .45	\$ .43
Diluted earnings per common share	\$ .44	\$ .42
Dividends per common share	\$ .18	\$ .14

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

Unaudited

	March 31 2007	December 31 2006
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 62,542	\$ 61,296
Trade receivables, less allowance for doubtful accounts of \$5,660 and \$5,574	179,925	174,569
Inventories	145,476	137,230
Deferred tax assets	18,572	18,577
Prepaid expenses and other current assets	26,388	25,187
Total current assets	432,903	416,859
Property, less accumulated depreciation of \$263,051 and \$258,310		
Prepaid pension cost	214,013	211,018
Deferred tax assets	29,593	29,676
Goodwill	80,098	79,360
Other noncurrent assets	48,045	41,056
Total	925,724	898,620
<b>Liabilities and Shareholders Equity</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 10,085	\$ 2,340
Accounts payable	49,632	39,441
Employees compensation	17,919	20,931
Insurance and product liability	15,113	15,588
Taxes on income	11,145	8,654
Other current liabilities	40,130	40,481
Total current liabilities	144,024	127,435
Long-term debt		
Pensions and other employee benefits	112,789	112,541
Deferred tax liabilities	112,434	110,966
Other noncurrent liabilities	101,141	100,969
	15,121	8,856
Total liabilities	485,509	460,767
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 35,922,980 and 36,015,416 shares)	61,826	57,826
Stock compensation trust 2,671,459 and 2,749,012 shares	(13,945)	(14,350)
Treasury shares, at cost:		
Preferred 52,841 and 52,841 shares	(1,750)	(1,750)
Common 23,486,952 and 23,316,963 shares	(236,588)	(229,549)

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Deferred stock compensation	(2,786)	(1,836)
Accumulated other comprehensive income	29,281	28,090
Retained earnings	600,608	595,853
Total shareholders' equity	440,215	437,853
Total	925,724	898,620

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2007</b>	<b>2006</b>
<b>Operating Activities</b>		
Net income	\$ 16,068	\$ 15,738
Depreciation and amortization	5,955	6,130
Pensions	(1,162)	(1,291)
Net (gain) loss on sale of investments and assets	(20)	139
Restructuring and other charges	234	4,843
Stock-based compensation	2,377	2,206
Deferred income taxes	180	25
Other noncurrent assets and liabilities	(1,357)	(1,360)
Other, net	879	381
<b>Operating cash flow before changes in working capital</b>	<b>23,154</b>	<b>26,811</b>
Receivables	(4,046)	3,791
Inventories	(7,099)	(5,096)
Accounts payable and accrued liabilities	5,686	(9,189)
Prepays and other current assets	(495)	4,366
<b>Increase in working capital</b>	<b>(5,954)</b>	<b>(6,128)</b>
<b>Cash Flow From Operating Activities</b>	<b>17,200</b>	<b>20,683</b>
<b>Investing Activities</b>		
Property additions	(4,717)	(3,760)
Property disposals	38	243
Acquisitions, net of cash acquired and other investing	(6,846)	(10,649)
<b>Cash Flow From Investing Activities</b>	<b>(11,525)</b>	<b>(14,166)</b>
<b>Financing Activities</b>		
Proceeds from short-term debt	7,736	2,609
Proceeds from long-term debt		112
Payments on long-term debt		(13)
Cash dividends	(6,493)	(5,128)
Company stock purchases	(7,039)	(4,925)
Exercise of stock options	712	909
Excess tax benefit related to stock plans	366	1,360
<b>Cash Flow From Financing Activities</b>	<b>(4,718)</b>	<b>(5,076)</b>
<b>Effect of exchange rate changes on cash</b>	<b>289</b>	<b>758</b>
<b>Increase in cash and cash equivalents</b>	<b>1,246</b>	<b>2,199</b>

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<b>Beginning cash and cash equivalents</b>	61,296	44,797
<b>Ending cash and cash equivalents</b>	62,542	46,996

See notes to condensed consolidated financial statements.

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**MINE SAFETY APPLIANCES COMPANY**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

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

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

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

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

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

**(2) Restructuring and Other Charges**

During the three months ended March 31, 2007, we recorded charges of \$0.2 million (\$0.1 million after tax). These charges were primarily stay bonuses related to our Project Magellan plan to move fire helmet manufacturing from our Clifton, New Jersey plant to our Jacksonville, North Carolina plant. The Clifton plant, which employs about 70 associates, is expected to be closed during the fourth quarter of 2007.

During the three months ended March 31, 2006, we recorded charges of \$6.0 million (\$3.7 million after tax), related to the Project Outlook reorganization plan. A significant portion of the first quarter 2006 charges related to a focused voluntary retirement incentive program (VRIP). In January 2006, approximately 60 employees elected to retire at the end of February under the terms of the VRIP. Restructuring charges for the three months ended March 31, 2006 include \$5.3 million for VRIP retirees, primarily special termination benefits, and \$0.7 million in severance costs related to additional staffing reductions that were made at the end of January 2006.

**(3) Comprehensive Income**

Components of comprehensive income are as follows:

(In thousands)	Three Months Ended	
	March 31 2007	March 31 2006
Net income	\$ 16,068	\$ 15,738
Cumulative translation adjustments	907	2,194
Pension and other benefit plan adjustments, net of tax	284	
Comprehensive income	17,259	17,932

Components of accumulated other comprehensive income are as follows:

	March 31	December 31
(In thousands)	2007	2006
Cumulative translation adjustments	\$ 3,930	\$ 3,023
Pension and other benefit plan adjustments	25,351	25,067
Accumulated other comprehensive income	29,281	28,090

#### (4) Earnings per Share

Basic earnings per share is computed on the weighted average number of common shares outstanding during the period. Diluted earnings per share includes the effect of the weighted average stock options outstanding during the period, using the treasury stock method. Antidilutive options are not considered in computing diluted earnings per share.

	Three Months Ended	
(In thousands, except per share amounts)	March 31 2007	2006
Net income	\$ 16,068	\$ 15,738
Preferred stock dividends	10	10
Income available to common shareholders	16,058	15,728
Basic earnings per common share	\$ .45	\$ .43
Diluted earnings per common share	\$ .44	\$ .42
Basic shares outstanding	36,013	36,544
Stock options	529	649
Diluted shares outstanding	36,542	37,193
Antidilutive stock options	562	366

#### (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:

	Three Months Ended March 31, 2007				
	North			Reconciling	Consolidated
(In thousands)	America	Europe	International	Items	Totals
Sales to external customers	\$ 122,901	\$ 53,087	\$ 49,951	\$	\$ 225,939
Intercompany sales	10,148	22,639	1,560	(34,347)	
Net income	10,601	2,614	3,229	(376)	16,068

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(In thousands)	Three Months Ended March 31, 2006				Consolidated Totals
	North America	Europe	International	Reconciling Items	
Sales to external customers	\$ 136,516	\$ 47,724	\$ 44,110	\$	\$ 228,350
Intercompany sales	9,581	19,483	1,138	(30,202)	
Net income	11,556	1,752	3,097	(667)	15,738

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

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

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

(In thousands)	Three Months Ended March 31			
	Pension Benefits		Other Benefits	
	2007	2006	2007	2006
Service cost	\$ 2,578	\$ 2,293	\$ 143	\$ 164
Interest cost	4,472	3,864	361	394
Expected return on plan assets	(8,553)	(7,762)		
Amortization of transition amounts	11	11		
Amortization of prior service cost	42	49	(90)	(57)
Recognized net actuarial losses	288	254	179	200
Termination benefits		4,776		99
Net periodic benefit (credit) cost	(1,162)	3,485	593	800

We made contributions of \$0.5 million to our pension plans in the three months ended March 31, 2007. We expect to make net contributions of approximately \$1.7 million to our pension plans in 2007.

**(7) Goodwill and Intangible Assets**

Changes in goodwill and intangible assets during the three months ended March 31, 2007 were as follows:

(In thousands)	Goodwill	Intangibles
Net balances at January 1, 2007	\$ 79,360	\$ 17,096
Goodwill and intangible assets acquired	801	5,663
Amortization expense		(880)
Currency translation and other	(63)	(42)
Net balances at March 31, 2007	80,098	21,837

At March 31, 2007, goodwill of approximately \$59.5 million, \$16.9 million, and \$3.7 million related to the North American, European, and International operating segments, respectively.

**(8) Inventories**

(In thousands)	March 31	December 31
	2007	2006
Finished products	\$ 61,224	\$ 55,764
Work in process	25,088	24,203
Raw materials and supplies	59,164	57,263
Total inventories	145,476	137,230

**(9) Stock-Based Compensation**

The 1998 Management Share Incentive Plan, as amended March 10, 1999, provides for grants of restricted stock awards and stock options to eligible key employees through March 2008. The 1990 Non-Employee Directors' Stock Option Plan, as amended April 29, 2004, provides for annual grants of stock options and restricted stock awards to eligible directors. Restricted stock awards are granted without payment to the

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company and vest three years after the grant date. Stock options are granted at market value exercise prices and expire after ten years (limited instances of exercise prices in excess of market value and expiration after five years). Stock options granted in 2006 and 2007 are exercisable beginning three years after the grant date. Stock options granted in 2005 and earlier years were fully vested as of December 31, 2005. As of March 31, 2007, there were 679,867 shares and 111,740 shares reserved for future grants under the management and directors plans, respectively.

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Stock-based compensation expense was as follows:

(In thousands)	Three Months Ended March 31	
	2007	2006
Restricted stock awards	\$ 1,029	\$ 983
Stock option grants	1,348	1,223
Total stock-based compensation expense before income taxes	2,377	2,206
Income tax benefit	834	806
Total stock-based compensation expense, net of income tax benefit	1,543	1,400

Stock option expense for the three months ended March 31, 2007 and 2006 was based on the fair value of stock option grants estimated on the grant dates using the Black-Scholes option pricing model and the following weighted average assumptions for options granted in 2007 and 2006:

	2007	2006
Fair value per option	\$ 15.32	\$ 16.27
Risk-free interest rate	4.6%	4.6%
Expected dividend yield	1.9%	1.4%
Expected volatility	40%	41%
Expected life (years)	5.7	5.6

The risk-free interest rate is based on the U.S. Treasury Constant Maturity rates as of the grant date converted into an implied spot rate yield curve. Expected dividend yield is based on the most recent annualized dividend divided by the one year average closing share price. Expected volatility is based on the ten year historical volatility using daily stock prices. Expected life in years is based on historical stock option exercise data.

A summary of stock option activity for the three months ended March 31, 2007 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2007	1,531,359	\$ 20.95
Granted	185,635	40.15
Exercised	(28,419)	25.07
Outstanding at March 31, 2007	1,688,575	22.99
Exercisable at March 31, 2007	1,321,413	18.22

A summary of restricted stock award activity for the three months ended March 31, 2007 follows:

Shares	Weighted Average Grant Date
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		<b>Fair Value</b>
Unvested at January 1, 2007	138,470	\$ 37.26
Granted	50,502	40.10
Vested	(34,470)	25.07
Unvested at March 31, 2007	154,502	40.92

#### **(10) Derivative Financial Instruments**

In April 2004, we entered into an eight year interest rate swap agreement. Under the terms of the agreement, we receive a fixed interest rate of 8.39% and pay a floating interest rate based on LIBOR. The notional amount of the swap was initially \$20.0 million and declines \$4.0 million per year beginning in 2008. The interest rate swap has been designated as a fair value hedge of a portion of our fixed rate 8.39% Senior Notes.

In order to account for these derivatives as hedges, the interest rate swap must be highly effective at offsetting changes in the fair value of the hedged debt. We have assumed that there is no ineffectiveness in the hedge, since all of the critical terms of the hedge match the underlying terms of the hedged debt.

The fair value of the interest rate swap at March 31, 2007 and December 31, 2006 has been recorded as a liability of \$0.8 million and \$0.9 million, respectively, that is included in other noncurrent liabilities, with an offsetting reduction in the carrying value of long-term debt.

As a result of entering into the interest rate swap, we have increased our exposure to interest rate fluctuations. Differences between the fixed rate amounts received and the variable rate amounts paid are recognized in interest expense on an ongoing basis. This rate difference resulted in an increase in interest expense of \$0.1 million during the three months ended March 31, 2007, and was not significant during the three months ended March 31, 2006.

#### **(11) Acquisitions**

In March 2007, we acquired the assets and intellectual properties of Acceleron Technologies, LLC (Acceleron), a San Francisco-based developer of advanced technology suitable for personal locator devices. We believe that the acquisition of this technology significantly expedites the development of reliable systems for first responder and soldier location applications. We are currently estimating the fair value of Acceleron's assets. Preliminarily, we have allocated the \$5.7 million purchase price to intangible assets. The acquisition agreement provides for additional consideration of up to \$4.9 million to be paid to the former owners of Acceleron based on the achievement of specific technology development milestones by September 28, 2008.

In March 2007, we acquired the outstanding shares of MSA (India) Limited that were previously held by our joint venture partner. As a wholly-owned subsidiary under MSA management, we believe that we are better positioned to take advantage of opportunities in the large and growing Indian market. Preliminarily, we have allocated \$0.6 million of the \$1.1 million purchase price to goodwill.

In September 2006, we acquired Paraclete Armor and Equipment, Inc. (Paraclete) of St. Pauls, North Carolina. Paraclete is a rapidly growing innovator and developer of advanced ballistic body armor used by military personnel. We believe that the acquisition of Paraclete positions us to provide a broad range of ballistic protective equipment to both the military and law enforcement markets. We are currently estimating the fair value of Paraclete's assets. Our preliminary allocation of the \$30.9 million purchase price includes intangible assets of \$6.7 million and goodwill of \$18.6 million. Under the terms of the asset purchase agreement, we issued a \$10.0 million note to satisfy a portion of the purchase price. 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 note discount is being recognized as interest expense over its term.

In January 2006, we took steps to ensure our compliance with South African Black Economic Empowerment (BEE) requirements by forming a new South African holding company in which Mineworkers Investment Company (MIC) of Johannesburg, South Africa holds a 25.1% ownership interest. Compliance with BEE, a South African government program similar to Affirmative Action in the United States, is key to achieving meaningful growth in South Africa, particularly in the mining industry. At the same time, we acquired Select Personal Protective Equipment (Select PPE) of South Africa, an established supplier of multi-brand safety equipment and solutions to the South African mining industry. We believe that our new South African operating structure significantly improves our market presence and expertise in serving the mining industry and provides significant growth opportunities in the region. The purchase price of \$7.9 million included intangible assets of \$1.6 million and goodwill of \$3.0 million.

The operating results of all acquisitions have been included in our consolidated financial statements from their respective acquisition dates. Pro forma consolidated results, as if the acquisitions had occurred at the beginning of 2006, would not be materially different from the results reported.

**(12) Uncertain Income Tax Positions**

On January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). The application of income tax law is inherently complex. Tax statutes and regulations are often ambiguous and subject to various interpretations. As a result, we are required to evaluate all relevant facts and make subjective judgments regarding our income tax positions.

As a result of the adoption of FIN 48, we recognized a gross increase in the liability for unrecognized tax benefits of \$5.7 million. This gross increase in the tax liability created additional tax benefits of \$1.8 million, resulting in a net increase in the liability for unrecognized tax benefits of \$3.9 million, which was accounted for as a reduction in retained earnings at January 1, 2007. These adjustments, if recognized, would have increased our effective income tax rate. Prior to the adoption of FIN 48, we had recognized approximately \$1.5 million in unrecognized tax benefits. We did not make any significant adjustments to these amounts during the three months ended March 31, 2007.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. As a result of the implementation of FIN 48, we recognized a \$0.9 million increase in the liability for accrued interest and penalties related to uncertain tax positions, which was also accounted for as a reduction to the January 1, 2007 retained earnings. We did not make any significant adjustments to these amounts during the three months ended March 31, 2007.

We file a U.S. federal income tax return along with various state and foreign income tax returns. Examinations of our federal return have been completed through 2002. We also file in various state and foreign jurisdictions that may be subject to tax audits after 2001.

**(13) Contingencies**

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 2,300 lawsuits primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 16,500 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

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

In the normal course of business, we make payments to settle product liability claims and related legal fees that are covered by insurance. We record receivables for the portion of these payments that we believe to be probable of recovery from insurance carriers. The net balance of receivables from insurance carriers was \$20.3 million and \$18.4 million at March 31, 2007 and December 31, 2006, respectively. We evaluate the collectibility of these receivables on an ongoing basis and make adjustments as appropriate.

**(14) Recently Issued Accounting Standards**

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. FAS No. 157 becomes effective on January 1, 2008. Upon adoption, the provisions of FAS No. 157 are to be applied prospectively with limited exceptions. We do not expect that the adoption of this statement will have a material effect on our consolidated results of operations or financial condition.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. FAS No. 159 is effective as of January 1, 2008. We do not expect that the adoption of this statement will have a material effect on our consolidated results of operations or financial condition.

**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, 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, 2006.*

**BUSINESS OVERVIEW**

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

In recent years, we have concentrated on specific initiatives intended to help improve our competitive position and profitability, including:

identifying and developing promising new markets;

focusing on innovation and new product introductions;

further strengthening relationships with major distributors;

optimizing factory performance and driving operational excellence;

positioning international business to capture significant growth opportunities; and

pursuing strategic acquisitions.

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 2006, approximately 55%, 24%, and 21% 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, Chile, China, Hong Kong, India, Indonesia, Japan, Malaysia, Peru, Singapore, South Africa, and Zimbabwe, 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.

We believe that our financial performance in recent years is the result of initiatives that have allowed us to anticipate and respond quickly to market requirements, particularly in the fire service, homeland security, construction and general industries, as well as the military, and reflects our ability to quickly bring to market products that comply with changing industry standards and to create new market demand with innovative products.

## **PROJECT MAGELLAN**

In January 2007, we announced Project Magellan, a multi-year strategic plan to improve the efficiency of our North American manufacturing operations by more effectively using available factory space. Project Magellan is expected to result in the relocation of certain manufacturing activities and the closure of certain facilities. We expect that Project Magellan will reduce operating expenses by as much as \$10 million a year once completed.

In the first stage of Project Magellan, we will move fire helmet manufacturing from our Clifton, New Jersey plant to our Jacksonville, North Carolina plant. Many Clifton associates are being offered an opportunity to relocate to Jacksonville or another MSA location. The Clifton plant, which employs about 70 associates, is expected to be closed during the fourth quarter of 2007.

In addition, we will move our manufacturing operations in Mexico from Mexico City and Torreon to a new factory in Queretaro, a city approximately 130 miles northwest of Mexico City. The plant consolidation in Mexico is expected to begin in the second half of 2007 and be completed in 2008. We currently employ about 100 associates at our Mexico City and Torreon facilities. Many MSA Mexico manufacturing personnel will be provided with an opportunity to relocate to the new Queretaro plant.

Finally, we expect to vacate our plant in Evans City, Pennsylvania by August 2009, when our lease on the property expires. Beginning in late 2007 and continuing into 2008, we expect to transfer certain production activities from our Evans City plant to other MSA plants in the United States. We intend to maintain employment for as many affected associates as possible by offering opportunities at other MSA locations. The Evans City facility currently employs approximately 125 associates.

## **ACQUISITIONS**

In March 2007, we acquired the assets and intellectual properties of Acceleron Technologies, LLC (Acceleron), a San Francisco-based developer of advanced technology suitable for personal locator systems. Acceleron has key patents and know-how in the area of compensated inertial navigation sensing as applied to personnel tracking. We believe that this technology is particularly well suited for personal locator applications inside buildings where GPS is denied. The patented technology and know-how significantly increases data accuracy and minimizes the drift that can occur in conventional systems. We believe that the acquisition of this technology expedites the development of much needed and more reliable systems for use in first responder and soldier location applications.

In March 2007, we acquired the outstanding shares of MSA (India) Limited that were previously held by our joint venture partner. As a wholly-owned subsidiary under MSA management, we believe that we are better positioned to take advantage of opportunities in the large and growing Indian market.

In September 2006, we acquired Paraclete Armor and Equipment, Inc. (Paraclete) of St. Pauls, North Carolina. Paraclete is a rapidly growing innovator and developer of advanced ballistic body armor used by military personnel, including Special Forces units of the U.S. military. We believe that the acquisition of Paraclete enhances our existing line of ballistic body armor and strategically positions us to provide a broad range of ballistic protective equipment to both the military and law enforcement markets.

In January 2006, we took steps to ensure our compliance with South African Black Economic Empowerment (BEE) requirements by forming a new South African holding company in which Mineworkers Investment Company (MIC) of Johannesburg, South Africa holds a 25.1% ownership interest. Compliance with BEE, a South African government program similar to Affirmative Action in the United States, is key to achieving meaningful growth in South Africa, particularly in the mining industry. At the same time, we acquired Select Personal Protective Equipment (Select PPE) of South Africa, an established supplier of multi-brand safety equipment and solutions to the South African mining industry. We believe that our new South African operating structure significantly improves our market presence and expertise in serving the mining industry and provides significant growth opportunities in the region.

## RESULTS OF OPERATIONS

### Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006

**Net sales.** Net sales for the three months ended March 31, 2007 were \$225.9 million, a decrease of \$2.5 million, or 1%, compared with \$228.4 million for the three months ended March 31, 2006.

	Three Months Ended March 31		Dollar	Percent
	2007	2006	Increase	Increase
(In millions)			(Decrease)	(Decrease)
North America	\$ 122.9	\$ 136.5	\$ (13.6)	(10)%
Europe	53.1	47.7	5.4	11
International	50.0	44.1	5.9	13

Net sales by the North American segment were \$122.9 million for the first quarter of 2007, a decrease of \$13.6 million, or 10%, compared to \$136.5 million for the first quarter of 2006. During the first quarter of 2007, our sales of self-contained breathing apparatus, thermal imaging cameras, and other products to the U.S. fire service market continued to be depressed by the timing of the release of fire department funding made available through the U.S. Assistance to Firefighters Grant program and the impact on fire department buying decisions of the recently published National Fire Protection Association (NFPA) standard for self-contained breathing apparatus (SCBA). First quarter 2007 sales of SCBA and thermal imaging cameras were down from first quarter 2006 by \$16.1 million and \$1.8 million, respectively. Our shipments of Advanced Combat Helmets and related communication systems to the military were \$1.3 million and \$2.1 million lower, respectively, in the current quarter, reflecting the completion of certain contracts. These sales decreases were partially offset by a \$3.0 million increase in sales of ballistic protection product, including those made by Paraclete Armor and Equipment, and a \$1.8 million increase in closed-circuit breathing apparatus shipments, primarily related to a large order from the Canadian Navy. Continued strength in North American construction and industrial markets was reflected in our sales of fall protection and head protection products, which improved \$1.4 million in the current quarter.

In Europe, net sales for the first quarter of 2007 were \$53.1 million, an increase of \$5.4 million, or 11%, compared to \$47.7 million for the first quarter of 2006. The increase in European sales, when stated in U.S. dollars, includes favorable currency translation effects of \$6.9 million, primarily due to a stronger euro in the current quarter. Local currency sales in Europe were down \$1.5 million. The decrease in local currency sales occurred primarily in France and Germany, both of which benefited from unusually strong shipments of disposable respirators in the first quarter of 2006.

Net sales for the International segment were \$50.0 million in the first quarter of 2007, an increase of \$5.9 million, or 13%, compared to \$44.1 million for the first quarter of 2006. The sales increase was primarily in South Africa and China, where sales were up \$3.9 million and \$2.0 million, respectively. The improvement in South Africa was primarily due to strong growth in Select PPE sales to the mining industry. Current quarter sales in China included a large shipment of breathing apparatus to the Beijing Fire Bureau. Currency translation effects reduced International segment sales, when stated in U.S. dollars, by \$0.5 million.

**Cost of products sold.** Cost of products sold was \$136.8 million in the first quarter of 2007, compared to \$135.8 million in the first quarter of 2006. Cost of products sold, selling, general and administrative expenses, and research and development expenses include net periodic pension credits during the first quarters of 2007 and 2006 of \$1.2 million and \$1.3 million, respectively.

**Gross profit.** Gross profit for the first quarter of 2007 was \$89.2 million, which was \$3.4 million, or 4%, lower than gross profit of \$92.6 million in the first quarter of 2006. The ratio of gross profit to net sales was 39.5% in the first quarter of 2007 compared to 40.5% in the same quarter last year. The lower gross profit ratio in the first quarter of 2007 was primarily related to proportionately lower sales of SCBA in North America.



**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$56.6 million during the first quarter of 2007, an increase of \$3.0 million, or 6%, compared to \$53.6 million in the first quarter of 2006. Selling, general and administrative expenses were 25.0% of net sales in the first quarter of 2007 compared to 23.5% of net sales in the first quarter of 2006. Local currency selling, general and administrative expenses in the European and International segments were up \$1.9 million, primarily reflecting our continued expansion into Eastern Europe, China, and Southeast Asia. North American segment selling, general and administrative expenses were flat quarter-to-quarter. Currency exchange effects increased first quarter 2007 administrative expense, when stated in U.S. dollars, by \$1.2 million, primarily related to a stronger euro.

**Research and development expense.** Research and development expense was \$5.9 million during the first quarter of 2007, an increase of \$0.4 million, or 7%, compared to \$5.5 million during the first quarter of 2006. The increase occurred in North America and reflects additional resources focused on developing innovative new products.

**Depreciation and amortization expense.** Depreciation and amortization expense, which is reported in cost of sales, selling, general and administrative expenses, and research and development expenses, was \$6.0 million for the first quarter of 2007, a decrease of \$0.1 million, or 3%, compared to \$6.1 million for the first quarter of 2006.

**Restructuring and other charges.** During the first quarter of 2007, we recorded charges of \$0.2 million, primarily stay bonuses related to our Project Magellan plan to move fire helmet manufacturing from our Clifton, New Jersey plant to our Jacksonville, North Carolina plant. We expect to close the Clifton plant, which employs about 70 associates, during the fourth quarter of 2007.

During the first quarter of 2006, we recorded charges of \$6.0 million related to our Project Outlook reorganization effort in North America. First quarter 2006 charges included \$5.3 million for a focused voluntary retirement incentive program (VRIP) that was accepted by approximately 60 employees and \$0.7 million in severance costs related to additional staffing reductions.

**Interest expense.** Interest expense was \$2.0 million during the first quarter of 2007, an increase of \$0.8 million, or 68%, compared to \$1.2 million in the same quarter last year. The increase in interest expense was primarily due to higher long-term debt.

**Currency exchange losses.** Currency exchange losses were \$0.2 million in the first quarter of 2007, a decrease of \$0.9 million, compared to \$1.1 million in the first quarter of 2006. Currency exchange losses during the first quarter of 2006 were primarily related to the weakening of the South African rand.

**Income taxes.** The effective tax rate for the first quarter of 2007 was 34.7% compared to 38.3% for the same quarter last year. The lower rate in the current quarter is primarily related to the reinstatement of the research and development credit and more favorable state and non-U.S. tax profiles.

On January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). As a result of the adoption of the Interpretation, we recognized a gross increase in the liability for unrecognized tax benefits of \$5.7 million. This gross increase in the tax liability created additional tax benefits of \$1.8 million, resulting in a net increase in the liability for unrecognized tax benefits of \$3.9 million, which was accounted for as a reduction in retained earnings at January 1, 2007. These adjustments, if recognized, would have increased our effective income tax rate.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. As a result of the implementation of FIN 48, we recognized a \$0.9 million increase in the liability for accrued interest and penalties related to uncertain tax positions which was also accounted for as a reduction to the January 1, 2007 retained earnings.

We file a U.S. federal income tax return along with various state and foreign income tax returns. Examinations of our federal return have been completed through 2002. We also file in various state and foreign jurisdictions that may be subject to tax audits after 2001.

**Net income.** Net income for the first quarter of 2007 was \$16.1 million, or \$0.45 per basic share, compared to \$15.7 million, or \$0.43 per basic share, for the same quarter last year.

North American segment net income for the first quarter of 2007 was \$10.6 million, a decrease of \$1.0 million, or 8%, compared to \$11.6 million in the first quarter of 2006. Lower net income in North America was primarily related to the previously-discussed decrease in sales and higher interest expense, partially offset by lower restructuring and other charges. North American segment net income for the first quarter of 2006 included restructuring and other charges of \$3.7 million after-tax, compared to after-tax charges of \$0.1 million in the current quarter.

European segment net income during the first quarter of 2007 was \$2.6 million, an increase of \$0.8 million, or 49%, from \$1.8 million during the first quarter of 2006. Most of the increase in European segment net income, when stated in U.S. dollars, was due to favorable currency translation effects.

International segment net income for the first quarter of 2007 was \$3.2 million, an increase of \$0.1 million, or 4%, compared to \$3.1 million in the same quarter last year. The increase reflects higher sales, partially offset by an increase in selling expenses.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our main sources of liquidity are cash generated from operations and borrowing capacity. Our principal liquidity requirements are for working capital, capital expenditures, acquisitions, and principal and interest payments on outstanding indebtedness.

Cash and cash equivalents increased \$1.2 million during the three months ended March 31, 2007, compared to an increase of \$2.2 million during the three months ended March 31, 2006.

Operating activities provided cash of \$17.2 million during the three months ended March 31, 2007, compared to providing cash of \$20.7 million in the three months ended March 31, 2006. Higher cash flow from operations in the first quarter of 2006 reflected significant non-cash restructuring and other charges related to special termination benefits. Trade receivables were \$179.9 million at March 31, 2007 and \$174.6 million at December 31, 2006. LIFO inventories were \$145.5 million at March 31, 2007 and \$137.2 million at December 31, 2006.

Investing activities used cash of \$11.5 million during the three months ended March 31, 2007, compared to using \$14.2 million in the same quarter last year. During the three months ended March 31, 2007 and 2006, we used cash of \$4.7 million and \$3.8 million, respectively, for property additions, primarily production equipment in the U.S. During the first three months of 2007, we used cash of \$5.7 million to acquire Acceleron. During the first three months of 2006, we used cash of \$7.9 million to acquire Select PPE.

Financing activities used cash of \$4.7 million during the three months ended March 31, 2007, compared to using \$5.1 million in the same period last year. During the first three months of 2007, we used \$6.5 million of cash to pay dividends compared to paying dividends of \$5.1 million in the first quarter of 2006. During the three months ended March 31, 2007 and 2006, we used cash of \$7.0 million and \$4.9 million, respectively, to purchase treasury shares. During the three months ended March 31, 2007 and 2006, our short term borrowings, increased \$7.7 million and \$2.6 million, respectively. Proceeds from short term borrowings were used primarily to finance acquisitions and treasury share purchases.

## **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at March 31, 2007 resulted in a translation gain of \$0.9 million being credited to the cumulative translation adjustments shareholders' equity account in the three months ended March 31, 2007, compared to a gain of \$2.2 million in the three months ended March 31, 2006. Translation gains in both quarters were primarily due to the strengthening of the euro and the Brazilian real, partially offset by a weakening of the South African rand.

## **COMMITMENTS AND CONTINGENCIES**

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. 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 recognized as interest expense 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.



In 2003, we entered into a lease agreement with BASF pertaining to that portion of the Callery Chemical site that is occupied by our Evans City, Pennsylvania manufacturing operations. The initial term of the lease was one year, with a renewal option for five successive one year periods. In September 2006, we exercised our third one year renewal option.

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 2,300 lawsuits primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 16,500 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

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

In the normal course of business, we make payments to settle product liability claims and related legal fees that are covered by insurance. We record receivables for the portion of these payments that we believe to be probable of recovery from insurance carriers. The net balance of receivables from insurance carriers was \$20.3 million and \$18.4 million at March 31, 2007 and December 31, 2006, respectively. We evaluate the collectibility of these receivables on an ongoing basis and make adjustments as appropriate.

#### **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.

We believe that the following are the more critical judgments and estimates used in the preparation of our financial statements.

**Accounting for contingencies.** We accrue for contingencies in accordance with FAS No. 5, Accounting for Contingencies, when we believe that it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies relate to uncertainties that require our judgment both in assessing whether or not a liability or loss has been incurred and in estimating the amount of the probable loss. Significant contingencies affecting our financial statements include pending or threatened litigation, including product liability claims, and product warranties.

**Product liability.** We face an inherent business risk of exposure to product liability claims arising from the alleged failure of our products to prevent the types of personal injury or death against which they are designed to protect. We accrue for our estimates of the probable costs to be incurred in the resolution of product liability claims. These estimates are based on actuarial valuations, past experience, and our judgments regarding the probable outcome of pending and threatened claims. Due to uncertainty as to the ultimate outcome of pending and threatened claims, as well as the incidence of future claims, it is possible that future results could be materially affected by changes in our assumptions and estimates related to product liability matters. Our product liability expense averaged less than 1% of net sales during the three years ended December 31, 2006.

**Product warranties.** We accrue for the estimated probable cost of product warranties at the time that sales are recognized. Our estimates are principally based on historical experience. We also accrue for our estimates of the probable costs of corrective action when significant product quality issues are identified. These estimates are principally based on our assumptions regarding the cost of corrective action and the probable number of units to be repaired or replaced. Our product warranty obligation is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. Due to the uncertainty and potential volatility of these factors, it is possible that future results could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these matters. Our product warranty expense averaged less than 2% of net sales during the three years ended December 31, 2006.

**Income taxes.** We account for income taxes in accordance with FAS No. 109, Accounting for Income Taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. FAS No. 109 also requires that deferred tax assets be reduced by valuation allowances if it is more likely than not that some portion of the deferred tax asset will not be realized.

Effective January 1, 2007, we began accounting for uncertain tax positions in accordance with FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109 (FIN 48). As a result of the adoption of FIN 48, we recognized a gross increase in the liability for unrecognized tax benefits which was accounted for as a reduction in retained earnings at January 1, 2007. We record an estimated income tax liability based on our best judgment of the amounts likely to be paid in the various tax jurisdictions in which we operate. The tax liabilities ultimately paid are dependent on a number of factors, including the resolution of tax audits, and may differ from the amounts recorded. Tax liabilities are adjusted through income when it becomes probable that the actual liability differs from the amount recorded. Because income tax laws are inherently complex and subject to various interpretations, it is possible that future results could be materially affected by changes in our assumptions and estimates related to uncertain tax positions.

**Stock based compensation.** On January 1, 2006, we adopted FAS No. 123R, Share-Based Payment, which requires that we recognize compensation expense for stock-based compensation based on the grant date fair value. Except for retirement-eligible employees, for whom there is no requisite service period, this expense is recognized ratably over the requisite service periods following the date of grant. For retirement-eligible employees, this expense is recognized at the date of grant. We elected the modified prospective application method for adoption of FAS 123R, and prior period financial statements have not been restated. Prior to January 1, 2006, we accounted for stock-based compensation in accordance with the provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations using the intrinsic value method, which resulted in no compensation expense for stock options granted; and we used the nominal vesting approach related to retirement-eligible employees, in which the compensation expense was recognized over the original vesting period.

Stock-based compensation grants to management and key employees are generally made during the first quarter of each year. Under the terms of our stock-based compensation plans, there is no requisite service period for individuals who are retirement-eligible. Therefore, beginning in 2006, a larger portion of stock-based compensation expense is recognized in the first quarter for retirement-eligible employees.

We use the Black-Scholes option pricing model to estimate fair value of stock options at the grant date. Determining the fair value of stock options requires a number of judgments, including estimates of the risk-free interest rate, expected dividend yield, expected volatility, and expected life.

**Pensions and other postretirement benefits.** We account for our pension and postretirement benefit plans as required under FAS No. 87, Employers Accounting for Pensions, and FAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions. Accounting for the net periodic benefit costs and credits for these plans requires us to estimate the cost of benefits to be provided well into the future and to attribute these costs over the expected work life of the employees participating in these plans. These estimates require our judgment about discount rates used to determine these obligations, expected returns on plan assets, rates of future compensation increases, rates of increase in future health care costs, participant withdrawal and mortality rates, and participant retirement ages. Differences between our estimates and actual results may significantly affect the cost of our obligations under these plans and could cause net periodic benefit costs and credits to change materially from year-to-year. The discount rate assumptions used in determining projected benefit obligations are based on published long-term bond indices. We increased the assumed discount rates in 2006, reflecting an increase in long-term bond rates.

**Goodwill.** As required by FAS No. 142, Goodwill and Other Intangible Assets, each year we evaluate for goodwill impairment by comparing the fair value of each of our reporting units with its carrying value. If carrying value exceeds fair value, then a possible impairment of goodwill exists and requires further evaluation. We estimate the fair value of our reporting units using a combination of discounted cash flow analysis and market capitalization based on historical and projected financial information. We apply our best judgment in assessing the reasonableness of the financial projections and other estimates used to determine the fair value of each reporting unit.

#### **RECENTLY ISSUED ACCOUNTING STANDARDS**

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements. FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of this standard apply to other accounting pronouncements that require or permit fair value measurements. FAS No. 157 becomes effective on January 1, 2008. Upon adoption, the provisions of FAS No. 157 are to be applied prospectively with limited exceptions. We do not expect that the adoption of this statement will have a material effect on our consolidated results of operations or financial condition.

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115. This statement permits companies to choose to measure many financial instruments and certain other items at fair value and report unrealized gains and losses on these instruments in earnings. FAS No. 159 is effective as of January 1, 2008. We do not expect that the adoption of this statement will have a material effect on our consolidated results of operations or financial condition.

#### **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 increase or decrease our reported sales and net income for the three months ended March 31, 2007 by approximately \$10.3 million and \$0.6 million, respectively. When appropriate, we may attempt to limit our transactional exposure to changes in currency exchange rates through contracts or other actions intended to reduce existing exposures by creating offsetting currency exposures. At March 31, 2007, contracts for the purpose of hedging cash flows were not significant.

**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 which approximate fair values.

We hold one interest rate swap agreement, which is used to hedge the fair market value on a portion of our 8.39% fixed rate long-term debt. At March 31, 2007, the swap agreement had a notional amount of \$20.0 million and a fair market value in favor of the bank of \$0.8 million. The swap will expire in 2012. The notional amount of the swap declines \$4.0 million per year beginning in 2008. A hypothetical increase of 10% in market interest rates would result in a decrease of approximately \$0.3 million in the fair value of the interest rate swap.

We have \$100.0 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 \$2.1 million, excluding the impact of outstanding hedge instruments. 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 as Part of	Average Price Paid per Share	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs	Total Number of Shares Purchased Publicly Announced Plans or Programs
January 1 - January 31, 2007				1,894,312
February 1 - February 28, 2007				1,787,131
March 1 - March 31, 2007	169,989	\$ 41.41	160,000	1,569,660

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.

Total number of shares purchased during March 2007 includes 9,989 shares withheld for taxes due on the vesting of restricted stock awards.

**Item 6. EXHIBITS**

- (a) Exhibits

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- (10)(a)\* 1998 Management Share Incentive Plan, as amended March 10, 1999
- 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.

May 9, 2007

MINE SAFETY APPLIANCES COMPANY

/s/ Dennis L. Zeitler  
Dennis L. Zeitler  
Vice President Finance; Duly Authorized Officer and Principal  
Financial Officer