

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

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

June 30, 2011 For the quarter ended June 30, 2011

Commission File No. 1-15579

# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

**Pennsylvania**  
(State or other jurisdiction of

incorporation or organization)

1000 Cranberry Woods Drive

**25-0668780**  
(IRS Employer

Identification No.)

16066-5296

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**Cranberry Township, Pennsylvania**

(Address of principal executive offices)

(Zip Code)

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

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

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

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

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

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

On July 25, 2011 there were 36,626,172 shares of common stock outstanding, not including 1,235,559 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 June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net sales	\$ 294,733	\$ 237,173	\$ 571,232	\$ 449,607
Other income, net	1,159	15	1,955	1,320
	295,892	237,188	573,187	450,927
Costs and expenses				
Cost of products sold	175,724	146,947	341,826	276,928
Selling, general and administrative	75,716	60,912	148,761	122,820
Research and development	9,440	8,282	19,983	16,018
Restructuring and other charges	2,027	2,618	5,114	9,427
Interest	3,788	1,685	7,225	3,225
Currency exchange (gains) losses	(111)	(1,477)	555	(3,635)
	266,584	218,967	523,464	424,783
Income before income taxes	29,308	18,221	49,723	26,144
Provision for income taxes	9,827	6,287	16,746	9,090
Net income	19,481	11,934	32,977	17,054
Net loss (income) attributable to noncontrolling interests	111	(107)	(76)	(321)
Net income attributable to Mine Safety Appliances Company	19,592	11,827	32,901	16,733
Earnings per share attributable to Mine Safety Appliances Company common shareholders				
Basic	\$ 0.53	\$ 0.33	\$ 0.90	\$ 0.47
Diluted	\$ 0.53	\$ 0.32	\$ 0.88	\$ 0.46
Dividends per common share	\$ 0.26	\$ 0.25	\$ 0.51	\$ 0.49

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

Unaudited

	June 30 2011	December 31 2010
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 63,776	\$ 59,760
Trade receivables, less allowance for doubtful accounts of \$8,319 and \$9,391	215,227	198,551
Inventories	165,979	150,581
Deferred tax assets	26,660	25,714
Income taxes receivable	3,659	12,936
Prepaid expenses and other current assets	31,923	29,847
<b>Total current assets</b>	<b>507,224</b>	<b>477,389</b>
Property, less accumulated depreciation of \$328,081 and \$316,288	159,382	156,789
Prepaid pension cost	127,069	121,631
Deferred tax assets	8,633	8,285
Goodwill	267,803	263,089
Other noncurrent assets	181,684	170,005
<b>Total assets</b>	<b>1,251,795</b>	<b>1,197,188</b>
<b>Liabilities</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 10,203	\$ 10,163
Accounts payable	58,533	58,460
Employees compensation	37,531	36,845
Insurance and product liability	20,690	18,401
Taxes on income	2,622	1,253
Other current liabilities	52,707	56,619
<b>Total current liabilities</b>	<b>182,286</b>	<b>181,741</b>
Long-term debt	382,076	367,094
Pensions and other employee benefits	134,024	126,479
Deferred tax liabilities	48,682	49,177
Other noncurrent liabilities	16,874	16,647
<b>Total liabilities</b>	<b>763,942</b>	<b>741,138</b>
<b>Shareholders Equity</b>		
Mine Safety Appliances Company shareholders equity:		
Preferred stock, 4 1/2% cumulative authorized 100,000 shares of \$50 par value; issued 71,373 and 71,373 shares, callable at \$52.50 per share	3,569	3,569
Second cumulative preferred voting stock authorized 1,000,000 shares of \$10 par value; none issued		
Common stock authorized 180,000,000 shares of no par value; issued 62,081,391 and 62,081,391 shares (outstanding 36,626,172 and 36,519,726 shares)	92,634	88,629
Stock compensation trust 1,235,559 and 1,360,714 shares	(6,450)	(7,103)
Treasury shares, at cost:		
Preferred 52,878 and 52,878 shares	(1,753)	(1,753)
Common 24,219,660 and 24,200,951 shares	(264,479)	(263,853)
Accumulated other comprehensive loss	(30,720)	(44,316)
Retained earnings	690,421	676,195

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Total Mine Safety Appliances Company shareholders' equity	483,222	451,368
Noncontrolling interests	4,631	4,682
Total shareholders' equity	487,853	456,050
Total liabilities and equity	1,251,795	1,197,188

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

	Six Months Ended June 30	
	2011	2010
<b>Operating Activities</b>		
Net income	\$ 32,977	\$ 17,054
Depreciation and amortization	16,728	13,726
Pensions	(2,448)	(2,065)
Net gain from investing activities	(254)	(707)
Stock-based compensation	4,643	4,404
Deferred income tax benefit	(1,657)	(1,644)
Other noncurrent assets and liabilities	(15,747)	(24,155)
Currency exchange losses (gains)	555	(3,635)
Other, net	636	(3,948)
<b>Operating cash flow before changes in working capital</b>	<b>35,433</b>	<b>(970)</b>
Trade receivables	(11,794)	(15,976)
Inventories	(9,857)	(15,846)
Accounts payable and accrued liabilities	(3,347)	11,523
Income taxes receivable, prepaid expenses and other current assets	8,245	9,270
<b>Increase in working capital</b>	<b>(16,753)</b>	<b>(11,029)</b>
<b>Cash flow from operating activities</b>	<b>18,680</b>	<b>(11,999)</b>
<b>Investing Activities</b>		
Property additions	(14,027)	(8,777)
Property disposals	889	138
Other investing	333	1,250
<b>Cash flow from investing activities</b>	<b>(12,805)</b>	<b>(7,389)</b>
<b>Financing Activities</b>		
Proceeds from short-term debt, net	24	38,364
Proceeds from long-term debt	42,500	
Payments on long-term debt	(27,500)	
Cash dividends paid	(18,675)	(17,722)
Company stock purchases	(624)	(1,766)
Exercise of stock options	268	1,835
Excess tax provision related to stock plans	(253)	(230)
<b>Cash flow from financing activities</b>	<b>(4,260)</b>	<b>20,481</b>
<b>Effect of exchange rate changes on cash</b>	<b>2,401</b>	<b>(2,935)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>4,016</b>	<b>(1,842)</b>
<b>Beginning cash and cash equivalents</b>	<b>59,760</b>	<b>61,983</b>

<b>Ending cash and cash equivalents</b>	63,776	60,141
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See notes to condensed consolidated financial statements.

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**MINE SAFETY APPLIANCES COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

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

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

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

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

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

**(2) Restructuring and Other Charges**

During the three and six months ended June 30, 2011, we recorded charges of \$2.0 million (\$1.3 million after tax) and \$5.1 million (\$3.3 million after tax), respectively. European segment charges for the six months ended June 30, 2011 of \$3.1 million related primarily to staff reductions in Germany, France and Spain and the transfer of certain production activities to China and the U.S. North American segment charges for the six months ended June 30, 2011 of \$1.1 million included costs associated with the collocation of certain administrative and production activities. International segment charges for the six months ended June 30, 2011 of \$0.9 million were related to severance costs associated with the relocation of our Wuxi, China operations to Suzhou.

During the three and six months ended June 30, 2010, we recorded charges of \$2.6 million (\$1.7 million after tax) and \$9.4 million (\$6.4 million after tax), respectively. European segment charges for the six months ended June 30, 2010 of \$6.8 million related primarily to a focused voluntary retirement incentive program in Germany. North American segment charges for the six months ended June 30, 2010 of \$1.8 million included stay bonuses and other costs associated with the transfer of certain production activities to lower cost factories. International segment charges for the six months ended June 30, 2010 of \$0.8 million were primarily for severance costs associated with staff reductions in South Africa and China.



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

Components of comprehensive income (loss) are as follows:

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income	\$ 19,481	\$ 11,934	\$ 32,977	\$ 17,054
Foreign currency translation gain (loss)	5,005	(14,213)	13,596	(20,217)
Comprehensive income (loss)	24,486	(2,279)	46,573	(3,163)
Comprehensive loss (income) attributable to noncontrolling interests	50	205	51	(129)
Comprehensive income (loss) attributable to Mine Safety Appliances Company	24,536	(2,074)	46,624	(3,292)

Components of accumulated other comprehensive loss as follows:

(In thousands)	June 30 2011	December 31 2010
Cumulative translation adjustments	\$ 29,075	\$ 15,479
Pension and post-retirement plan adjustments	(59,795)	(59,795)
Accumulated other comprehensive loss	(30,720)	(44,316)

**(4) Earnings per Share**

Basic earnings per share is computed on the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes the exercise of stock options and the vesting of restricted stock and performance stock, provided in each case that the effect is dilutive. Participating securities are defined as unvested stock-based payment awards that contain nonforfeitable rights to dividends.

(In thousands, except per share amounts)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Net income attributable to Mine Safety Appliances Company	\$ 19,592	\$ 11,827	\$ 32,901	\$ 16,733
Preferred stock dividends	(10)	(10)	(20)	(20)
Income available to common equity	19,582	11,817	32,881	16,713
Dividends and undistributed earnings allocated to participating securities	(213)	(118)	(355)	(162)
Income available to common shareholders	19,369	11,699	32,526	16,551
Basic earnings per common share	\$ 0.53	\$ 0.33	\$ 0.90	\$ 0.47
Diluted earnings per common share	\$ 0.53	\$ 0.32	\$ 0.88	\$ 0.46
Basic shares outstanding	36,217	35,839	36,191	35,768
Stock options and other stock compensation	637	642	634	584
Diluted shares outstanding	36,854	36,481	36,825	36,352
Antidilutive stock options	730	776	730	776



**(5) Segment Information**

We are organized into five geographic operating segments based on management responsibilities. The operating segments have been aggregated (based on economic similarities, the nature of their products, end-user markets and methods of distribution) into three reportable segments: North America, Europe, and International. Reportable segment information is presented in the following table:

(In thousands)	North America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended June 30, 2011</b>					
Sales to external customers	\$ 137,691	\$ 74,868	\$ 82,174	\$	\$ 294,733
Intercompany sales	25,917	30,311	4,359	(60,587)	
Net income attributable to Mine Safety Appliances Company	16,111	2,094	6,466	(5,079)	19,592
<b>Six Months Ended June 30, 2011</b>					
Sales to external customers	\$ 268,607	\$ 139,707	\$ 162,918	\$	\$ 571,232
Intercompany sales	50,460	58,698	8,017	(117,175)	
Net income attributable to Mine Safety Appliances Company	25,934	3,681	13,843	(10,557)	32,901
<b>Three Months Ended June 30, 2010</b>					
Sales to external customers	\$ 116,774	\$ 56,406	\$ 63,993	\$	\$ 237,173
Intercompany sales	20,767	20,890	4,122	(45,779)	
Net income (loss) attributable to Mine Safety Appliances Company	12,928	(2,498)	3,549	(2,152)	11,827
<b>Six Months Ended June 30, 2010</b>					
Sales to external customers	\$ 215,888	\$ 113,030	\$ 120,689	\$	\$ 449,607
Intercompany sales	38,672	43,666	7,470	(89,808)	
Net income (loss) attributable to Mine Safety Appliances Company	18,512	(5,763)	7,927	(3,943)	16,733

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

In 2011, we changed our segment reporting to include corporate overhead and interest expense in reconciling items. Previously, these expenses were reported in the North American, European, and International segments. Comparative 2010 amounts have been revised to conform with the current year presentation. The effect of the revisions for the three months ended June 30, 2010 improved North American, European, and International segment results by \$2.1 million, \$0.6 million, and \$0.5 million, respectively, and reduced the results reported in Reconciling Items by corresponding amounts. The effect of the revisions for the six months ended June 30, 2010 improved North American, European, and International segment results by \$4.2 million, \$1.2 million, and \$1.0 million, respectively, and reduced the results reported in Reconciling Items by corresponding amounts.

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

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

(In thousands)	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
<b>Three months ended June 30</b>				
Service cost	\$ 2,165	\$ 1,936	\$ 218	\$ 190
Interest cost	4,876	4,683	435	433
Expected return on plan assets	(8,542)	(8,644)		
Amortization of transition amounts	1	1		
Amortization of prior service cost	26	26	(113)	(139)
Recognized net actuarial losses	288	137	213	210
Net periodic benefit (credit) cost	(1,186)	(1,861)	753	694
<b>Six months ended June 30</b>				
Service cost	\$ 4,329	\$ 3,873	\$ 436	\$ 381
Interest cost	9,751	9,366	870	865
Expected return on plan assets	(17,068)	(17,288)		
Amortization of transition amounts	2	2		
Amortization of prior service cost	52	52	(227)	(278)
Recognized net actuarial losses	486	273	426	420
Settlement loss		285		
Termination benefits		1,372		
Net periodic benefit (credit) cost	(2,448)	(2,065)	1,505	1,388

We made contributions of \$2.3 million to our pension plans during the six months ended June 30, 2011. We expect to make total contributions of approximately \$4.6 million to our pension plans in 2011.

**(7) Goodwill and Intangible Assets**

Changes in goodwill during the six months ended June 30, 2011 were as follows:

(In thousands)	Goodwill
Net balance at January 1, 2011	\$ 263,089
Currency translation	4,714
Net balance at June 30, 2011	267,803

At June 30, 2011, goodwill of approximately \$200.1 million, \$63.7 million, and \$4.0 million related to the North American, European, and International reporting units, respectively.

Changes in intangible assets, net of accumulated amortization, during the six months ended June 30, 2011 were as follows:

(In thousands)	Intangibles
Net balance at January 1, 2011	\$ 53,880
Amortization expense	(3,047)
Currency translation	197

Net balance at June 30, 2011

51,030

**(8) Inventories**

(In thousands)	June 30 2011	December 31 2010
Finished products	\$ 81,371	\$ 71,743
Work in process	18,867	16,494
Raw materials and supplies	65,741	62,344
Total inventories	165,979	150,581

**(9) Stock Plans**

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

Stock compensation expense was as follows:

(In thousands)	Three Months Ended June 30		Six Months Ended June 30	
	2011	2010	2011	2010
Stock compensation expense	\$ 1,957	\$ 1,902	\$ 4,643	\$ 4,404
Income tax benefit	664	706	1,534	1,579
Stock compensation expense, net of income tax benefit	1,293	1,196	3,109	2,825

A summary of stock option activity for the six months ended June 30, 2011 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1, 2011	1,749,003	\$ 29.74
Granted	166,247	34.09
Exercised	(21,840)	12.29

Outstanding at Ju