

MINE SAFETY APPLIANCES CO
Form 10-Q
November 03, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarter ended September 30, 2006

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)

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

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

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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

As of October 31, 2006, 36,207,941 shares of common stock without par value were outstanding, not including 2,756,487 shares held by the Mine Safety Appliances Company Stock Compensation Trust.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MINE SAFETY APPLIANCES COMPANY

CONDENSED CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share amounts)

Unaudited

	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net sales	\$ 209,802	\$ 217,879	\$ 656,775	\$ 666,051
Other income	1,669	742	3,409	3,091
	211,471	218,621	660,184	669,142
Costs and expenses				
Cost of products sold	131,652	138,270	398,762	408,868
Selling, general and administrative	52,378	48,442	159,791	151,864
Research and development	6,603	5,196	19,125	16,856
Restructuring and other charges	306		6,762	
Interest	1,481	1,333	3,880	3,942
Currency exchange losses (gains)	532	(643)	2,525	696
	192,952	192,598	590,845	582,226
Income before income taxes	18,519	26,023	69,339	86,916
Provision for income taxes	5,918	8,971	24,919	29,310
Net income	\$ 12,601	\$ 17,052	\$ 44,420	\$ 57,606
Basic earnings per common share	\$.35	\$.47	\$ 1.22	\$ 1.58
Diluted earnings per common share	\$.34	\$.46	\$ 1.20	\$ 1.54
Dividends per common share	\$.18	\$.14	\$.50	\$.38

See notes to condensed consolidated financial statements.

MINE SAFETY APPLIANCES COMPANY

CONDENSED CONSOLIDATED BALANCE SHEET

(In thousands, except share data)

Unaudited

	September 30 2006	December 31 2005
ASSETS		
Current assets		
Cash and cash equivalents	\$ 39,672	\$ 44,797
Trade receivables, less allowance for doubtful accounts of \$5,954 and \$6,041, respectively	170,084	169,436
Inventories	154,299	119,731
Deferred tax assets	18,604	17,868
Prepaid expenses and other current assets	40,600	25,394
Total current assets	423,259	377,226
Property, less accumulated depreciation of \$253,184 and \$245,388, respectively	119,109	116,209
Prepaid pension cost	143,246	140,575
Deferred tax assets	19,588	19,364
Goodwill	86,794	55,654
Other noncurrent assets	25,090	16,329
TOTAL	\$ 817,086	\$ 725,357
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 63,455	\$ 8,808
Accounts payable	52,119	40,935
Employees compensation	17,236	18,483
Insurance and product liability	17,346	13,807
Taxes on income	3,122	7,063
Other current liabilities	38,206	41,763
Total current liabilities	191,484	130,859
Long-term debt	53,839	45,834
Pensions and other employee benefits	87,754	80,656
Deferred tax liabilities	75,880	75,511
Other noncurrent liabilities	9,792	10,100
Total liabilities	418,749	342,960
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 36,207,941 and 36,545,984 shares)	57,490	50,887
Stock compensation trust 2,756,487 and 3,001,125 shares	(14,389)	(15,667)
Treasury shares, at cost:		
Preferred 52,841 and 52,841 shares	(1,750)	(1,750)
Common 23,116,963 and 22,534,282 shares	(222,214)	(199,562)

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Deferred stock compensation	(2,245)	(2,218)
Accumulated other comprehensive income	(5,006)	(9,571)
Retained earnings	582,882	556,709
Total shareholders' equity	398,337	382,397
TOTAL	\$ 817,086	\$ 725,357

See notes to condensed consolidated financial statements.

MINE SAFETY APPLIANCES COMPANY

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Unaudited

	Nine Months Ended September 30	
	2006	2005
OPERATING ACTIVITIES		
Net income	\$ 44,420	\$ 57,606
Depreciation and amortization	15,808	19,044
Pensions	(3,678)	(4,874)
Net gain on sale of assets	(1,520)	(484)
Restructuring and other charges	4,843	
Stock-based compensation	3,365	986
Deferred income taxes	58	3,190
Changes in operating assets and liabilities	(44,090)	(15,574)
Other including currency exchange adjustments	2,694	(593)
Cash flow from operating activities	21,900	59,301
INVESTING ACTIVITIES		
Property additions	(15,092)	(17,513)
Property disposals	2,804	1,104
Acquisitions, net of cash acquired, and other investing	(31,624)	(14,669)
Cash flow from investing activities	(43,912)	(31,078)
FINANCING ACTIVITIES		
Proceeds from short-term debt, net	51,917	26,310
Payments on long-term debt	(13)	(115)
Cash dividends	(18,247)	(13,915)
Company stock purchases	(22,597)	(54,055)
Exercise of stock options	1,728	4,404
Excess tax benefit related to stock plans	2,663	
Cash flow from financing activities	15,451	(37,371)
Effect of exchange rate changes on cash	1,436	(1,805)
Decrease in cash and cash equivalents	(5,125)	(10,953)
Beginning cash and cash equivalents	44,797	76,545
Ending cash and cash equivalents	\$ 39,672	\$ 65,592

See notes to condensed consolidated financial statements.

MINE SAFETY APPLIANCES COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

(1) Basis of Presentation

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

The interim condensed consolidated financial statements are 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 September 30, 2006, we recorded \$0.3 million (\$0.2 million after tax) in severance costs related to our plan to discontinue manufacturing operations in Britain.

During the nine months ended September 30, 2006, we recorded charges of \$6.8 million (\$4.3 million after tax), primarily related to the Project Outlook reorganization plan in North America. Project Outlook, which was largely completed by the end of the second quarter, was designed to ensure that our North American management teams, employees, product design processes, and operational functions are fully aligned with our strategic goals and the needs of our customers. The reorganization of business and support functions in our North American operations is expected to result in cost reductions and a higher degree of collaboration, focus, and efficiency. A significant portion of the cost reductions resulting from Project Outlook is being realized from a focused voluntary retirement incentive program (VRIP) that was completed during the first quarter of 2006. In January 2006, approximately 60 employees elected to retire at the end of February under the terms of the VRIP. Restructuring charges for the nine months ended September 30, 2006 include \$5.3 million for VRIP retirees, primarily special termination benefits, \$0.7 million in severance costs related to additional staffing reductions that were made at the end of January 2006, and \$0.5 million related to the relocation of various employee work groups within the new organizational structure.

(3) Comprehensive Income

Components of comprehensive income are as follows:

(In thousands)	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Net income	\$ 12,601	\$ 17,052	\$ 44,420	\$ 57,606
Cumulative translation adjustments	274	1,054	4,565	(8,653)
Comprehensive income	12,875	18,106	48,985	48,953

Components of accumulated other comprehensive income are as follows:

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	September 30	December 31
(In thousands)	2006	2005
Cumulative translation adjustments	\$ (2,495)	\$ (7,060)
Minimum pension liability adjustments	(2,511)	(2,511)
Accumulated other comprehensive income	(5,006)	(9,571)

(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.

(In thousands, except per share amounts)	Three Months Ended		Nine Months Ended	
	September 30 2006	September 30 2005	September 30 2006	September 30 2005
Net income	\$ 12,601	\$ 17,052	\$ 44,420	\$ 57,606
Preferred stock dividends	10	10	31	31
Income available to common shareholders	12,591	17,042	44,389	57,575
Basic earnings per common share	\$.35	\$.47	\$ 1.22	\$ 1.58
Diluted earnings per common share	\$.34	\$.46	\$ 1.20	\$ 1.54
Share information:				
Basic shares outstanding	36,288	36,618	36,443	36,540
Stock options	505			