

MINE SAFETY APPLIANCES CO  
Form 10-Q  
October 23, 2013

**UNITED STATES**  
**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, 2013

Commission File No. 1-15579

**MINE SAFETY APPLIANCES COMPANY**

(Exact name of registrant as specified in its charter)

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(State or other jurisdiction of

(IRS Employer

incorporation or organization)

Identification No.)

1000 Cranberry Woods Drive

Cranberry Township, Pennsylvania  
(Address of principal executive offices)

16066-5207  
(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.

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 Exchange Act). Yes  No

On October 18, 2013 there were 37,190,510 shares of common stock outstanding, not including 327,056 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**

Unaudited

<b>(In thousands, except per share amounts)</b>	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net sales	\$ 278,245	\$ 286,567	\$ 861,179	\$ 874,790
Other income, net	609	169	1,037	8,433
	278,854	286,736	862,216	883,223
Costs and expenses				
Cost of products sold	160,029	164,313	485,301	502,419
Selling, general and administrative	73,311	81,606	237,919	236,591
Research and development	12,298	10,073	34,280	29,707
Restructuring and other charges	1,515		3,942	
Interest expense	2,741	2,797	8,151	8,860
Currency exchange losses, net	1,733	617	3,845	1,845
	251,627	259,406	773,438	779,422
Income before income taxes	27,227	27,330	88,778	103,801
Provision for income taxes	8,050	7,680	25,815	31,550
Net income	19,177	19,650	62,963	72,251
Net loss (income) attributable to noncontrolling interests	324	(417)	(127)	(1,101)
Net income attributable to Mine Safety Appliances Company	19,501	19,233	62,836	71,150
Earnings per share attributable to Mine Safety Appliances Company common shareholders				
Basic	\$ 0.52	\$ 0.52	\$ 1.69	\$ 1.93
Diluted	\$ 0.52	\$ 0.51	\$ 1.66	\$ 1.90
Dividends per common share	\$ 0.30	\$ 0.28	\$ 0.88	\$ 0.82

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$ 19,177	\$ 19,650	\$ 62,963	\$ 72,251
Foreign currency translation adjustments	6,158	4,814	(7,068)	1,315
Pension and post-retirement plan adjustments, net of tax	2,107		6,321	
Comprehensive income	27,442	24,464	62,216	73,566
Comprehensive loss (income) attributable to noncontrolling interests	320	(322)	790	(918)
Comprehensive income attributable to Mine Safety Appliances Company	27,762	24,142	63,006	72,648

See notes to condensed consolidated financial statements.

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

Unaudited

(In thousands, except share amounts)	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 96,010	\$ 82,718
Trade receivables, less allowance for doubtful accounts of \$7,823 and \$7,402	194,886	191,289
Inventories	144,277	136,300
Deferred tax assets	16,890	17,727
Income taxes receivable	12,485	6,342
Prepaid expenses and other current assets	30,727	29,172
<b>Total current assets</b>	<b>495,275</b>	<b>463,548</b>
Property, less accumulated depreciation of \$315,391 and \$310,279	150,146	147,465
Prepaid pension cost	47,640	42,818
Deferred tax assets	16,546	17,018
Goodwill	259,388	258,400
Other noncurrent assets	200,548	182,497
<b>Total assets</b>	<b>1,169,543</b>	<b>1,111,746</b>
<b>Liabilities</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 7,114	\$ 6,823
Accounts payable	66,628	59,519
Employees' compensation	43,801	41,602
Insurance and product liability	15,320	15,025
Taxes on income	4,632	4,389
Other current liabilities	56,716	61,442
<b>Total current liabilities</b>	<b>194,211</b>	<b>188,800</b>
Long-term debt	282,333	272,333
Pensions and other employee benefits	154,457	151,536
Deferred tax liabilities	19,184	17,249
Other noncurrent liabilities	11,101	11,124
<b>Total liabilities</b>	<b>661,286</b>	<b>641,042</b>
Commitments and contingencies (Note 16)		
<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, no par value, issued 62,081,391 and 62,081,391 shares, outstanding 37,190,510 and 37,007,799 shares	129,727	112,135
Stock compensation trust 327,056 and 745,430 shares	(1,707)	(3,891)
	(280,992)	(269,739)

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Treasury shares, at cost, preferred 52,878 and 52,878 shares, common 24,563,825 and 24,328,162 shares		
Accumulated other comprehensive loss	(126,902)	(127,072)
Retained earnings	778,095	747,953
Total Mine Safety Appliances Company shareholders' equity	501,790	462,955
Noncontrolling interests	6,467	7,749
Total shareholders' equity	508,257	470,704
Total liabilities and shareholders' equity	1,169,543	1,111,746

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

(In thousands)	Nine Months Ended September 30,	
	2013	2012
<b>Operating Activities</b>		
Net income	\$ 62,963	\$ 72,251
Depreciation and amortization	23,392	24,057
Pensions	8,639	2,029
Net gain from investing activities disposal of assets	(505)	(7,812)
Stock-based compensation	9,147	6,898
Deferred income tax (benefit) provision	(802)	999
Other noncurrent assets and liabilities	(23,881)	(10,556)
Currency exchange losses, net	3,845	1,845
Excess tax benefit related to stock plans	(1,490)	(1,305)
Other, net	1,689	(2,135)
<b>Operating cash flow before changes in certain working capital items</b>	82,997	86,271
Trade receivables	(6,855)	(22,072)
Inventories	(12,321)	(4,646)
Accounts payable and accrued liabilities	9,061	14,371
Income taxes receivable, prepaid expenses and other current assets	(8,176)	15,110
<b>(Increase) decrease in certain working capital items</b>	(18,291)	2,763
<b>Cash flow from operating activities</b>	64,706	89,034
<b>Investing Activities</b>		
Capital expenditures	(26,214)	(24,949)
Property disposals and other investing	1,333	16,801
<b>Cash flow from investing activities</b>	(24,881)	(8,148)
<b>Financing Activities</b>		
Proceeds from short-term debt, net	284	449
Proceeds from long-term debt	233,100	137,500
Payments on long-term debt	(223,100)	(175,500)
Cash dividends paid	(32,694)	(30,261)
Distributions to noncontrolling interests	(556)	
Company stock purchases	(11,253)	(2,948)
Exercise of stock options	9,138	3,016
Excess tax benefit related to stock plans	1,490	1,305
<b>Cash flow from financing activities</b>	(23,591)	(66,439)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	(2,942)	71
<b>Increase in cash and cash equivalents</b>	13,292	14,518
<b>Beginning cash and cash equivalents</b>	82,718	59,938

**Ending cash and cash equivalents**

96,010

74,456

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 (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.

**(2) Restructuring and Other Charges**

During the three and nine months ended September 30, 2013, we recorded charges of \$1.5 million (\$1.1 million after tax) and \$3.9 million (\$2.8 million after tax), respectively. European segment charges for the nine months ended September 30, 2013 of \$2.2 million related primarily to staff reductions in Germany and the Netherlands. International segment charges for the nine months ended September 30, 2013 of \$1.7 million were related to staff reductions in Australia.

We did not incur any restructuring charges during the three and nine months ended September 30, 2012.

**(3) Accumulated Other Comprehensive Loss**

Components of accumulated other comprehensive loss are as follows:

(In thousands)	September 30, 2013	December 31, 2012
Cumulative translation adjustments	\$ (1,192)	\$ 4,959
Pension and post-retirement plan adjustments	(125,710)	(132,031)
Accumulated other comprehensive loss	(126,902)	(127,072)

**(4) Reclassifications Out of Accumulated Other Comprehensive Loss**

Pension and post-retirement benefit plan items reclassified out of accumulated other comprehensive loss during the three and nine months ended September 30, 2013 are as follows:

	Three Months Ended September 30, 2013	Nine Months Ended September 30, 2013
Amortization of prior service cost	\$ (80)	\$ (240)
Recognized net actuarial losses	3,462	10,392
Total reclassifications	3,382	10,152

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Tax benefit	1,275	3,831
Total reclassifications, net of tax	2,107	6,321

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The reclassifications out of accumulated other comprehensive loss are included in the computation of net periodic pension and other post-retirement benefit costs (see Note 7 Pensions and Other Post-Retirement Benefits).

**(5) Earnings per Share**

Basic earnings per share is computed by dividing net income, after the deduction of preferred stock dividends and undistributed earnings allocated to participating securities, by the weighted average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common stock for all potentially dilutive share equivalents outstanding not classified as participating securities. 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income attributable to Mine Safety Appliances Company	\$ 19,501	\$ 19,233	\$ 62,836	\$ 71,150
Preferred stock dividends	(10)	(10)	(30)	(30)
Income available to common equity	19,491	19,223	62,806	71,120
Dividends and undistributed earnings allocated to participating securities	(138)	(172)	(486)	(691)
Income available to Mine Safety Appliances Company common shareholders	19,353	19,051	62,320	70,429
Basic earnings per common share	\$ 0.52	\$ 0.52	\$ 1.69	\$ 1.93
Diluted earnings per common share	\$ 0.52	\$ 0.51	\$ 1.66	\$ 1.90
Basic shares outstanding	36,915	36,633	36,845	36,535
Stock options and other stock compensation	592	422	593	474
Diluted shares outstanding	37,507	37,055	37,438	37,009
Antidilutive stock options		943		943

**(6) Segment Information**

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

(In thousands)	North America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended September 30, 2013</b>					
Sales to external customers	\$ 134,889	\$ 67,093	\$ 76,263	\$	\$ 278,245
Intercompany sales	30,960	23,566	6,363	(60,889)	
Net income (loss) attributable to Mine Safety Appliances Company	18,053	2,667	4,636	(5,855)	19,501
<b>Nine Months Ended September 30, 2013</b>					
Sales to external customers	\$ 423,319	\$ 204,735	\$ 233,125	\$	\$ 861,179
Intercompany sales	92,017	71,235	16,619	(179,871)	
Net income (loss) attributable to Mine Safety Appliances Company	55,217	8,003	16,493	(16,877)	62,836

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(In thousands)	North America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended September 30, 2012</b>					
Sales to external customers	\$ 133,944	\$ 67,660	\$ 84,963	\$	\$ 286,567
Intercompany sales	30,829	23,735	4,902	(59,466)	
Net income (loss) attributable to Mine Safety Appliances Company	15,100	2,039	6,016	(3,922)	19,233
<b>Nine Months Ended September 30, 2012</b>					
Sales to external customers	\$ 416,728	\$ 207,450	\$ 250,612	\$	\$ 874,790
Intercompany sales	88,720	74,377	14,770	(177,867)	
Net income (loss) attributable to Mine Safety Appliances Company	51,636	9,794	17,900	(8,180)	71,150

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

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

Components of net periodic benefit cost consisted of the following:

(In thousands)	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
<b>Three months ended September 30</b>				
Service cost	\$ 2,784	\$ 2,437	\$ 172	\$ 174
Interest cost	4,468	4,793	262	316
Expected return on plan assets	(7,725)	(8,099)		
Amortization of prior service cost	26	73	(106)	(114)
Recognized net actuarial losses	3,325	1,473	137	132
Net periodic benefit cost	2,878	677	465	508
<b>Nine months ended September 30</b>				
Service cost	\$ 8,353	\$ 7,309	\$ 516	\$ 522
Interest cost	13,404	14,371	787	948
Expected return on plan assets	(23,175)	(24,301)		
Amortization of prior service cost	78	227	(318)	(342)
Recognized net actuarial losses	9,979	4,423	413	396
Net periodic benefit cost	8,639	2,029	1,398	1,524

We made contributions of \$3.4 million to our pension plans during the nine months ended September 30, 2013. We expect to make total contributions of approximately \$4.5 million to our pension plans in 2013.

**(8) Goodwill and Intangible Assets**

Changes in goodwill during the nine months ended September 30, 2013 are as follows:

(In thousands)	Goodwill
Net balance at January 1	\$ 258,400
Currency translation	988
Net balance at September 30	259,388

At September 30, 2013, goodwill of \$196.5 million, \$60.5 million, and \$2.4 million related to the North American, European, and International reportable segments, respectively.



Changes in intangible assets, net of accumulated amortization (reported in other noncurrent assets) during the nine months ended September 30, 2013 are as follows:

(In thousands)	Intangible Assets
Net balance at January 1	\$ 38,648
Amortization expense	(2,787)
Currency translation	33
Net balance at September 30	35,894

**(9) Inventories**

(In thousands)	September 30, 2013	December 31, 2012
Finished products	\$ 76,676	\$ 72,658
Work in process	12,545	13,473
Raw materials and supplies	55,056	50,169
Total inventories	144,277	136,300

**(10) 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. Restricted stock is valued at the market value of the stock on the grant date. Performance stock units with a performance condition are valued at the market value of the stock on the grant date. Performance stock units with a market condition are valued at an estimated fair value using a Monte Carlo model. 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 the specified performance targets over the performance period. We issue Stock Compensation Trust shares or new shares for stock option exercises, restricted stock grants, and performance stock unit grants.

Stock compensation expense is as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock compensation expense	\$ 1,198	\$ 1,603	\$ 9,147	\$ 6,898
Income tax benefit	432	589	3,380	2,522
Stock compensation expense, net of income tax benefit	766	1,014	5,767	4,376

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A summary of stock option activity for the nine months ended September 30, 2013 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1	1,784,660	\$ 33.05
Granted	188,407	49.03
Exercised	(265,931)	34.36
Outstanding at September 30	1,707,136	34.60
Exercisable at September 30	1,162,103	31.88

A summary of restricted stock activity for the nine months ended September 30, 2013 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1	417,843	\$ 31.92
Granted	89,910	49.00
Vested	(168,226)	26.88
Forfeited	(8,677)	40.38
Unvested at September 30	330,850	38.90

A summary of performance stock unit activity for the nine months ended September 30, 2013 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1	137,672	\$ 35.85
Granted	53,357	57.58
Performance adjustments	3,317	24.63
Vested	(45,113)	25.86
Unvested at September 30	149,233	46.39

**(11) Derivative Financial Instruments**

As part of our currency exchange rate risk management strategy, we may enter into certain derivative foreign currency forward contracts that do not meet the GAAP criteria for hedge accounting, but which have the impact of partially offsetting certain foreign currency exposures. We account for these forward contracts at fair value and report the related gains or losses in currency exchange gains or losses. At September 30, 2013, the notional amount of open forward contracts was \$54.5 million, and the unrealized gain on these contracts was \$0.3 million.

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

(In thousands)

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	September 30, 2013	December 31, 2012
Derivatives not designated as hedging instruments		
Foreign exchange contracts:		
Prepaid expenses and other current assets	\$ 260	\$ 801

-10-



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

(In thousands)	Income Statement Location	Loss (Gain) Recognized in Income Nine Months Ended September 30,	
		2013	2012
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Currency exchange losses, net	\$ 233	\$ (364)
<b>(12) Income Taxes</b>			

At September 30, 2013, we had a gross liability for unrecognized tax benefits of \$9.5 million. We have recognized tax benefits associated with these liabilities of \$8.6 million at September 30, 2013. These balances are unchanged since December 31, 2012. We do not expect that the total amount of the unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. Our liability for accrued interest and penalties related to uncertain tax positions was \$0.9 million at September 30, 2013.

### (13) Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy consists of three broad levels, which gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy are:

Level 1 Observable inputs that reflect unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 Unobservable inputs for the asset or liability.

The valuation methodologies we used to measure financial assets and liabilities were limited to the derivative financial instruments described in Note 11. We estimate the fair value of the derivative financial instruments, consisting of foreign currency forward contracts, based upon valuation models with inputs that generally can be verified by observable market conditions and do not involve significant management judgment. Accordingly, the fair values of the derivative financial instruments are classified within Level 2 of the fair value hierarchy.

### (14) Fair Value of Financial Instruments

With the exception of fixed rate long-term debt, we believe that the reported carrying amounts of our financial assets and liabilities approximate their fair values. At September 30, 2013, the reported carrying amount of our fixed rate long-term debt (including the current portion) was \$160.0 million and the fair value was \$167.1 million. The fair value of our long-term debt was determined using cash flow valuation models to estimate the market value of similar transactions as of September 30, 2013. Accordingly, the fair value of fixed rate long-term debt is classified within Level 2 of the fair value hierarchy.

**(15) Assets Held for Sale**

Certain assets related to detector tube manufacturing are classified as held for sale at September 30, 2013. These assets are reported in the following balance sheet lines:

(In millions)	September 30, 2013	
Inventory	\$	1.8
Property, net of depreciation		0.3
<b>Total assets</b>		<b>2.1</b>

In September 2013, we entered into an agreement to sell the detector tube assets. Under the terms of the agreement, the transaction is expected to close during the fourth quarter of 2013. In addition to the asset sale agreement, we entered into transitional manufacturing and sales agreements with the buyer. Under the terms of the transitional agreements, we will continue to manufacture and sell detector tubes on behalf of the buyer until mid-2014. The expected gain on the transaction will be recognized in 2014, at the conclusion of the transitional manufacturing period and is not expected to be material to net income or earnings per share.

**(16) Contingencies**

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes and other relevant information. Our reserve for single incident product liability claims was \$4.0 million at September 30, 2013 and \$4.4 million at December 31, 2012. Single incident product liability expense during the nine months ended September 30, 2013 and 2012 was not significant. We evaluate our single incident product liability exposures on an ongoing basis and make adjustments to the reserve as new information becomes available.

Cumulative trauma product liability claims involve exposures to harmful substances (*e.g.*, silica, asbestos and coal dust) that occurred many years ago and may have developed over long periods of time into diseases such as silicosis, asbestosis or coal worker's pneumoconiosis. We are presently named as a defendant in 2,775 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged or the amount of damages sought, and potentially involve multiple defendants.

Cumulative trauma product liability litigation is difficult to predict. In our experience, until late in a lawsuit, we cannot reasonably determine whether it is probable that any given cumulative trauma lawsuit will ultimately result in a liability. This uncertainty is caused by many factors, including the following: cumulative trauma complaints generally do not provide information sufficient to determine if a loss is probable; cumulative trauma litigation is inherently unpredictable and information is often insufficient to determine if a lawsuit will develop into an actively litigated case; and even when a case is actively litigated, it is often difficult to determine if the lawsuit will be dismissed or otherwise resolved until late in the lawsuit. Moreover, even once it is probable that such a lawsuit will result in a loss, it is difficult to reasonably estimate the amount of actual loss that will be incurred. These amounts are highly variable and turn on a case-by-case analysis of the relevant facts, which are often not learned until late in the lawsuit.

Because of these factors, we cannot reliably determine our potential liability for such claims until late in the lawsuit. We, therefore, do not record cumulative trauma product liability losses when a

lawsuit is filed, but rather, when we learn sufficient information to determine that it is probable that we will incur a loss and the amount of loss can be reasonably estimated. We record expenses for defense costs associated with open cumulative trauma product liability lawsuits as incurred.

We cannot estimate any amount or range of possible losses related to resolving pending and future cumulative trauma product liability claims that we may face because of the factors described above. As new information about cumulative trauma product liability cases and future developments becomes available, we reassess our potential exposures.

A summary of cumulative trauma product liability claims activity follows:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Open claims, beginning of period	2,609	2,321
New claims	373	750
Settled and dismissed claims	(207)	(462)
Open claims, end of period	2,775	2,609

With some common contract exclusions, we maintain insurance for cumulative trauma product liability claims. We have purchased insurance policies from over 20 different insurance carriers that provide coverage for cumulative trauma product liability losses and related defense costs. In the normal course of business, we make payments to settle product liability claims and for related defense costs. We record receivables for the amounts that are covered by insurance. The available limits of these policies are many times our recorded insurance receivable balance.

Various factors could affect the timing and amount of recovery of our insurance receivables, including the outcome of negotiations with insurers, legal proceedings with respect to product liability insurance coverage and the extent to which insurers may become insolvent in the future.

Our insurance receivables at September 30, 2013 totaled \$152.1 million, of which \$2.0 million is reported in other current assets and \$150.1 million in other non-current assets. Our insurance receivables at December 31, 2012 totaled \$130.0 million.

A summary of insurance receivable balances and activity related to cumulative trauma product liability losses follows:

(In millions)	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Balance beginning of period	\$ 130.0	\$ 112.1
Additions	30.8	29.7
Collections and settlements	(8.7)	(11.8)
Balance end of period	152.1	130.0

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma losses during the nine months ended September 30, 2013 and 2012 were \$1.4 million and \$7.3 million, respectively.

Our aggregate cumulative trauma product liability losses and administrative and defense costs for the three years ended December 31, 2012, totaled approximately \$99.7 million, substantially all of which was insured.

We believe that the increase in the insurance receivable balance that we have experienced since 2005 is primarily due to disagreements among our insurance carriers, and consequently with us, as to



when their individual obligations to pay us are triggered and the amount of each insurer's obligation, as compared to other insurers. We believe that our insurers do not contest that they have issued policies to us or that these policies cover cumulative trauma product liability claims. We believe that our ability to successfully resolve our insurance litigation with various insurance carriers in recent years demonstrates that we have strong legal positions concerning our rights to coverage.

We regularly evaluate the collectability of the insurance receivables and record the amounts that we conclude are probable of collection. Our conclusions are based on our analysis of the terms of the underlying insurance policies, our experience in successfully recovering cumulative trauma product liability claims from our insurers under other policies, the financial ability of our insurance carriers to pay the claims, our understanding and interpretation of the relevant facts and applicable law and the advice of legal counsel, who believe that our insurers are required to provide coverage based on the terms of the policies.

Although the outcome of cumulative trauma product liability matters cannot be predicted with certainty and unfavorable resolutions could materially affect our results of operations on a quarter-to-quarter basis, based on information currently available and the amounts of insurance coverage available to us, we believe that the disposition of cumulative trauma product liability lawsuits that are pending against us will not have a materially adverse effect on our future results of operations, financial condition, or liquidity.

We are currently involved in insurance coverage litigations with various of our insurance carriers.

In 2009, we sued The North River Insurance Company (North River) in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one of its insurance policies by failing to pay amounts owed to us and that it engaged in bad-faith claims handling. We believe that North River's refusal to indemnify us under the policy for product liability losses and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all due amounts. Discovery has concluded and motions for summary judgment on certain issues have been submitted to the court. A trial date has not yet been scheduled.

In 2010, North River sued us in the Court of Common Pleas of Allegheny County, Pennsylvania seeking a declaratory judgment concerning their responsibilities under three additional policies shared with Allstate Insurance Company (as successor in interest to policies issued by the Northbrook Excess and Surplus Insurance Company). We asserted claims against North River and Allstate for breaches of contract for failures to pay amounts owed to us. We also alleged that North River engaged in bad-faith claims handling. We believe that North River's and Allstate's refusals to indemnify us under these policies for product liability losses and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all due amounts. Discovery has concluded and motions for summary judgment on certain issues have been submitted to the court. A trial date has not yet been scheduled.

In July 2010, we filed a lawsuit in the Superior Court of the State of Delaware seeking declaratory and other relief from the majority of our excess insurance carriers concerning the future rights and obligations of MSA and our excess insurance carriers under various insurance policies. The reason for this insurance coverage action is to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers. The case is currently in discovery. We have resolved our claims against certain of our insurance carriers on some of their policies through negotiated settlements. When a settlement is reached, we dismiss the settling carrier from this action in Delaware.

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

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires additional information about the amounts reclassified out of accumulated other comprehensive income by component. The adoption of this ASU on January 1, 2013 did not have a material effect on our consolidated financial statements.

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion and analysis should be read in conjunction with the historical financial statements and other financial information included elsewhere in this report on Form 10-Q. This discussion may contain forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business, and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors. These factors include, but are not limited to, economic and market conditions, spending patterns of government agencies, competitive pressures, product liability claims and our ability to collect related insurance receivables, the success of new product introductions, currency exchange rate fluctuations, the identification and successful integration of acquisitions, and the risks of doing business in foreign countries. For discussion of risk factors affecting our business, see Part 1, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.*

**BUSINESS OVERVIEW**

We are a global leader in the development, manufacture and supply of products that protect people's health and safety. Our safety products typically integrate any combination of electronics, mechanical systems and advanced materials to protect users against hazardous or life threatening situations. Our comprehensive lines of safety products are used by workers around the world in the oil and gas, fire service, mining, construction and other industries, as well as the military. We are committed to providing our customers with service unmatched in the safety industry and, in the process, enhancing our ability to provide a growing line of safety solutions for customers in key global markets.

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 reportable geographic segments: North America, Europe and International. Each segment includes a number of operating segments. In 2012, 47%, 25% and 28% 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 companies in most Western European countries and a number of Eastern European and Middle Eastern locations. Our largest European companies, based in Germany and France, develop, manufacture, and sell a wide variety of products. Operations in other European segment countries focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in Germany, France, the U.S., and China, or are purchased from third party vendors.

*International.* Our International segment includes companies in South America, Africa and the Asia Pacific region, some of which are in developing regions of the world. Principal International segment manufacturing operations are located in Australia, Brazil, China and South Africa. These companies 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 China, Germany, France and the U.S., or are purchased from third party vendors.

**RESULTS OF OPERATIONS****Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012**

**Net sales.** Net sales for the three months ended September 30, 2013 were \$278.2 million, a decrease of \$8.4 million, or 3%, compared with \$286.6 million for the three months ended September 30, 2012. The unfavorable translation effects of weaker foreign currencies decreased sales, when stated in U.S. dollars, by \$5.7 million. Excluding the effects of weakening currencies, sales decreased \$2.7 million, or 1%.

(In millions)	Three Months Ended September 30,		Dollar	Percent
	2013	2012	Increase (Decrease)	Increase (Decrease)
North America	\$ 134.9	\$ 133.9	\$ 1.0	1%
Europe	67.1	67.7	(0.6)	(1)
International	76.3	85.0	(8.7)	(10)

Net sales by the North American segment were \$134.9 million for the third quarter of 2013, an increase of \$1.0 million, or 1%, compared to \$133.9 million for the third quarter of 2012. Continued growth in industrial markets was evidenced by increased shipments of fixed gas and flame detection products and portable instruments, up \$2.4 million and \$1.9 million, respectively. These increases were partially offset by a decline in shipments of gas masks to military markets, down \$2.3 million, and other small decreases across a broad range of product lines.

Net sales for the European segment were \$67.1 million for the third quarter of 2013, a decrease of \$0.6 million, or 1%, compared to \$67.7 million for the third quarter of 2012. Strength in Western Europe was offset by weakness in industrial markets in Russia and military markets in the Middle East and India. Local currency sales in Europe were down \$3.1 million. The decrease includes \$2.0 million of non-recurring third quarter 2012 shipments to military markets in the Middle East and India. Excluding these sales, local currency sales decreased \$1.1 million, reflecting weakness in industrial markets in Russia, partially offset by strength in the fire service market in Western Europe. The favorable translation effects of a stronger euro in the current quarter increased European segment sales, when stated in U.S. dollars, by \$2.5 million.

Net sales for the International segment were \$76.3 million in the third quarter of 2013, a decrease of \$8.7 million, or 10%, compared to \$85.0 million for the third quarter of 2012. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$8.2 million, primarily related to a weaker Australian dollar, Brazilian real and South African rand. Local currency sales in the International segment decreased \$0.5 million for the quarter reflecting weakness in the Australian mining markets, partially offset by stronger demand across Latin America and South Africa. Local currency industrial market sales were flat, while fire service improvements were offset by a decline in sales to military markets.

**Cost of products sold.** Cost of products sold was \$160.0 million in the third quarter of 2013, a decrease of \$4.3 million or 3%, compared to \$164.3 million in the third quarter of 2012. The decrease in cost of products sold reflects the decrease in sales. Cost of products sold as a percentage of sales was 57.5% in the third quarter of 2013 compared to 57.3% in the third quarter of 2012.

**Gross profit.** Gross profit for the third quarter of 2013 was \$118.2 million, which was \$4.1 million, or 3%, lower than gross profit of \$122.3 million in the third quarter of 2012. Lower gross profit in the current quarter reflects lower sales. The ratio of gross profit to net sales was 42.5% in the third quarter of 2013 compared to 42.7% in the same quarter last year. The lower gross profit ratio during the current quarter was primarily related to volume variances in our factories and one-time costs of a product recall, partially offset by a more favorable product mix and lower manufacturing costs.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$73.3 million during the third quarter of 2013, a decrease of \$8.3 million, or 10%, compared to \$81.6 million in the third quarter of 2012. Selling, general and administrative expenses were 26.3% of net sales in the third quarter of 2013, compared to 28.5% of net sales in the third quarter of 2012. Local currency selling, general and administrative expenses were \$7.1 million lower in the current quarter, reflecting decreases of \$2.9 million in bonus and stock compensation, \$3.8 million in product liability and insurance receivable related expenses, and \$1.2 million in selling and marketing expenses, partially offset by small increases in other expenses. Currency exchange effects decreased current quarter selling, general and administrative expenses, when stated in U.S. dollars, by \$1.2 million, primarily related to the weakening of the Australian dollar, Brazilian real and South African rand, partially offset by the strengthening of the euro.

**Research and development expense.** Research and development expense was \$12.3 million during the third quarter of 2013, an increase of \$2.2 million, or 22%, compared to \$10.1 million during the third quarter of 2012. The increase reflects our ongoing focus on developing innovative new products.

**Restructuring and other charges.** During the three months ended September 30, 2013, we recorded charges of \$1.5 million (\$1.1 million after tax). European segment charges of \$1.1 million primarily related to staff reductions in Germany and the Netherlands. International segment charges of \$0.4 million were related to staff reductions in South Africa and Australia.

We did not incur any restructuring charges during the three months ended September 30, 2012.

**Currency exchange.** Currency exchange losses were \$1.7 million in the third quarter of 2013, compared to losses of \$0.6 million in the third quarter of 2012. Currency exchange losses in both quarters were mostly unrealized and related primarily to the effect of the strengthening U.S. dollar on inter-company balances.

**Income taxes.** The effective tax rate for the third quarter of 2013 was 29.6% compared to 28.1% for the same quarter last year. The lower effective tax rate in the third quarter of 2012 was primarily due to a tax benefit associated with a non-cash charitable contribution of land at our Cranberry Woods office park, partially offset by the expiration of the research and development tax credit.

**Net income attributable to Mine Safety Appliances Company.** Net income was \$19.5 million for the third quarter of 2013, or \$0.52 per basic share, an increase of \$0.3 million, or 1%, compared to \$19.2 million, or \$0.52 per basic share, for the same quarter last year.

North American segment net income for the third quarter of 2013 was \$18.1 million, an increase of \$3.0 million, or 20%, compared to \$15.1 million in the third quarter of 2012. The increase in North American segment net income was primarily related to the previously-discussed decrease in selling, general and administrative expenses.

European segment net income for the third quarter of 2013 was \$2.7 million, an improvement of \$0.7 million, or 31%, compared to net income of \$2.0 million during the third quarter of 2012. Local currency net income in Europe increased \$0.5 million in the current quarter, due primarily to improved gross profit margins, partially offset by restructuring expenses. Currency translation effects increased current quarter European segment net income, when stated in U.S. dollars, by \$0.2 million.

International segment net income for the third quarter of 2013 was \$4.6 million, a decrease of \$1.4 million, or 23%, compared to \$6.0 million in the same quarter last year. Local currency net income in the International segment decreased \$0.7 million in the current quarter, reflecting the previously-discussed decrease in sales, partially offset by a reduction of selling, general and administrative



expenses. Currency translation effects decreased current quarter International segment net income, when stated in U.S. dollars, by \$0.7 million, reflecting a weaker Australian dollar, Brazilian real and South African rand.

The net loss reported in reconciling items for the third quarter of 2013 was \$5.9 million compared to a net loss of \$3.9 million in the third quarter of 2012. The higher loss during the three months ended September 30 2013 reflects higher currency exchange losses in the current quarter. Additionally, the loss reported during the third quarter of 2012 included a one-time tax benefit associated with the previously-discussed charitable contribution of land.

#### Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

**Net sales.** Net sales for the nine months ended September 30, 2013 were \$861.2 million, a decrease of \$13.6 million, or 2%, compared with \$874.8 million for the nine months ended September 30, 2012. The decrease reflects the unfavorable translation effects of weaker foreign currencies in the current period and effect of the divestiture of the North American ballistic helmet business during the second quarter of 2012. North American ballistic helmet sales totaled \$10.0 million in the first nine months of 2012. The unfavorable translation effects of weaker foreign currencies decreased sales, when stated in U.S. dollars, by \$14.2 million. Excluding the effects of weakening currencies and the divestiture of our North American ballistic helmet businesses, sales increased \$10.6 million, or 1%, in the current period.

(In millions)	Nine Months Ended September 30,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2013	2012		
North America	\$ 423.3	\$ 416.7	\$ 6.6	2%
Europe	204.7	207.5	(2.8)	(1)
International	233.1	250.6	(17.5)	(7)

Net sales by the North American segment were \$423.3 million for the nine months ended September 30, 2013, an increase of \$6.6 million, or 2%, compared to \$416.7 million for the same period in 2012. Excluding the effects of the divestiture of the North American ballistic helmet business, North America segment sales increased \$16.6 million, or 4%, when compared to the first nine months of 2012. North American ballistic helmet sales were \$10.0 million lower in the current period, reflecting the divestiture. During the nine months ended September 30, 2013, we continued to see growth on the fire service and industrial markets, evidenced by increased shipments of fixed gas and flame detection instruments, SCBA's and portable instruments, up \$9.5 million, \$7.5 million and \$6.8 million, respectively. These increases were partially offset by a \$5.5 million decrease in gas masks to military markets and other small decreases across a broad range of product lines.

Net sales for the European segment were \$204.7 million for the nine months ended September 30, 2013, a decrease of \$2.8 million, or 1%, compared to \$207.5 million for the same period in 2012. Local currency sales in Europe decreased \$5.7 million, reflecting lower shipments to industrial and military markets. The favorable translation effects of a stronger euro in the current period increased European segment sales, when stated in U.S. dollars, by \$2.9 million.

Net sales for the International segment were \$233.1 million for the nine months ended September 30, 2013, a decrease of \$17.5 million, or 7%, compared to \$250.6 million in the same period in 2012. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$17.9 million, primarily related to a weaker Australian dollar, South African rand and Brazilian real. Local currency sales in the International segment increased \$0.4 million, as strength in the industrial markets was partially offset by weakness in the fire service and military markets.

**Other income.** Other income for the nine months ended September 30, 2013 was \$1.0 million, a decrease of \$7.4 million, compared to \$8.4 million for the same period in 2012. The decrease was primarily related to one-time gains of \$5.7 million on the sale of land in our Cranberry Woods office park and \$2.1 million on the sale of the North American ballistic helmet business during 2012.

**Cost of products sold.** Cost of products sold was \$485.3 million for the nine months ended September 30, 2013, a decrease of \$17.1 million, or 3%, compared to \$502.4 million in the same period in 2012. The decrease in cost of products sold reflects the decrease in sales. Cost of products sold as a percentage of sales was 56.4% in the nine months ended September 30, 2012 and 57.4% for the same period last year, reflecting a more favorable product mix, lower manufacturing costs and improved pricing.

**Gross profit.** Gross profit for the nine months ended September 30, 2013 was \$375.9 million, an increase of \$3.5 million, or 1%, compared to \$372.4 million in the same period in 2012. The increase reflects an improved ratio of gross profit to net sales, partially offset by the previously-discussed decrease in sales. The ratio of gross profit to net sales was 43.6% during the nine months ended September 30, 2013, compared to 42.6% for the same period last year. The higher gross profit ratio during the nine months ended September 30, 2013 was primarily related to a more favorable product mix, lower manufacturing costs and improved pricing.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$237.9 million during the nine months ended September 30, 2013, an increase of \$1.3 million, or 1%, compared to \$236.6 million during the same period in 2012. Selling, general and administrative expenses were 27.6% of net sales for the nine months ended September 30, 2013, compared to 27.0% of net sales for the same period in 2012. Local currency selling, general and administrative expenses increased \$4.3 million in the current period. The increase reflects higher stock compensation, primarily due to accelerated expense recognition for retirement eligible participants, higher pension expense and higher selling expense to support higher sales volumes in North America. Currency translation effects decreased selling, general and administrative expenses for the nine months ended September 30, 2012, when stated in U.S. dollars, by \$3.0 million, primarily related to a weaker Australian dollar, Brazilian real and South African rand, partially offset by a stronger euro.

**Research and development expense.** Research and development expense was \$34.3 million during the nine months ended September 30, 2013, an increase of \$4.6 million, or 15%, compared to \$29.7 million during the same period of 2012. The increase reflects our ongoing focus on developing innovative new products.

**Restructuring and other charges.** During the nine months ended September 30, 2013, we recorded charges of \$3.9 million (\$2.8 million after tax). European segment charges of \$2.2 million related primarily to staff reductions in Germany and the Netherlands. International segment charges of \$1.7 million were related to staff reductions in Australia.

We did not incur any restructuring charges during the nine months ended September 30, 2012.

**Interest expense.** Interest expense was \$8.2 million during the nine months ended September 30, 2013, a decrease of \$0.7 million, or 8%, compared to \$8.9 million during the same period last year. The decrease in interest expense reflects lower borrowing levels in the current period.

**Currency exchange.** Currency exchange losses were \$3.8 million during the nine months ended September 30, 2013, compared to losses of \$1.8 million during the same period in 2012. Currency exchange losses in both periods were mostly unrealized and related primarily to the effect of the strengthening U.S. dollar on intercompany balances.

**Income taxes.** The effective tax rate for the nine months ended September 30, 2013 was 29.1% compared to 30.4% for the same period last year. The lower effective tax rate in the first nine months of 2013 was primarily related to the tax benefit recognized for the research and development tax credit, including the one-time benefit related to the recognition of the 2012 credit in January 2013, and a more favorable manufacturing deduction compared to the prior year.

**Net income attributable to Mine Safety Appliances Company.** Net income for the nine months ended September 30, 2013 was \$62.8 million, or \$1.69 per basic share, a decrease of \$8.4 million, or 12%, compared to \$71.2 million, or \$1.93 per basic share, for the same period last year. Net income for the nine months ended September 30, 2012 included one-time gains on asset sales totaling \$5.1 million after-tax.

North American segment net income for the nine months ended September 30, 2013 was \$55.2 million, an increase of \$3.6 million, or 7%, compared to \$51.6 million for the same period last year. The increase in North American segment net income reflects higher sales and gross profits partially offset by higher selling, general and administrative expenses.

European segment net income for the nine months ended September 30, 2013, was \$8.0 million, a decrease of \$1.8 million, or 18%, compared to \$9.8 million during the same period in 2012. The decrease reflects higher restructuring costs and lower sales in the current period.

International segment net income for the nine months ended September 30, 2013 was \$16.5 million, a decrease of \$1.4 million, or 8%, compared to \$17.9 million in the same period last year. Currency translation effects decreased current period International segment net income, when stated in U.S. dollars, by \$1.4 million, primarily due to a weaker Australian dollar, Brazilian real and South African rand.

The net loss reported in reconciling items for the nine months ended September 30, 2013 was \$16.9 million compared to a net loss of \$8.2 million for the same period last year. The higher loss during the nine months ended September 30, 2013 reflects higher corporate administrative expenses and higher currency exchange losses. Additionally, the nine months ended September 30, 2012 benefited from the previously-discussed one-time gain on the sale of land in our Cranberry Woods office park.

## **LIQUIDITY AND CAPITAL RESOURCES**

Our main source of liquidity is operating cash flows, supplemented by borrowings. Our principal liquidity requirements are for working capital, capital expenditures, principal and interest payments on debt, and acquisitions. Approximately half of our long-term debt is at fixed interest rates with repayment schedules through 2021. The remainder of our long-term debt is at variable rates, primarily on our unsecured revolving credit facility that is due in 2016. Substantially all of our borrowings originate in the U.S., which has limited our exposure to non-U.S. credit markets and to currency exchange rate fluctuations.

At September 30, 2013, we had cash and cash equivalents totaling \$96.0 million, of which \$77.3 million was held by our foreign subsidiaries. The \$77.3 million of cash and cash equivalents held by our foreign subsidiaries could be subject to additional income taxes if repatriated. No deferred U.S. income taxes have been provided on the undistributed earnings of our foreign subsidiaries because these earnings are considered to be reinvested for an indefinite period of time. It is not practicable to determine the potential income tax liability that we would incur if these funds were repatriated to the U.S. because the time and manner of repatriation is uncertain. We believe that domestic cash and cash equivalents, domestic cash flows from operations, annual repatriation of a portion of the current period's foreign earnings, and availability on our domestic line of credit continue to be sufficient to fund our domestic liquidity requirements.

Cash and cash equivalents increased \$13.3 million during the nine months ended September 30, 2013, compared to increasing \$14.5 million during the same period in 2012.

Operating activities provided cash of \$64.7 million during the nine months ended September 30, 2013, compared to providing \$89.0 million during the same period in 2012. Lower operating cash flow in 2013 is primarily related to changes in working capital, higher insurance receivables, and lower net income. Insurance receivables related to cumulative trauma product liability losses were \$152.1 million at September 30, 2013 compared to \$130.0 million at December 31, 2012. Trade receivables were \$194.9 million at September 30, 2013, compared to \$191.3 million at December 31, 2012, reflecting a local currency increase of \$6.9 million, partially offset by unfavorable currency translation effects of \$3.3 million. Inventories were \$144.3 million at September 30, 2013, compared to \$136.3 million at December 31, 2012. Local currency inventory increased \$12.3 million, partially offset by unfavorable currency translation effects of \$4.3 million. The increase in inventory is expected to be temporary and relates to the anticipated launch of several new products and the consolidation of our North American distribution centers. Accounts payable were \$66.6 million at September 30, 2013, compared to \$59.5 million at December 31, 2012. Local currency accounts payable increased \$8.2 million, primarily in North America reflecting our ongoing initiative to improve working capital cash flow, partially offset by favorable currency translation effects of \$1.1 million.

Investing activities used cash of \$24.9 million during the nine months ended September 30, 2013, compared to using \$8.1 million in the same period last year. During the nine months ended September 30, 2013 and 2012, we used cash of \$26.2 million and \$24.9 million, respectively, for property additions, primarily machinery and equipment. Higher cash provided from asset disposals in 2012 related primarily to the sale of land in our Cranberry Woods office park and the sale of our North American ballistic helmet business.

Financing activities used cash of \$23.6 million during the nine months ended September 30, 2013, compared to using \$66.4 million during the same period in 2012. The change was primarily related to borrowing on our long-term line of credit. During the nine months ended September 30, 2013, we made net borrowings of \$10.0 million on our long-term line of credit compared to paying down \$38.0 million in the same period in 2012. We paid cash dividends of \$32.7 million in the first nine months of 2013 compared to \$30.3 million in the same period last year.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at September 30, 2013 resulted in a translation loss of \$6.2 million during the nine months ended September 30, 2013, compared to a gain of \$1.3 million during the same period in 2012. The translation loss during the nine months ended September 30, 2013 was primarily related to the weakening of the South African rand, the Brazilian real, and the Australian dollar, partially offset by the strengthening of the euro. The translation gain during the nine months ended September 31, 2012 was primarily related to the strengthening of the Mexican peso and the Chilean peso, partially offset by the weakening of the euro and the Brazilian real.

#### **COMMITMENTS AND CONTINGENCIES**

We made contributions of \$3.4 million to our pension plans during the nine months ended September 30, 2013. We expect to make total contributions of approximately \$4.5 million to our pension plans in 2013.

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

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes and other relevant information. Our reserve for single incident product liability claims was \$4.0 million at September 30, 2013 and \$4.4 million at December 31, 2012. Single incident product liability expense during the nine months ended September 30, 2013 and 2012 was not significant. We evaluate our single incident product liability exposures on an ongoing basis and make adjustments to the reserve as new information becomes available.

Cumulative trauma product liability claims involve exposures to harmful substances (*e.g.*, silica, asbestos and coal dust) that occurred many years ago and may have developed over long periods of time into diseases such as silicosis, asbestosis or coal worker's pneumoconiosis. We are presently named as a defendant in 2,775 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged or the amount of damages sought, and potentially involve multiple defendants.

Cumulative trauma product liability litigation is difficult to predict. In our experience, until late in a lawsuit, we cannot reasonably determine whether it is probable that any given cumulative trauma lawsuit will ultimately result in a liability. This uncertainty is caused by many factors, including the following: cumulative trauma complaints generally do not provide information sufficient to determine if a loss is probable; cumulative trauma litigation is inherently unpredictable and information is often insufficient to determine if a lawsuit will develop into an actively litigated case; and even when a case is actively litigated, it is often difficult to determine if the lawsuit will be dismissed or otherwise resolved until late in the lawsuit. Moreover, even once it is probable that such a lawsuit will result in a loss, it is difficult to reasonably estimate the amount of actual loss that will be incurred. These amounts are highly variable and turn on a case-by-case analysis of the relevant facts, which are often not learned until late in the lawsuit.

Because of these factors, we cannot reliably determine our potential liability for such claims until late in the lawsuit. We, therefore, do not record cumulative trauma product liability losses when a lawsuit is filed, but rather, when we learn sufficient information to determine that it is probable that we will incur a loss and the amount of loss can be reasonably estimated. We record expenses for defense costs associated with open cumulative trauma product liability lawsuits as incurred.

We cannot estimate any amount or range of possible losses related to resolving pending and future cumulative trauma product liability claims that we may face because of the factors described above. As new information about cumulative trauma product liability cases and future developments becomes available, we reassess our potential exposures.

A summary of cumulative trauma product liability claims activity follows:

	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Open claims, beginning of period	2,609	2,321
New claims	373	750
Settled and dismissed claims	(207)	(462)
Open claims, end of period	2,775	2,609

With some common contract exclusions, we maintain insurance for cumulative trauma product liability claims. We have purchased insurance policies from over 20 different insurance carriers that provide coverage for cumulative trauma product liability losses and related defense costs. In the normal course of business, we make payments to settle product liability claims and for related defense costs. We record receivables for the amounts that are covered by insurance. The available limits of these policies are many times our recorded insurance receivable balance.

Various factors could affect the timing and amount of recovery of our insurance receivables, including the outcome of negotiations with insurers, legal proceedings with respect to product liability insurance coverage and the extent to which insurers may become insolvent in the future.

Our insurance receivables at September 30, 2013 totaled \$152.1 million, of which \$2.0 million is reported in other current assets and \$150.1 million in other non-current assets. Our insurance receivables at December 31, 2012 totaled \$130.0 million.

A summary of insurance receivable balances and activity related to cumulative trauma product liability losses follows:

(In millions)	Nine Months Ended September 30, 2013	Year Ended December 31, 2012
Balance beginning of period	\$ 130.0	\$ 112.1
Additions	30.8	29.7
Collections and settlements	(8.7)	(11.8)
Balance end of period	152.1	130.0

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma losses during the nine months ended September 30, 2013 and 2012 were \$1.4 million and \$7.3 million, respectively.

Our aggregate cumulative trauma product liability losses and administrative and defense costs for the three years ended December 31, 2012, totaled approximately \$99.7 million, substantially all of which was insured.

We believe that the increase in the insurance receivable balance that we have experienced since 2005 is primarily due to disagreements among our insurance carriers, and consequently with us, as to when their individual obligations to pay us are triggered and the amount of each insurer's obligation, as compared to other insurers. We believe that our insurers do not contest that they have issued policies to us or that these policies cover cumulative trauma product liability claims. We believe that our ability to successfully resolve our insurance litigation with various insurance carriers in recent years demonstrates that we have strong legal positions concerning our rights to coverage.

We regularly evaluate the collectability of the insurance receivables and record the amounts that we conclude are probable of collection. Our conclusions are based on our analysis of the terms of the underlying insurance policies, our experience in successfully recovering cumulative trauma product liability claims from our insurers under other policies, the financial ability of our insurance carriers to pay the claims, our understanding and interpretation of the relevant facts and applicable law and the advice of legal counsel, who believe that our insurers are required to provide coverage based on the terms of the policies.

Although the outcome of cumulative trauma product liability matters cannot be predicted with certainty and unfavorable resolutions could materially affect our results of operations on a quarter-to-

quarter basis, based on information currently available and the amounts of insurance coverage available to us, we believe that the disposition of cumulative trauma product liability lawsuits that are pending against us will not have a materially adverse effect on our future results of operations, financial condition, or liquidity.

We are currently involved in insurance coverage litigations with various of our insurance carriers.

In 2009, we sued The North River Insurance Company (North River) in the United States District Court for the Western District of Pennsylvania, alleging that North River breached one of its insurance policies by failing to pay amounts owed to us and that it engaged in bad-faith claims handling. We believe that North River's refusal to indemnify us under the policy for product liability losses and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all due amounts. Discovery has concluded and motions for summary judgment on certain issues have been submitted to the court. A trial date has not yet been scheduled.

In 2010, North River sued us in the Court of Common Pleas of Allegheny County, Pennsylvania seeking a declaratory judgment concerning their responsibilities under three additional policies shared with Allstate Insurance Company (as successor in interest to policies issued by the Northbrook Excess and Surplus Insurance Company). We asserted claims against North River and Allstate for breaches of contract for failures to pay amounts owed to us. We also alleged that North River engaged in bad-faith claims handling. We believe that North River's and Allstate's refusals to indemnify us under these policies for product liability losses and legal fees paid by us is wholly contrary to Pennsylvania law and we are vigorously pursuing the legal actions necessary to collect all due amounts. Discovery has concluded and motions for summary judgment on certain issues have been submitted to the court. A trial date has not yet been scheduled.

In July 2010, we filed a lawsuit in the Superior Court of the State of Delaware seeking declaratory and other relief from the majority of our excess insurance carriers concerning the future rights and obligations of MSA and our excess insurance carriers under various insurance policies. The reason for this insurance coverage action is to secure a comprehensive resolution of our rights under the insurance policies issued by our insurers. The case is currently in discovery. We have resolved our claims against certain of our insurance carriers on some of their policies through negotiated settlements. When a settlement is reached, we dismiss the settling carrier from this action in Delaware.

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

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

The more critical judgments and estimates used in the preparation of our financial statements are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income-Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires additional

information about the amounts reclassified out of accumulated other comprehensive income by component. The adoption of this ASU on January 1, 2013 did not have a material effect on our consolidated financial statements.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

**Currency exchange rate sensitivity.** We are subject to the effects of fluctuations in currency exchange rates on various transactions and on the translation of the reported financial position and operating results of our non-U.S. companies from local currencies to U.S. dollars. A hypothetical 10% strengthening or weakening of the U.S. dollar would decrease or increase our reported sales and net income for the nine months ended September 30, 2012 by approximately \$43.8 million and \$2.5 million, respectively.

When appropriate, we may attempt to limit our transactional exposure to changes in currency exchange rates through contracts or other actions intended to reduce existing exposures by creating offsetting currency exposures. At September 30, 2013, we had open foreign currency forward contracts with a U.S. dollar notional value of \$54.5 million. A hypothetical 10% increase in September 30, 2013, forward exchange rates would result in a \$5.5 million increase in the fair value of these contracts.

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

At September 30, 2013, we had \$160.0 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 \$2.7 million. However, our sensitivity to interest rate declines and the corresponding increase in the fair value of our debt portfolio would unfavorably affect earnings and cash flows only to the extent that we elected to repurchase or retire all or a portion of our fixed rate debt portfolio at prices above carrying values.

**Actuarial assumptions.** The most significant actuarial assumptions affecting our net periodic pension cost or credit and pension obligations are discount rates, expected returns on plan assets and plan asset valuations. Discount rates and plan asset valuations are point-in-time measures. Expected returns on plan assets are based on our historical returns by asset class. The following table summarizes the impact of changes in significant actuarial assumptions on our December 31, 2012 actuarial valuations.

(In thousands)	Impact of Changes in Actuarial Assumptions					
	Change in Discount Rate		Change in Expected Return		Change in Market Value of Assets	
	+1%	-1%	+1%	-1%	+5%	-5%
(Decrease) increase in net benefit cost	\$ (5,592)	\$ 6,050	\$ (3,800)	\$ 3,800	\$ (811)	\$ 809
(Decrease) increase in projected benefit obligation	(60,417)	70,013				
Increase (decrease) in funded status	60,417	(70,013)			19,223	(19,223)



**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 (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.
- (b) *Changes in internal control.* There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

## (c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 July 31, 2013	4,022	\$ 49.74		916,624
August 1 August 31, 2013	2,295	48.98		1,011,847
September 1 September 30, 2013	3,035	50.02		943,620

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

We do not have any other share repurchase programs.

Shares purchased during the quarter related to stock compensation transactions.

**Item 6. Exhibits**

## (a) Exhibits

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. (S)1350
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**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.

MINE SAFETY APPLIANCES COMPANY

October 23, 2013

/s/ Stacy P. McMahan  
Stacy P. McMahan  
Senior Vice President of Finance and Chief Financial Officer

Duly Authorized Officer and Principal Financial Officer