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MSA Safety Inc
Form 10-Q
April 28, 2015

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 March 31, 2015

Commission File No. 1-15579

MSA SAFETY INCORPORATED
(Exact name of registrant as specified in its charter)

Pennsylvania	46-4914539
(State or other jurisdiction of incorporation or organization)	(IRS Employer 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

As of April 23, 2015, 37,479,614 shares of common stock, of the registrant were outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

MSA SAFETY INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF INCOME

Unaudited

(In thousands, except per share amounts)	Three Months Ended March 31,	
	2015	2014
Net sales	\$256,708	\$265,045
Other income, net	641	356
	257,349	265,401
Costs and expenses		
Cost of products sold	139,885	143,230
Selling, general and administrative	81,368	85,241
Research and development	10,914	11,241
Restructuring and other charges (Note 4)	731	1,900
Interest expense	2,473	2,530
Currency exchange (gains) losses, net	(2,548	) 352
	232,823	244,494
Income from continuing operations before income taxes	24,526	20,907
Provision for income taxes (Note 10)	15,384	7,604
Income from continuing operations	9,142	13,303
Income from discontinued operations (Note 18)	308	614
Net income	9,450	13,917
Net loss attributable to noncontrolling interests	232	109
Net income attributable to MSA Safety Incorporated	9,682	14,026
Amounts attributable to MSA Safety Incorporated common shareholders:		
Income from continuing operations	9,316	13,522
Income from discontinued operations (Note 18)	366	504
Net income	9,682	14,026
Earnings per share attributable to MSA Safety Incorporated common shareholders:		
Basic		
Income from continuing operations	\$0.25	\$0.37
Income from discontinued operations (Note 18)	\$0.01	\$0.01
Net income	\$0.26	\$0.38
Diluted		
Income from continuing operations	\$0.25	\$0.36
Income from discontinued operations (Note 18)	\$0.01	\$0.01
Net income	\$0.26	\$0.37
Dividends per common share	\$0.31	\$0.30

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
 Unaudited

(In thousands)	Three Months Ended	
	March 31,	
	2015	2014
Net income	\$9,450	\$13,917
Foreign currency translation adjustments	(24,050)	(958)
Pension and post-retirement plan adjustments, net of tax of \$1,417 and \$805	2,529	1,418
Total other comprehensive (loss) income, net of tax	(21,521)	460
Comprehensive (loss) income	(12,071)	14,377
Comprehensive loss attributable to noncontrolling interests	490	251
Comprehensive (loss) income attributable to MSA Safety Incorporated	(11,581)	14,628

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEET

Unaudited

(In thousands, except share amounts)

	March 31, 2015	December 31, 2014
Assets		
Cash and cash equivalents	\$86,301	\$105,998
Trade receivables, less allowance for doubtful accounts of \$7,862 and \$7,821	205,914	211,440
Inventories (Note 3)	137,681	122,954
Deferred tax assets (Note 10)	21,317	23,830
Prepaid income taxes	12,244	2,876
Prepaid expenses and other current assets	37,433	30,771
Total current assets	500,890	497,869
Property, plant and equipment (Note 5)	147,723	151,352
Prepaid pension cost	77,142	75,017
Deferred tax assets (Note 10)	17,795	20,227
Goodwill (Note 13)	246,653	252,520
Intangible assets (Note 13)	29,995	31,323
Other noncurrent assets	237,989	236,484
Total assets	1,258,187	1,264,792
Liabilities		
Notes payable and current portion of long-term debt (Note 12)	\$7,205	\$6,700
Accounts payable	79,512	70,210
Employees' compensation	30,490	40,249
Insurance and product liability	63,772	47,456
Tax liabilities (Note 10)	13,264	5,545
Other current liabilities	55,526	63,897
Total current liabilities	249,769	234,057
Long-term debt (Note 12)	266,000	245,000
Pensions and other employee benefits	162,289	174,598
Deferred tax liabilities (Note 10)	27,094	26,306
Other noncurrent liabilities	33,789	46,198
Total liabilities	738,941	726,159
Commitments and contingencies (Note 17)		
Equity		
Preferred stock, 4 1/2% cumulative, \$50 par value (Note 7)	3,569	3,569
Common stock, no par value (Note 7)	154,288	148,401
Treasury shares, at cost (Note 7)	(288,228)	(286,557)
Accumulated other comprehensive loss	(187,993)	(166,730)
Retained earnings	833,255	835,126
Total MSA Safety Incorporated shareholders' equity	514,891	533,809
Noncontrolling interests	4,355	4,824
Total shareholders' equity	519,246	538,633
Total liabilities and shareholders' equity	1,258,187	1,264,792
The accompanying notes are an integral part of the consolidated financial statements.		

MSA SAFETY INCORPORATED
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
Unaudited

	Three Months Ended March	
	31,	
(In thousands)	2015	2014
Operating Activities		
Net income	\$9,450	\$13,917
Depreciation and amortization	6,937	7,459
Pensions (Note 14)	2,939	1,402
Net gain from investing activities—disposal of assets	(41) —
Stock-based compensation (Note 11)	4,981	5,165
Deferred income tax provision (Note 10)	360	(344
Other noncurrent assets and liabilities	(25,228	) (21,774
Currency exchange (gains) losses, net	(2,379	) 345
Excess tax benefit related to stock plans	(832	) (1,769
Other, net	(1,336	) 408
Operating cash flow before changes in certain working capital items	(5,149	) 4,809
(Increase) in trade receivables	(2,394	) (4,754
(Increase) in inventories (Note 3)	(22,226	) (10,409
Increase in accounts payable and accrued liabilities	21,591	17,971
(Increase) decrease in income taxes receivable, prepaid expenses and other current assets	(8,485	) 1,780
(Increase) decrease in certain working capital items	(11,514	) 4,588
Cash Flow From Operating Activities	(16,663	) 9,397
Investing Activities		
Capital expenditures	(7,469	) (7,204
Cash Flow From Investing Activities	(7,469	) (7,204
Financing Activities		
Proceeds from (payments on) short-term debt, net	553	(703
Proceeds from long-term debt (Note 12)	98,000	219,000
(Payments on) long-term debt (Note 12)	(77,000	) (203,000
Restricted cash	30	317
Cash dividends paid	(11,553	) (11,181
Company stock purchases	(2,756	) (4,897
Exercise of stock options	1,159	3,265
Excess tax benefit related to stock plans	832	1,769
Cash Flow From Financing Activities	9,265	4,570
Effect of exchange rate changes on cash and cash equivalents	(4,830	) (816
(Decrease) increase in cash and cash equivalents	(19,697	) 5,947
Beginning cash and cash equivalents	105,998	96,265
Ending cash and cash equivalents	86,301	102,212

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED
CONSOLIDATED STATEMENT OF CHANGES IN RETAINED EARNINGS AND
ACCUMULATED OTHER COMPREHENSIVE LOSS

Unaudited

(In thousands)	Retained Earnings	Accumulated Other Comprehensive (Loss)	
Balances December 31, 2013	\$792,206	\$(78,269)
Net income	13,917	—	
Foreign currency translation adjustments	—	(958)
Pension and post-retirement plan adjustments net of tax of \$805	—	1,418	
Loss attributable to noncontrolling interests	109	142	
Common dividends	(11,171)	—
Preferred dividends	(10)	—
Balances March 31, 2014	795,051	(77,667)
Balances December 31, 2014	835,126	(166,730)
Net income	9,450	—	
Foreign currency translation adjustments	—	(24,050)
Pension and post-retirement plan adjustments, net of tax of \$1,417	—	2,529	
Loss attributable to noncontrolling interests	232	258	
Common dividends	(11,543)	—
Preferred dividends	(10)	—
Balances March 31, 2015	833,255	(187,993)

The accompanying notes are an integral part of the consolidated financial statements.

MSA SAFETY INCORPORATED

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1—Basis of Presentation

The Condensed Consolidated Financial Statements of MSA Safety Incorporated and its subsidiaries ("MSA" or the "Company") are unaudited. These Condensed Consolidated Financial Statements include all adjustments, consisting of normal recurring adjustments, considered necessary by management to fairly state the Company's results.

Intercompany accounts and transactions have been eliminated. The results reported in these Condensed Consolidated Financial Statements are not necessarily indicative of the results that may be expected for the entire year. The 2014 year-end balance sheet data was derived from the audited consolidated financial statements but does not include all disclosures required by generally accepted accounting principles (GAAP). This Form 10-Q report should be read in conjunction with MSA's Form 10-K for the year ended December 31, 2014, which includes all disclosures required by GAAP.

Certain amounts in previously issued financial statements were recast to conform to the current period presentation. Refer to Note 8 for further information regarding MSA's segment allocation methodology.

Note 2— Recently Adopted and Recently Issued Accounting Standards

In April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of an Entity. This ASU amends the definition of a discontinued operation to include a disposal of a component or group of components that is disposed of or is classified as held for sale and represents a strategic shift that has (or will have) a major effect on an entity's operations and financial results. This ASU was adopted on January 1, 2015. The adoption of this ASU may have a material effect on our consolidated financial statements in the event that we were to divest of a component that meets the definition of a discontinued operation.

In May 2014, the FASB issued ASU 2014-09, Revenue with Contracts from Customers. This ASU clarifies the principles for recognizing revenue such that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In April 2015, the FASB voted to defer the effective date of the standard until January 1, 2018. The Company is currently evaluating the impact that the adoption of this ASU will have on the consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period. This ASU clarifies the accounting treatment for share based payment awards that contain performance targets. This ASU will be effective beginning in 2016. The adoption of this ASU is not expected to have a material effect on our consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements - Going Concern. This ASU clarifies management's responsibility to evaluate whether there is a substantial doubt about the entity's ability to continue as a going concern and provides guidance for related footnote disclosures. This ASU will be effective beginning in 2016. The adoption of this ASU is not expected to have a material effect on our consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, Income Statement - Extraordinary and Unusual Items. This ASU eliminates the requirement to separately present and disclose extraordinary and unusual items in the financial statements. This ASU will be effective beginning in 2016. The adoption of this ASU is not expected to have a material effect on our consolidated financial statements.

Note 3—Inventories

(In thousands)	March 31, 2015	December 31, 2014
Finished products	\$71,693	\$67,713
Work in process	5,255	8,942
Raw materials and supplies	60,733	46,299
Total inventories	137,681	122,954

Note 4—Restructuring and Other Charges

During the three months ended March 31, 2015, we recorded restructuring charges of \$0.7 million (\$0.5 million after tax). International segment charges of 0.6 million for the three months ended March 31, 2015 were related to severance costs for staff reductions associated with ongoing initiatives to right size our operations in Brazil and China. During the three months ended March 31, 2014, we recorded charges of \$1.9 million (\$1.2 million after tax). European segment charges for the three months ended March 31, 2014 of \$1.5 million related primarily to severance from staff reductions in Germany and Italy and reorganization costs in Germany. International segment charges for the three months ended March 31, 2014 of \$0.4 million were related to severance from staff reductions in Australia.

Activity and reserve balances for restructuring charges by segment were as follows:

(in millions)	North America	Europe	International	Corporate	Total
Reserve balances at December 31, 2013	\$—	\$1.7	\$—	\$—	\$1.7
Restructuring charges	—	4.8	3.7	—	8.5
Asset disposals	—	(0.4)	(1.7)	—	(2.1)
Cash payments	—	(3.5)	(1.8)	—	(5.3)
Reserve balances at December 31, 2014	\$—	\$2.6	\$0.2	\$—	\$2.8
Restructuring charges	—	0.1	0.6	—	0.7
Cash payments	—	(1.3)	(0.5)	—	(1.8)
Reserve balances at March 31, 2015	\$—	\$1.4	\$0.3	\$—	\$1.7

Note 5—Property, Plant and Equipment

The following table sets forth the components of property, plant and equipment:

(In thousands)	March 31, 2015	December 31, 2014
Land	\$3,426	\$3,573
Buildings	111,439	110,144
Machinery and equipment	328,471	335,318
Construction in progress	15,096	17,327
Total	458,432	466,362
Less accumulated depreciation	(310,709)	(315,010)
Net property	147,723	151,352

Note 6—Reclassifications Out of Accumulated Other Comprehensive Loss

The changes in Accumulated Other Comprehensive Loss by component were as follows:

	MSA Safety Incorporated		Noncontrolling Interests	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2015	2014	2015	2014
Pension and other postretirement benefits				
Balance at beginning of period	\$(125,570)	\$(77,080)	\$—	\$—
Amounts reclassified from Accumulated other comprehensive loss:				
Amortization of prior service cost	17	(63)	—	—
Recognized net actuarial losses	3,929	2,286	—	—
Tax benefit	(1,417)	(805)	—	—
Total amount reclassified from Accumulated other comprehensive loss, net of tax	2,529	1,418	—	—
Balance at end of period	\$(123,041)	\$(75,662)	\$—	\$—
Foreign Currency Translation				
Balance at beginning of period	\$(41,160)	\$(1,189)	\$(2,199)	\$(1,602)
Foreign currency translation adjustments	(23,792)	(816)	(258)	(142)
Balance at end of period	\$(64,952)	\$(2,005)	\$(2,457)	\$(1,744)

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 14—Pensions and Other Post-Retirement Benefits).

Note 7—Capital Stock

Preferred Stock - The Company has authorized 100,000 shares of \$50 par value 4.5% cumulative preferred nonvoting stock which is callable at \$52.50. There are 71,373 shares issued and 52,878 shares held in treasury at March 31, 2015. There were no treasury purchases of preferred stock during the quarter ended March 31, 2015. The Company has also authorized 1,000,000 shares of \$10 par value second cumulative preferred voting stock. No shares have been issued as of March 31, 2015.

Common Stock - The Company has authorized 180,000,000 shares of no par value common stock. There were 37,479,832 and 37,448,310 shares outstanding at March 31, 2015 and December 31, 2014, respectively.

Treasury Shares - The Board of Directors has authorized the purchase of up to \$100.0 million of MSA common stock either through private transactions or open market transactions. The share purchase program has no expiration date. The maximum shares that may 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 purchase programs. There were 24,601,559 and 24,633,081 Treasury Shares at March 31, 2015 and December 31, 2014, respectively.

The Company began issuing Treasury Shares for all share based benefit plans during 2014. Shares are issued from Treasury at the average Treasury Share cost on the date of the transaction. There were 93,366 Treasury Shares issued for these purposes during the three months ended March 31, 2015.

Note 8—Segment Information

We are organized into nine 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 four reportable segments: North America, Europe, International and Corporate.

The Corporate segment was established on January 1, 2015 to reflect the activities of centralized functions in our corporate headquarters and to capture results in a manner that the chief operating decision maker reviews. The corporate segment primarily consists of administrative expenses and centrally-managed costs such as interest expense and foreign exchange gains or losses. Additionally, effective January 1, 2015, we changed the allocation methodology applied to research and development expense. The 2014 segment results have been recast to conform with current period presentation.

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The Company's sales are allocated to each country based primarily on the destination of the end-customer.

Reportable segment information is presented in the following table:

(In thousands)	North America	Europe	International	Corporate	Reconciling Items	Consolidated Totals
Three Months Ended March 31, 2015						
Sales to external customers	\$ 133,564	\$ 66,013	\$ 57,131	\$—	\$—	\$ 256,708
Intercompany sales	35,739	46,109	5,438	—	(87,286)	—
Net income (loss):						
Continuing operations	14,431	(4,437)	3,662	(4,837)	497	9,316
Discontinued operations	—	—	366	—	—	366
(In thousands)	North America	Europe	International	Corporate	Reconciling Items	Consolidated Totals
Three Months Ended March 31, 2014						
Sales to external customers	\$ 129,521	\$ 74,938				