

MINE SAFETY APPLIANCES CO  
Form 10-Q  
July 24, 2013

# 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 June 30, 2013

Commission File No. 1-15579

# MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

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

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

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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 Act). Yes  No

On July 20, 2013 there were 37,167,511 shares of common stock outstanding, not including 359,201 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

(In thousands, except per share amounts)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net sales	\$ 299,695	\$ 294,738	\$ 582,934	\$ 588,223
Other income, net	548	8,259	428	8,264
	300,243	302,997	583,362	596,487
Costs and expenses				
Cost of products sold	166,815	171,612	325,272	338,106
Selling, general and administrative	81,021	77,922	164,608	154,985
Research and development	11,398	10,342	21,982	19,634
Restructuring and other charges	2,427		2,427	
Interest expense	2,750	2,914	5,410	6,063
Currency exchange losses (gains), net	993	(1,192)	2,112	1,228
	265,404	261,598	521,811	520,016
Income before income taxes	34,839	41,399	61,551	76,471
Provision for income taxes	10,448	13,120	17,765	23,870
Net income	24,391	28,279	43,786	52,601
Net income attributable to noncontrolling interests	(342)	(284)	(451)	(684)
Net income attributable to Mine Safety Appliances Company	24,049	27,995	43,335	51,917
Earnings per share attributable to Mine Safety Appliances Company common shareholders				
Basic	\$ 0.65	\$ 0.76	\$ 1.17	\$ 1.41
Diluted	\$ 0.64	\$ 0.75	\$ 1.15	\$ 1.39
Dividends per common share	\$ 0.30	\$ 0.28	\$ 0.58	\$ 0.54

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Unaudited

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$ 24,391	\$ 28,279	\$ 43,786	\$ 52,601
Foreign currency translation adjustments	(7,638)	(12,863)	(13,226)	(3,499)
Pension and post-retirement plan adjustments, net of tax	2,107		4,214	
Comprehensive income	18,860	15,416	34,774	49,102
Comprehensive loss (income) attributable to noncontrolling interests	31	170	470	(596)
Comprehensive income attributable to Mine Safety Appliances Company	18,891	15,586	34,244	48,506

See notes to condensed consolidated financial statements.

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

Unaudited

(In thousands, except share amounts)	June 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 82,413	\$ 82,718
Trade receivables, less allowance for doubtful accounts of \$7,476 and \$7,402	212,874	191,289
Inventories	134,019	136,300
Deferred tax assets	16,565	17,727
Income taxes receivable	2,673	6,342
Prepaid expenses and other current assets	23,703	29,172
<b>Total current assets</b>	<b>472,247</b>	<b>463,548</b>
Property, less accumulated depreciation of \$318,479 and \$310,279	146,980	147,465
Prepaid pension cost	46,133	42,818
Deferred tax assets	16,089	17,018
Goodwill	257,169	258,400
Other noncurrent assets	202,625	182,497
<b>Total assets</b>	<b>1,141,243</b>	<b>1,111,746</b>
<b>Liabilities</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 7,020	\$ 6,823
Accounts payable	63,745	59,519
Employees' compensation	36,329	41,602
Insurance and product liability	16,680	15,025
Taxes on income	394	4,389
Other current liabilities	53,303	61,442
<b>Total current liabilities</b>	<b>177,471</b>	<b>188,800</b>
Long-term debt	293,333	272,333
Pensions and other employee benefits	150,920	151,536
Deferred tax liabilities	18,064	17,249
Other noncurrent liabilities	11,189	11,124
<b>Total liabilities</b>	<b>650,977</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 37,167,717 and 37,007,799 shares	127,461	112,135
Stock compensation trust, 359,201 and 745,430 shares	(1,875)	(3,891)
	(280,528)	(269,739)

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Treasury shares, at cost, preferred 52,878 and 52,878 shares, common 24,554,473 and 24,328,162 shares		
Accumulated other comprehensive loss	(135,163)	(127,072)
Retained earnings	769,755	747,953
Total Mine Safety Appliances Company shareholders' equity	483,219	462,955
Noncontrolling interests	7,047	7,749
Total shareholders' equity	490,266	470,704
Total liabilities and shareholders' equity	1,141,243	1,111,746

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

(In thousands)	Six Months Ended June 30,	
	2013	2012
<b>Operating Activities</b>		
Net income	\$ 43,786	\$ 52,601
Depreciation and amortization	15,777	15,911
Pensions	5,761	1,352
Net gain from investing activities disposal of assets	26	(7,891)
Stock-based compensation	7,949	5,295
Deferred income tax (benefit) provision	(543)	273
Other noncurrent assets and liabilities	(23,437)	(5,267)
Currency exchange losses, net	2,112	1,228
Excess tax benefit related to stock plans	(1,036)	(1,305)
Other, net	(115)	(1,317)
<b>Operating cash flow before changes in certain working capital items</b>	<b>50,280</b>	<b>60,880</b>
Trade receivables	(26,748)	(25,965)
Inventories	(3,987)	(6,914)
Accounts payable and accrued liabilities	(6,270)	28,233
Income taxes receivable, prepaid expenses and other current assets	8,502	8,795
<b>(Increase) decrease in certain working capital items</b>	<b>(28,503)</b>	<b>4,149</b>
<b>Cash flow from operating activities</b>	<b>21,777</b>	<b>65,029</b>
<b>Investing Activities</b>		
Capital expenditures	(16,956)	(17,814)
Property disposals and other investing	86	16,721
<b>Cash flow from investing activities</b>	<b>(16,870)</b>	<b>(1,093)</b>
<b>Financing Activities</b>		
Proceeds from short-term debt, net	205	286
Proceeds from long-term debt	175,100	79,500
Payments on long-term debt	(154,100)	(119,500)
Cash dividends paid	(21,533)	(19,900)
Distributions to noncontrolling interests	(275)	
Company stock purchases	(10,788)	(2,863)
Exercise of stock options	8,357	3,016
Excess tax benefit related to stock plans	1,036	1,305
<b>Cash flow from financing activities</b>	<b>(1,998)</b>	<b>(58,156)</b>
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(3,214)</b>	<b>(656)</b>
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(305)</b>	<b>5,124</b>
<b>Beginning cash and cash equivalents</b>	<b>82,718</b>	<b>59,938</b>

**Ending cash and cash equivalents**

82,413

65,062

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 six months ended June 30, 2013, we recorded charges of \$2.4 million (\$1.7 million after tax). European segment charges of \$1.1 million primarily related to staff reductions in Germany and Spain. International segment charges of \$1.3 million were related to staff reductions in Australia.

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

**(3) Accumulated Other Comprehensive Loss**

Components of accumulated other comprehensive loss are as follows:

(In thousands)	June 30, 2013	December 31, 2012
Cumulative translation adjustments	\$ (7,346)	\$ 4,959
Pension and post-retirement plan adjustments	(127,817)	(132,031)
Accumulated other comprehensive loss	(135,163)	(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 six months ended June 30, 2013 are as follows:

	Three months Ended June 30, 2013	Six months Ended June 30, 2013
Amortization of prior service cost	\$ (80)	\$ (160)
Recognized net actuarial losses	3,465	6,930
Total reclassifications	3,385	6,770
Tax benefit	1,278	2,556

Total reclassifications, net of tax	2,107	4,214
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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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income attributable to Mine Safety Appliances Company	\$ 24,049	\$ 27,995	\$ 43,335	\$ 51,917
Preferred stock dividends	(10)	(10)	(20)	(20)
Income available to common equity	24,039	27,985	43,315	51,897
Dividends and undistributed earnings allocated to participating securities	(176)	(258)	(347)	(519)
Income available to Mine Safety Appliances Company common shareholders	23,863	27,727	42,968	51,378
Basic earnings per common share	\$ 0.65	\$ 0.76	\$ 1.17	\$ 1.41
Diluted earnings per common share	\$ 0.64	\$ 0.75	\$ 1.15	\$ 1.39
Basic shares outstanding	36,880	36,590	36,807	36,486
Stock options and other stock compensation	551	491	593	500
Diluted shares outstanding	37,431	37,081	37,400	36,986
Antidilutive stock options	188	410	188	410

**(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 June 30, 2013</b>					
Sales to external customers	\$ 152,315	\$ 66,643	\$ 80,737	\$	\$ 299,695
Intercompany sales	32,232	22,433	5,647	(60,312)	
Net income (loss) attributable to Mine Safety Appliances Company	21,009	1,707	5,188	(3,855)	24,049
<b>Six Months Ended June 30, 2013</b>					
Sales to external customers	\$ 288,430	\$ 137,642	\$ 156,862	\$	\$ 582,934
Intercompany sales	61,057	47,669	10,256	(118,982)	
Net income (loss) attributable to Mine Safety Appliances Company	37,164	5,336	11,857	(11,022)	43,335

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(In thousands)	North America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended June 30, 2012</b>					
Sales to external customers	\$ 145,300	\$ 67,324	\$ 82,114	\$	\$ 294,738
Intercompany sales	31,273	25,733	5,322	(62,328)	
Net income attributable to Mine Safety Appliances Company	20,279	2,134	3,619	1,963	27,995
<b>Six Months Ended June 30, 2012</b>					
Sales to external customers	\$ 282,784	\$ 139,790	\$ 165,649	\$	\$ 588,223
Intercompany sales	57,891	50,642	9,868	(118,401)	
Net income (loss) attributable to Mine Safety Appliances Company	36,536	7,755	11,884	(4,258)	51,917

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

**(7) Pensions and Other Post-Retirement 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 June 30</b>				
Service cost	\$ 2,785	\$ 2,436	\$ 172	\$ 174
Interest cost	4,468	4,789	263	316
Expected return on plan assets	(7,725)	(8,101)		
Amortization of prior service cost	26	77	(106)	(114)
Recognized net actuarial losses	3,327	1,476	138	132
Net periodic benefit cost	2,881	677	467	508
<b>Six months ended June 30</b>				
Service cost	\$ 5,569	\$ 4,872	\$ 344	\$ 348
Interest cost	8,936	9,578	525	632
Expected return on plan assets	(15,450)	(16,202)		
Amortization of prior service cost	52	154	(212)	(228)
Recognized net actuarial losses	6,654	2,950	276	264
Net periodic benefit cost	5,761	1,352	933	1,016

We made contributions of \$2.3 million to our pension plans during the six months ended June 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 six months ended June 30, 2013 were as follows:

(In thousands)	Goodwill
Net balance at January 1	\$ 258,400
Currency translation	(1,231)
Net balance at June 30	257,169

At June 30, 2013, goodwill of approximately \$196.5 million, \$58.2 million, and \$2.5 million related to the North American, European, and International reporting units, respectively.



Changes in intangible assets, net of accumulated amortization (reported in other noncurrent assets) during the six months ended June 30, 2013 were as follows:

(In thousands)	Intangible Assets
Net balance at January 1	\$ 38,648
Amortization expense	(1,869)
Currency translation	(128)
Net balance at June 30	36,651

**(9) Inventories**

(In thousands)	June 30, 2013	December 31, 2012
Finished products	\$ 73,086	\$ 72,658
Work in process	11,740	13,473
Raw materials and supplies	49,193	50,169
Total inventories	134,019	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. Stock options are valued at an estimated fair value using the Black Scholes option pricing model. 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 a targeted return on net assets, total shareholder return or other specific performance condition 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 was as follows:

(In thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Stock compensation expense	\$ 2,754	\$ 2,377	\$ 7,949	\$ 5,295
Income tax benefit	1,026	886	2,948	1,934
Stock compensation expense, net of income tax benefit	1,728	1,491	5,001	3,361

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A summary of stock option activity for the six months ended June 30, 2013 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1	1,784,660	\$ 33.05
Granted	188,407	49.03
Exercised	(240,219)	34.79
Outstanding at June 30	1,732,848	34.54
Exercisable at June 30	1,187,815	31.85

A summary of restricted stock activity for the six months ended June 30, 2013 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1	417,843	\$ 31.92
Granted	86,177	48.80
Vested	(166,739)	26.80
Forfeited	(8,371)	40.06
Unvested at June 30	328,910	38.73

A summary of performance stock unit activity for the six months ended June 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	(42,413)	24.84
Unvested at June 30	151,933	46.31

**(11) Derivative Financial Instruments**

As part of our currency exchange rate risk management strategy, we 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 on a full mark-to-market basis and report the related gains or losses in currency exchange gains or losses. At June 30, 2013, the notional amount of open forward contracts was \$54.1 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 and liabilities associated with derivative financial instruments:

(In thousands)

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	June 30, 2013	December 31, 2012
Derivatives not designated as hedging instruments		
Foreign exchange contracts:		
Prepaid expenses and other current assets	\$ 334	\$ 801

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

(In thousands)	Income Statement Location	Loss (Gain) Recognized in Income Six Months Ended June 30,	
		2013	2012
Derivatives not designated as hedging instruments			
Foreign exchange contracts	Currency exchange losses (gains), net	\$ 135	\$ (32)

**(12) Income Taxes**

At June 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 June 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 \$0.8 million at June 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 carrying amounts of our financial assets and liabilities approximate their fair values. At June 30, 2013, the reported carrying amount of our fixed rate long-term debt was \$160.0 million and the fair value was \$166.3 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 June 30, 2013.

**(15) Assets Held for Sale**

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

(In millions)	June 30, 2013
Inventory	\$ 1.7
Property, net of depreciation	0.3
<b>Total assets</b>	<b>2.0</b>

The potential impact of the sale of detector tube assets 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 \$5.0 million at June 30, 2013 and \$4.4 million at December 31, 2012. Single incident product liability expense during the six months ended June 30, 2013 and 2012 was \$0.6 million and \$0.6 million, respectively. 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 2,716 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:

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Open claims, beginning of period	2,609	2,321
New claims	268	750
Settled and dismissed claims	(161)	(462)
Open claims, end of period	2,716	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 June 30, 2013 totaled \$152.9 million, of which \$2.0 million is reported in other current assets and \$150.9 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)	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Balance beginning of period	\$ 130.0	\$ 112.1
Additions	24.9	29.7
Collections and settlements	(2.0)	(11.8)
Balance end of period	152.9	130.0

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma product liability losses were \$0.9 million during the six months ended June 30, 2013. Uninsured cumulative trauma product liability losses were \$5.9 million during the six months ended June 30, 2012.

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 a 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 June 30, 2013 Compared to Three Months Ended June 30, 2012**

**Net sales.** Net sales for the three months ended June 30, 2013 were \$299.7 million, an increase of \$5.0 million, or 2%, compared with \$294.7 million for the three months ended June 30, 2012. Excluding the effects of the divestiture of the North American ballistic helmet business in the second quarter of 2012, net sales increased \$9.9 million, or 3%, when compared to the same quarter last year.

(In millions)	Three Months Ended June 30,		Dollar	Percent
	2013	2012	Increase (Decrease)	Increase (Decrease)
North America	\$ 152.3	\$ 145.3	\$ 7.0	5%
Europe	66.6	67.3	(0.7)	(1)
International	80.7	82.1	(1.4)	(2)

Net sales by the North American segment were \$152.3 million for the second quarter of 2013, an increase of \$7.0 million, or 5%, compared to \$145.3 million for the second quarter of 2012. The increase in the current quarter includes the effects of the divestiture of our North American ballistic helmet business during the second quarter of 2012. North American segment sales of ballistic helmets totaled \$4.9 million in the second quarter of 2012. Excluding the effects of this divestiture, North America segment sales increased \$11.9 million, or 8%, when compared to the second quarter of 2012. We continued to see growth in the fire service and industrial markets, evidenced by increased shipments of fixed gas and flame detection instruments, portable gas detection instruments and self-contained breathing apparatus (SCBA), up \$7.5 million, \$3.7 million and \$2.9 million, respectively. These increases were partially offset by a \$2.4 million decrease in sales of gas masks to the military market.

Net sales for the European segment were \$66.6 million for the second quarter of 2013, a decrease of \$0.7 million, or 1%, compared to \$67.3 million for the second quarter of 2012. Local currency sales in Europe decreased \$1.5 million, reflecting lower shipments of fire helmets, gas masks and respirators, down \$1.4 million, \$1.2 million and \$1.2 million, respectively. This decrease was partially offset by a \$1.6 million increase in shipments of SCBAs and a \$1.0 million increase in shipments of portable gas detection instruments. Currency translation effects increased European segment sales, when stated in U.S. dollars, by \$0.8 million, primarily related to a stronger euro.

Net sales for the International segment were \$80.7 million in the second quarter of 2013, a decrease of \$1.4 million, or 2%, compared to \$82.1 million for the second quarter of 2012. Local currency sales in the International segment increased \$3.1 million, reflecting higher shipments of portable gas detection instruments, fall protection products and fixed gas and flame detection instruments, up \$1.9 million, \$1.1 million and \$0.7 million, respectively. These increases were partially offset by small decreases across a broad range of product lines. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$4.5 million, primarily related to a weaker South African rand, Brazilian real and Australian dollar.

**Other income.** Other income for the second quarter of 2013 was \$0.5 million, a decrease of \$7.8 million, compared to \$8.3 million for the second quarter of 2012. Other income for the second quarter of 2012 included 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.

**Cost of products sold.** Cost of products sold was \$166.8 million in the second quarter of 2013, a decrease of \$4.8 million, or 3%, compared to \$171.6 million in the second quarter of 2012. Cost of products sold as a percentage of sales was 55.7% in the second quarter of 2013 compared to 58.2% in

the second quarter of 2012, reflecting a more favorable product mix, lower manufacturing costs and improved pricing.

**Gross profit.** Gross profit for the second quarter of 2013 was \$132.9 million, which was \$9.8 million, or 8%, higher than gross profit of \$123.1 million in the second quarter of 2012. Higher gross profit in the current quarter reflects higher sales and an improved ratio of gross profit to net sales. The ratio of gross profit to net sales was 44.3% in the second quarter of 2013 compared to 41.8% in the same quarter last year. The higher gross profit ratio in 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 \$81.0 million during the second quarter of 2013, an increase of \$3.1 million, or 4%, compared to \$77.9 million in the second quarter of 2012. Selling, general and administrative expenses were 27.0% of net sales in the second quarter of 2013 compared to 26.4% in the second quarter of 2012. Local currency selling, general and administrative expenses increased \$3.9 million in the quarter. The increase reflects higher pension expense, salary inflation around the world, and increased selling expense to support higher sales volumes. Currency translation effects decreased second quarter 2013 selling, general and administrative expenses, when stated in U.S. dollars, by \$0.8 million.

**Research and development expense.** Research and development expense was \$11.4 million during the second quarter of 2013, an increase of \$1.1 million, or 10%, compared to \$10.3 million during the second quarter of 2012. The increase reflects our ongoing focus on developing innovative new products.

**Restructuring and other charges.** During the second quarter of 2013, we recorded charges of \$2.4 million (\$1.7 million after tax). European segment charges of \$1.1 million primarily related to staff reductions in Germany and Spain. International segment charges of \$1.3 million were related to staff reductions in Australia.

**Currency exchange.** Currency exchange losses were \$1.0 million in the second quarter of 2013, compared to gains of \$1.2 million in the second quarter of 2012. Currency exchange losses in the current quarter 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 second quarter of 2013 was 30.0% compared to 31.7% for the same quarter last year. The lower effective tax rate in the second quarter of 2013 was primarily due to the tax benefit recognized for the research and development tax credit and a more favorable manufacturing deduction compared to the prior year.

**Net income attributable to Mine Safety Appliances Company.** Net income attributable to Mine Safety Appliances Company for the second quarter of 2013 was \$24.0 million, or \$0.65 per basic share, a decrease of \$4.0 million, or 14%, compared to \$28.0 million, or \$0.76 per basic share, for the same quarter last year. Net income for the second quarter of 2012 included one-time gains totalling \$5.1 million after-tax on the previously-discussed asset sales. Excluding these gains, net income increased \$1.1 million, or 5%, in the current quarter.

North American segment net income for the second quarter of 2013 was \$21.0 million, an increase of \$0.7 million, or 4%, compared to \$20.3 million in the second quarter of 2012. The increase in North American segment net income reflects higher sales and gross profits and a lower effective tax rate, partially offset by higher research and development and selling, general, and administrative expenses.

European segment net income for the second quarter of 2013 was \$1.7 million, a decrease of \$0.4 million, or 20%, compared to \$2.1 million in the second quarter of 2012. Local currency net income in Europe decreased \$0.5 million in the current quarter, reflecting restructuring charges, partially offset by reduced selling general and administrative expenses. Currency translation effects increased current quarter European segment net income, when stated in U.S. dollars, by \$0.1 million.

International segment net income for the second quarter of 2013 was \$5.2 million, an increase of \$1.6 million, or 43%, compared to \$3.6 million in the same quarter last year. Increased local currency net income of \$1.7 million was primarily related to higher local currency sales and gross profits, partially offset by restructuring charges. Currency translation effects decreased current quarter International segment net income, when stated in U.S. dollars, by \$0.1 million, primarily reflecting a weaker Australian dollar, South African rand and Brazilian real.

The loss reported in reconciling items for the second quarter of 2013 was \$3.9 million compared to income of \$2.0 million in the second quarter of 2012. The decrease in reconciling items net income in the second quarter of 2013 reflects higher currency exchange losses in the second quarter of 2013 and the absence of the previously-discussed one-time gains on asset sales that occurred in the second quarter of 2012.

#### Six Months Ended June 30, 2013 Compared to Six Months Ended June 30, 2012

**Net sales.** Net sales for the six months ended June 30, 2013 were \$582.9 million, a decrease of \$5.3 million, or 1%, compared with \$588.2 million for the six months ended June 30, 2012. Excluding the effects of the divestiture of the North American ballistic helmet business in the second quarter of 2012, net sales increased \$4.7 million, or 1%, when compared to the same period last year.

(In millions)	Six Months Ended June 30,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2013	2012		
North America	\$ 288.4	\$ 282.8	\$ 5.6	2%
Europe	137.6	139.8	(2.2)	(2)
International	156.9	165.6	(8.7)	(5)

Net sales by the North American segment were \$288.4 million for the six months ended June 30, 2013, an increase of \$5.6 million, or 2%, compared to \$282.8 million for the same period in 2012. This increase includes the effects of the divestiture of our North American ballistic helmet business during second quarter of 2012. North American segment sales of ballistic helmets totaled \$10.0 million in the first six months of 2012. Excluding the effects of this divestiture, North America segment sales increased \$15.6 million, or 6%, when compared to the first six months of 2012. During the six months ended June 30, 2013, we continued to see growth in the fire service and industrial markets, evidenced by increased shipments of SCBAs, fixed gas and flame detection instruments and portable gas detection instruments, up \$7.3 million, \$7.2 million and \$4.9 million respectively. These increases were partially offset by a \$3.2 million decrease in sales of gas masks to the military market.

Net sales for the European segment were \$137.6 million for the six months ended June 30, 2013, a decrease of \$2.2 million, or 2%, compared to \$139.8 million for the same period in 2012. Local currency sales in Europe decreased \$2.5 million, reflecting lower shipments fixed gas and flame detection instruments and respirators to industrial markets, fire helmets and thermal imaging cameras to the fire service market and gas masks to military markets, down \$4.1 million, \$2.5 million and \$0.8 million, respectively. These decreases were partially offset by increased shipments of SCBAs and portable instruments to the fire service and industrial markets, up \$2.9 million and \$2.2 million, respectively. The translation effects of a stronger euro in the first half of 2013 increased European segment sales, when stated in U.S. dollars, by \$0.3 million.



Net sales for the International segment were \$156.9 million for the six months ended June 30, 2013, a decrease of \$8.7 million, or 5%, compared to \$165.6 million for the same period in 2012. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$9.7 million, primarily related to a weaker South African rand, Australian dollar and Brazilian real. Local currency sales in the International segment increased \$1.0 million, reflecting higher shipments of portable gas detection instruments, fall protection and hearing conservation products to industrial markets, up \$3.8 million, partially offset by decreases in eye and face protection products and circuit breathing apparatus to industrial markets, down \$2.8 million.

**Other income.** Other income for the six months ended June 30, 2013 was \$0.4 million, a decrease of \$7.9 million, compared to \$8.3 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 the first half of 2012.

**Cost of products sold.** Cost of products sold was \$325.3 million for the six months ended June 30, 2013, a decrease of \$12.8 million, or 4%, compared to \$338.1 million for the same period in 2012. Cost of products sold as a percentage of sales was 55.8% in the six months ended June 30, 2012 and 57.5% for the same period last year, reflecting a more favorable product mix, lower manufacturing costs and improved pricing.

**Gross profit.** Gross profit for the six months ended June 30, 2013 was \$257.7 million, which was \$7.6 million, or 3%, higher than gross profit of \$250.1 million for the same period in 2012. Higher gross profit reflects an improved ratio of gross profit to net sales, partially offset by lower net sales. The ratio of gross profits to net sales was 44.2% during the six months ended June 30, 2013, compared to 42.5% for the same period last year. The higher gross profit ratio in 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 \$164.6 million during the six months ended June 30, 2013, an increase of \$9.6 million, or 6%, compared to \$155.0 million during the same period in 2012. Selling, general and administrative expenses were 28.2% of net sales for the six months ended June 30, 2013, compared to 26.3% of net sales for the same period in 2012. Local currency selling, general and administrative expenses increased \$11.3 million. The increases reflect higher stock compensation expense, primarily due to accelerated expense recognition for retirement eligible participants, higher pension expense, one-time business development costs and higher selling expense to support higher sales volumes. Currency translation effects decreased selling, general and administrative expenses for the six months ended June 30, 2013, when stated in U.S. dollars, by \$1.7 million.

**Research and development expense.** Research and development expense was \$22.0 million during the six months ended June 30, of 2013, an increase of \$2.4 million, or 12%, compared to \$19.6 million during the same period of 2012. The increase reflects our ongoing focus on developing innovative new products.

**Restructuring and other charges.** During the six months ended June 30, 2013, we recorded charges of \$2.4 million (\$1.7 million after tax). European segment charges of \$1.1 million primarily related to staff reductions in Germany and Spain. International segment charges of \$1.3 million were related to staff reductions in Australia.

**Interest expense.** Interest expense was \$5.4 million during the six months ended June 30, 2013, a decrease of \$0.7 million, or 11%, compared to \$6.1 million during the same period last year. The decrease in interest expense reflects lower borrowing.

**Currency exchange.** Currency exchange losses were \$2.1 million during the six months ended June 30, 2013, compared to losses of \$1.2 million during the same period in 2012. Currency exchange losses recorded in the 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 six months ended June 30, 2013 was 28.9% compared to 31.2% for the same period last year. The lower effective tax rate in the first half of 2013 was primarily due 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 attributable to Mine Safety Appliances Company for the six months ended June 30, 2013 was \$43.3 million, or \$1.17 per basic share, a decrease of \$8.6 million, or 17%, compared to \$51.9 million, or \$1.41 per basic share, for the same period last year. Net income for the six months ended June 30, 2012 included one-time gains totalling \$5.1 million after-tax on asset sales.

North American segment net income for the six months ended June 30, 2013 was \$37.2 million, an increase of \$0.7 million, or 2%, compared to \$36.5 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 research and development and selling, general, and administrative expenses.

European segment reported net income for the six months ended June 30, 2013 of \$5.3 million, a decrease of \$2.5 million, or 31%, compared to \$7.8 million during the same period in 2012. Local currency net income decreased by \$2.3 million, reflecting lower sales and higher restructuring charges. Currency translation effects decreased European segment net income, when stated in U.S. dollars, by \$0.2 million.

International segment net income for the six months ended June 30, 2013 of \$11.9 million, was unchanged from the same period last year. Local currency net income increased \$0.7 million, reflecting higher local currency sales and profit and lower selling, general and administrative expenses, partially offset by restructuring charges. Currency translation effects decreased current period International segment net income, when stated in U.S. dollars, by approximately \$0.7 million, primarily due a weaker Brazilian real and South African rand.

The net loss reported in reconciling items for the six months ended June 30, 2013 was \$11.0 million compared to a net loss of \$4.3 million for the same period last year. The lower loss during the six months ended June 30, 2012 reflects the previously-discussed one-time gains on asset sales.

## **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 June 30, 2013, we had cash and cash equivalents totalling \$82.4 million, of which \$68.1 million was held by foreign subsidiaries. The cash held by our foreign subsidiaries could be subject to additional U.S. income taxes if repatriated.

Cash and cash equivalents decreased \$0.3 million during the six months ended June 30, 2013, compared to increasing \$5.1 million during the same period in 2012.

Operating activities provided cash of \$21.8 million during the six months ended June 30, 2013, compared to providing cash of \$65.0 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. Trade receivables were \$212.9 million at June 30, 2013, compared to \$191.3 million at December 31, 2012, reflecting a local currency increase of \$26.8 million, partially offset by unfavorable currency translation effects of \$5.2 million. The increase in trade receivables was related to strong sales in June. Inventories were \$134.0 million at June 30, 2013, compared to \$136.3 million at December 31, 2012. A local currency increase in inventory of \$4.0 million, was more than offset by unfavorable currency translation effects of \$6.3 million. Accounts payable were \$63.7 million at June 30, 2013, compared to \$59.5 million at December 31, 2012. Local currency accounts payable increased \$5.8 million, primarily in North America reflecting our ongoing initiative to improve working capital cash flow, partially offset by favorable currency translation effects of \$1.6 million.

Investing activities used cash of \$16.9 million during the six months ended June 30, 2013, compared to using \$1.1 million in the same period last year. During the six months ended June 30, 2013 and 2012, we used cash of \$17.0 million and \$17.8 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 \$2.0 million during the six months ended June 30, 2013, compared to using \$58.2 million during the same period in 2012. The change was primarily related to borrowing activity on our long-term line of credit. During the first half of 2013, we made net borrowings of \$21.0 million on our long-term line of credit compared to paying down \$40.0 million in the first half of 2012. We paid cash dividends of \$21.5 million in the first half of 2013 compared to \$19.9 million in the first half of 2012.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at June 30, 2013 resulted in a translation loss of \$12.3 million being charged to the cumulative translation adjustments shareholders' equity account during the six months ended June 30, 2013, compared to a loss of \$3.4 million during the same period in 2012. The translation loss during the first half of 2013 was primarily related to the strengthening of the U.S. dollar against many currencies, including the euro, South African rand, Australian dollar and Brazilian peso. The loss during the first half of 2012 was related to the weakening of the euro, Brazilian real, and South African rand.

#### **COMMITMENTS AND CONTINGENCIES**

We expect to make total contributions of \$4.5 million to our pension plans during 2013.

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 \$5.0 million at June 30, 2013 and \$4.4 million at December 31, 2012. Single incident product liability expense during the six months ended June 30, 2013 and 2012 was \$0.6 million and \$0.6 million, respectively. 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 2,716 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:

	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Open claims, beginning of period	2,609	2,321
New claims	268	750
Settled and dismissed claims	(161)	(462)
Open claims, end of period	2,716	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 June 30, 2013 totaled \$152.9 million, of which \$2.0 million is reported in other current assets and \$150.9 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)	Six Months Ended June 30, 2013	Year Ended December 31, 2012
Balance beginning of period	\$ 130.0	\$ 112.1
Additions	24.9	29.7
Collections and settlements	(2.0)	(11.8)
Balance end of period	152.9	130.0

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma product liability losses were \$0.9 million during the six months ended June 30, 2013. Uninsured cumulative trauma product liability losses were \$5.9 million during the six months ended June 30, 2012.

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.

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 rates.** 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 six months ended June 30, 2013 by approximately \$29.5 million and \$1.7 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 June 30, 2013, we had open foreign currency forward contracts with a U.S. dollar notional value of \$54.1 million. A hypothetical 10% increase in June 30, 2013 forward exchange rates would result in a \$5.4 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 June 30, 2013 we have \$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 \$2.8 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
April 1 - April 30, 2013	61,353	\$ 48.31		1,014,588
May 1 - May 31, 2013	71,282	49.85		975,565
June 1 - June 30, 2013	4,278	49.92		1,046,192

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 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.

Share purchases 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

July 24, 2013

/s/ Dennis L. Zeitler  
Dennis L. Zeitler  
Senior Vice President Finance;

Duly Authorized Officer and Principal Financial Officer

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