

MINE SAFETY APPLIANCES CO  
Form 10-Q  
October 24, 2012

# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2012

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, PA  
(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. (Check one):

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

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

On October 19, 2012 there were 36,962,737 shares of common stock outstanding, not including 810,466 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 September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net sales	\$ 286,567	\$ 298,241	\$ 874,790	\$ 869,473
Other income, net	169	2,398	8,433	4,353
	286,736	300,639	883,223	873,826
Costs and expenses				
Cost of products sold	164,313	177,353	502,419	519,179
Selling, general and administrative	81,606	78,621	236,591	227,382
Research and development	10,073	9,663	29,707	29,646
Restructuring and other charges		1,004		6,118
Interest expense	2,797	3,198	8,860	10,423
Currency exchange losses, net	617	431	1,845	986
	259,406	270,270	779,422	793,734
Income before income taxes	27,330	30,369	103,801	80,092
Provision for income taxes	7,680	10,188	31,550	26,934
Net income	19,650	20,181	72,251	53,158
Net income attributable to noncontrolling interests	(417)	(209)	(1,101)	(285)
Net income attributable to Mine Safety Appliances Company	19,233	19,972	71,150	52,873
Earnings per share attributable to Mine Safety Appliances Company common shareholders				
Basic	\$ 0.52	\$ 0.54	\$ 1.93	\$ 1.44
Diluted	\$ 0.51	\$ 0.54	\$ 1.90	\$ 1.42
Dividends per common share	\$ 0.28	\$ 0.26	\$ 0.82	\$ 0.77

See notes to condensed consolidated financial statements.

**MINE SAFETY APPLIANCES COMPANY**

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

Unaudited

<b>(In thousands)</b>	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Net income	\$ 19,650	\$ 20,181	\$ 72,251	\$ 53,158
Foreign currency translation gain (loss)	4,814	(24,303)	1,315	(10,707)
Comprehensive income (loss)	24,464	(4,122)	73,566	42,451
Comprehensive (income) loss attributable to noncontrolling interests	(322)	1,064	(918)	1,115
Comprehensive income (loss) attributable to Mine Safety Appliances Company	24,142	(3,058)	72,648	43,566

See notes to condensed consolidated financial statements.

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

Unaudited

(In thousands, except share amounts)	September 30, 2012	December 31, 2011
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 74,456	\$ 59,938
Trade receivables, less allowance for doubtful accounts of \$7,439 and \$7,043	214,930	192,627
Inventories	142,825	141,475
Deferred tax assets	23,894	21,744
Income taxes receivable	8,272	13,769
Prepaid expenses and other current assets	20,617	29,296
<b>Total current assets</b>	<b>484,994</b>	<b>458,849</b>
Property, less accumulated depreciation of \$305,243 and \$311,272	146,835	145,763
Prepaid pension cost	60,398	58,075
Deferred tax assets	12,395	12,065
Goodwill	257,087	259,084
Other noncurrent assets	185,879	181,216
<b>Total assets</b>	<b>1,147,588</b>	<b>1,115,052</b>
<b>Liabilities</b>		
Current liabilities		
Notes payable and current portion of long-term debt	\$ 726	\$ 8,263
Accounts payable	61,233	50,208
Employees' compensation	43,665	38,400
Insurance and product liability	13,666	15,738
Taxes on income	5,555	3,051
Other current liabilities	57,360	56,110
<b>Total current liabilities</b>	<b>182,205</b>	<b>171,770</b>
Long-term debt	304,000	334,046
Pensions and other employee benefits	125,899	124,310
Deferred tax liabilities	30,398	30,458
Other noncurrent liabilities	14,465	15,057
<b>Total liabilities</b>	<b>656,967</b>	<b>675,641</b>
Commitments and contingencies (Note 15)		
<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 36,962,737 and 36,692,590 shares	106,656	97,276
Stock compensation trust 810,466 and 1,162,784 shares	(4,231)	(6,070)
Treasury shares, at cost, preferred 52,878 and 52,878 shares, common 24,308,188 and 24,226,017 shares	(269,179)	(266,231)

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Accumulated other comprehensive loss	(102,052)	(103,184)
Retained earnings	749,195	708,306
Total Mine Safety Appliances Company shareholders' equity	483,958	433,666
Noncontrolling interests	6,663	5,745
Total shareholders' equity	490,621	439,411
Total liabilities and shareholders' equity	1,147,588	1,115,052

See notes to condensed consolidated financial statements.

## MINE SAFETY APPLIANCES COMPANY

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

Unaudited

(In thousands)	Nine Months Ended September 30,	
	2012	2011
<b>Operating Activities</b>		
Net income	\$ 72,251	\$ 53,158
Depreciation and amortization	24,057	24,886
Pensions	2,029	(3,782)
Net gain from investing activities disposal of assets	(7,812)	(2,299)
Stock-based compensation	6,898	6,256
Deferred income tax provision (benefit)	999	(1,325)
Other noncurrent assets and liabilities	(10,556)	(24,270)
Currency exchange losses, net	1,845	986
Excess tax (benefit) provision related to stock plans	(1,305)	251
Other, net	(2,135)	(7)
<b>Operating cash flow before changes in working capital</b>	<b>86,271</b>	<b>53,854</b>
Trade receivables	(22,072)	(11,139)
Inventories	(4,646)	(13,095)
Accounts payable and accrued liabilities	14,371	1,144
Income taxes receivable, prepaid expenses and other current assets	15,110	7,642
<b>Decrease (increase) in working capital</b>	<b>2,763</b>	<b>(15,448)</b>
<b>Cash flow from operating activities</b>	<b>89,034</b>	<b>38,406</b>
<b>Investing Activities</b>		
Capital expenditures	(24,949)	(21,330)
Property disposals	16,801	3,145
Other investing		333
<b>Cash flow from investing activities</b>	<b>(8,148)</b>	<b>(17,852)</b>
<b>Financing Activities</b>		
Proceeds from short-term debt, net	449	385
Proceeds from long-term debt	137,500	93,500
Payments on long-term debt	(175,500)	(85,500)
Cash dividends paid	(30,261)	(28,210)
Company stock purchases	(2,948)	(626)
Exercise of stock options	3,016	752
Excess tax benefit (provision) related to stock plans	1,305	(251)
<b>Cash flow from financing activities</b>	<b>(66,439)</b>	<b>(19,950)</b>
<b>Effect of exchange rate changes on cash</b>	<b>71</b>	<b>(1,542)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>14,518</b>	<b>(938)</b>
<b>Beginning cash and cash equivalents</b>	<b>59,938</b>	<b>59,760</b>

**Ending cash and cash equivalents**

74,456

58,822

See notes to condensed consolidated financial statements.



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**MINE SAFETY APPLIANCES COMPANY**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Unaudited

**(1) Basis of Presentation**

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

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

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

**(2) Restructuring and Other Charges**

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

During the three and nine months ended September 30, 2011, we recorded charges of \$1.0 million (\$0.7 million after tax) and \$6.1 million (\$4.0 million after tax), respectively. European segment charges for the nine months ended September 30, 2011 of \$3.6 million related primarily to staff reductions in Germany, France and Spain and the transfer of certain production activities to China. North American segment charges for the nine months ended September 30, 2011 of \$1.5 million included costs associated with the relocation of certain administrative and production activities. International segment charges for the nine months ended September 30, 2011 of \$1.0 million were related to severance costs associated with the relocation of our Wuxi, China operations to Suzhou, China.

**(3) Accumulated Other Comprehensive Loss**

Components of accumulated other comprehensive loss are as follows:

<b>(In thousands)</b>	<b>September 30, 2012</b>	<b>December 31, 2011</b>
Cumulative translation adjustments	\$ 1,961	\$ 829
Pension and post-retirement plan adjustments	(104,013)	(104,013)
<b>Accumulated other comprehensive loss</b>	<b>(102,052)</b>	<b>(103,184)</b>

**(4) 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.

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(In thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income attributable to Mine Safety Appliances Company	\$ 19,233	\$ 19,972	\$ 71,150	\$ 52,873
Preferred stock dividends	(10)	(10)	(30)	(30)
Income available to common equity	19,223	19,962	71,120	52,843
Dividends and undistributed earnings allocated to participating securities	(172)	(217)	(691)	(572)
Income available to common shareholders	19,051	19,745	70,429	52,271
Basic earnings per common share	\$ 0.52	\$ 0.54	\$ 1.93	\$ 1.44
Diluted earnings per common share	\$ 0.51	\$ 0.54	\$ 1.90	\$ 1.42
Basic shares outstanding	36,633	36,236	36,535	36,206
Stock options and other stock compensation	422	563	474	611
Diluted shares outstanding	37,055	36,799	37,009	36,817
Antidilutive stock options	943	896	943	896

**(5) Segment Information**

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

(In thousands)	North America	Europe	International	Reconciling Items	Consolidated Totals
<b>Three Months Ended September 30, 2012</b>					
Sales to external customers	\$ 133,944	\$ 67,660	\$ 84,963	\$	\$ 286,567
Intercompany sales	30,829	23,735	4,902	(59,466)	
Net income (loss) attributable to Mine Safety Appliances Company	15,100	2,039	6,016	(3,922)	19,233
<b>Nine Months Ended September 30, 2012</b>					
Sales to external customers	\$ 416,728	\$ 207,450	\$ 250,612	\$	\$ 874,790
Intercompany sales	88,720	74,377	14,770	(177,867)	
Net income (loss) attributable to Mine Safety Appliances Company	51,636	9,794	17,900	(8,180)	71,150
<b>Three Months Ended September 30, 2011</b>					
Sales to external customers	\$ 143,547	\$ 71,696	\$ 82,998	\$	\$ 298,241
Intercompany sales	26,077	27,515	5,703	(59,295)	
Net income (loss) attributable to Mine Safety Appliances Company	18,839	1,859	6,666	(7,392)	19,972
<b>Nine Months Ended September 30, 2011</b>					
Sales to external customers	\$ 412,154	\$ 211,403	\$ 245,916	\$	\$ 869,473
Intercompany sales	76,537	86,213	13,720	(176,470)	
Net income (loss) attributable to Mine Safety Appliances Company	44,773	5,540	20,509	(17,949)	52,873

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

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

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

(In thousands)	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
<b>Three months ended September 30</b>				
Service cost	\$ 2,437	\$ 2,162	\$ 174	\$ 218
Interest cost	4,793	4,876	316	436
Expected return on plan assets	(8,099)	(8,507)		
Amortization of transition amounts		1		
Amortization of prior service cost	73	26	(114)	(114)
Recognized net actuarial losses	1,473	108	132	213
Net periodic benefit cost (credit)	677	(1,334)	508	753
<b>Nine months ended September 30</b>				
Service cost	\$ 7,309	\$ 6,491	\$ 522	\$ 654
Interest cost	14,371	14,627	948	1,306
Expected return on plan assets	(24,301)	(25,575)		
Amortization of transition amounts	2	3		
Amortization of prior service cost	225	78	(342)	(341)
Recognized net actuarial losses	4,423	594	396	639
Net periodic benefit cost (credit)	2,029	(3,782)	1,524	2,258

We made contributions of \$3.0 million to our pension plans during the nine months ended September 30, 2012. We expect to make total contributions of approximately \$4.1 million to our pension plans in 2012.

**(7) Goodwill and Intangible Assets**

Changes in goodwill during the nine months ended September 30, 2012 were as follows:

(In thousands)	Goodwill
Net balance at January 1	\$ 259,084
Disposals	(1,800)
Currency translation	(197)
Net balance at September 30	257,087

At September 30, 2012, goodwill of \$196.5 million, \$57.8 million, and \$2.8 million related to the North American, European, and International reportable segments, respectively.

Changes in intangible assets, net of accumulated amortization (which are reported in other noncurrent assets) during the nine months ended September 30, 2012 were as follows:

(In thousands)	Intangibles
Net balance at January 1	\$ 47,119
Amortization expense	(3,324)
Currency translation	(54)

Net balance at September 30

43,741

**(8) Inventories**

(In thousands)	September 30, 2012	December 31, 2011
Finished products	\$ 72,266	\$ 65,687
Work in process	16,016	17,000
Raw materials and supplies	54,543	58,788
Total inventories	142,825	141,475

**(9) Stock Plans**

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

Stock compensation expense was as follows:

(In thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Stock compensation expense	\$ 1,603	\$ 1,613	\$ 6,898	\$ 6,256
Income tax benefit	589	595	2,522	2,129
Stock compensation expense, net of income tax benefit	1,014	1,018	4,376	4,127

A summary of stock option activity for the nine months ended September 30, 2012 follows:

	Shares	Weighted Average Exercise Price
Outstanding at January 1	1,818,640	\$ 30.94
Granted	196,469	37.33
Exercised	(166,752)	18.09
Expired	(5,093)	43.33
Outstanding at September 30	1,843,264	32.75
Exercisable at September 30	1,156,570	33.93



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A summary of restricted stock activity for the nine months ended September 30, 2012 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1	512,254	\$ 25.66
Granted	121,719	37.45
Vested	(207,679)	20.34
Forfeited	(6,954)	27.23
Unvested at September 30	419,340	31.69

A summary of performance stock unit activity for the nine months ended September 30, 2012 follows:

	Shares	Weighted Average Grant Date Fair Value
Unvested at January 1	125,443	\$ 25.27
Granted	50,428	36.69
Performance adjustments	(1,466)	17.83
Vested	(46,206)	17.83
Unvested at September 30	128,199	32.53

**(10) Derivative Financial Instruments**

As part of our currency exchange rate risk management strategy, we may enter into certain derivative foreign currency forward contracts that do not meet the GAAP criteria for hedge accounting, but which have the impact of partially offsetting certain foreign currency exposures. We account for these forward contracts at fair value and report the related gains or losses in currency exchange gains or losses. The notional amount of open forward contracts at September 30, 2012 was \$26.6 million. The unrealized gain on these contracts was \$0.3 million.

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

(In thousands)	September 30, 2012	December 31, 2011
Derivatives not designated as hedging instruments		
Foreign exchange contracts:		
Prepaid expenses and other current assets	\$ 350	\$
Other current liabilities		50

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

(In thousands)	Income Statement Location	(Gain) Loss Recognized in Income Nine Months Ended September 30, 2012	2011
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Derivatives not designated as hedging instruments

Foreign exchange contracts

Currency exchange losses, net

\$ (364)

\$ (264)



**(11) Income Taxes**

At September 30, 2012, we had a gross liability for unrecognized tax benefits of \$12.8 million. We have recognized tax benefits associated with these liabilities of \$11.4 million at September 30, 2012. These balances are unchanged since December 31, 2011. We do not expect that the total amount of the unrecognized tax benefits will significantly increase or decrease within twelve months of the reporting date.

We recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses. Our liability for accrued interest and penalties related to uncertain tax positions was \$0.9 million at September 30, 2012.

**(12) 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 10. 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.

**(13) Fair Value of Financial Instruments**

With the exception of fixed rate long-term debt, we believe that the reported carrying amounts of our financial assets and liabilities approximate their fair values. At September 30, 2012, the reported carrying amount of our fixed rate long-term debt (including the current portion) was \$160.0 million and the fair value was \$173.5 million. The fair value of our long-term debt was determined using cash flow valuation models to estimate the market value of similar transactions as of September 30, 2012. Accordingly, the fair value of fixed rate long-term debt is classified within Level 2 of the fair value hierarchy.

**(14) Assets Held for Sale**

Certain assets related to detector tube manufacturing are classified as held for sale at September 30, 2012. These assets are reported in the following balance sheet lines:

(In millions)	September 30, 2012
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.

**(15) Contingencies**

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes and other relevant information. Our reserve for single incident product liability claims was \$4.2 million at September 30, 2012 and \$4.7 million at December 31, 2011. Single incident product liability expense was not significant during the nine months ended September 30, 2012 and 2011. 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 2,620 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged or the amount of damages sought, and potentially involve multiple defendants.

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

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

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

A summary of cumulative trauma product liability claims activity follows:

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Open claims, beginning of period	2,321	1,900
New claims	544	479
Settled and dismissed claims	(245)	(58)
Open claims, end of period	2,620	2,321

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

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

Our insurance receivables at September 30, 2012 totaled \$122.1 million, of which \$2.0 million is reported in other current assets and \$120.1 million in other non-current assets. Our insurance receivables at December 31, 2011 totaled \$112.1 million, all of which is reported in other non-current assets.

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

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
<b>(In millions)</b>		
Balance beginning of period	\$ 112.1	\$ 89.0
Additions	21.8	35.6
Collections and settlements	(11.8)	(12.5)
Balance end of period	122.1	112.1

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma losses during the nine months ended September 30, 2012 and 2011 were \$7.3 million and \$0.1 million, respectively.

Our aggregate cumulative trauma product liability losses and administrative and defense costs for the three years ended December 31, 2011, totaled approximately \$102.7 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. The case is currently in discovery.

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. The case is currently in discovery.

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 settlement is reached, we dismiss the settling carrier from this action in Delaware.

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

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU updated measurement guidance to improve the comparability of fair value measurements between U.S. GAAP and International Financial Reporting Standards and enhanced disclosure requirements. The most significant change in disclosures is an expansion of information related to fair value measurements categorized within Level 3 of the fair value hierarchy. The adoption of this ASU on January 1, 2012 did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income Presentation of Comprehensive Income. This ASU requires net income and comprehensive income to be presented in either a single continuous statement or in two separate, but consecutive, statements. The ASU eliminates the option of presenting other comprehensive income in the statement of shareholders' equity. In December 2011, the FASB issued ASU 2011-12, which indefinitely deferred the ASU 2011-5 requirement related to the presentation of reclassification adjustments from accumulated other comprehensive income. The adoption of ASU 2011-05 on January 1, 2012 did not have a material effect on our results of operations or financial position, but did change the format of the presentation of comprehensive income.

In September 2011, the FASB issued ASU 2011-08, Intangibles-Goodwill and Other-Testing Goodwill for Impairment. This ASU reduces the complexity of performing an annual goodwill impairment test by permitting companies to perform an assessment of qualitative factors to determine whether additional goodwill impairment testing is necessary. The adoption of this ASU on January 1, 2012 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, global economic conditions, spending patterns of government agencies, competitive pressures, product liability claims and our ability to collect related insurance receivables, the success of new product introductions, currency exchange rate fluctuations, the identification and successful integration of acquisitions, and the risks of doing business in foreign countries. For discussion of risk factors affecting our business, see Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011.*

**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 fire service, oil, gas, and petrochemical, mining, construction and other industries, as well as the military and homeland security. 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 companies. In 2011, 48%, 24% and 28% of our net sales were made by our North American, European and International segments, respectively.

*North America.* Our largest manufacturing and research and development facilities are located in the United States. We serve our North American markets with sales and distribution functions in the U.S., Canada, and Mexico.

*Europe.* Our European segment includes companies in most Western European countries and a number of Eastern European and Middle Eastern locations. Our largest European companies, based in Germany and France, develop, manufacture, and sell a wide variety of products. Operations in other European segment countries focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in Germany, France, the U.S., and China, or are purchased from third party vendors.

*International.* Our International segment includes companies in South America, Africa and the Asia Pacific region, some of which are in developing regions of the world. Principal International segment manufacturing operations are located in Australia, Brazil, China and South Africa. These companies manufacture products that are sold primarily in each company's home country and regional markets. The other companies in the International segment focus primarily on sales and distribution in their respective home country markets. While some of these companies may perform limited production, most of their sales are of products that are manufactured in our plants in China, Germany, France and the U.S., or are purchased from third party vendors.

**RESULTS OF OPERATIONS****Three Months Ended September 30, 2012 Compared to Three Months Ended September 30, 2011**

**Net sales.** Net sales for the three months ended September 30, 2012 were \$286.6 million, a decrease of \$11.6 million, or 4%, compared with \$298.2 million for the three months ended September 30, 2011. Excluding the effects of weakening currencies and the divestiture of our ballistic vest and North American ballistic helmet businesses, sales increased \$14.3 million, or 5%. Sales of ballistic vests and helmets were \$10.5 million lower in the current quarter, reflecting the divestiture of those businesses. The unfavorable translation effects of weaker foreign currencies decreased sales, when stated in U.S. dollars, by \$15.4 million.

(In millions)	Three Months Ended September 30,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2012	2011		
North America	\$ 133.9	\$ 143.5	\$ (9.6)	(7%)
Europe	67.7	71.7	(4.0)	(6%)
International	85.0	83.0	2.0	2%

Net sales by the North American segment were \$133.9 million for the third quarter of 2012, a decrease of \$9.6 million, or 7%, compared to \$143.5 million for the third quarter of 2011. The decrease in the current quarter reflects the divestiture of our ballistic vest and North American Advanced Combat Helmet (ACH) businesses during the fourth quarter of 2011 and the second quarter of 2012, respectively. North American segment sales of ballistic vests and ACHs totaled \$10.7 million in the third quarter of 2011. Excluding this change, North America segment sales were flat, with a \$3.8 million improvement in shipments of SCBAs to the fire service being partially offset by small decreases in other product lines.

Net sales for the European segment were \$67.7 million for the third quarter of 2012, a decrease of \$4.0 million, or 6%, compared to \$71.7 million for the third quarter of 2011. Local currency sales in Europe increased \$3.6 million primarily related to higher instrument sales to industrial markets. The unfavorable translation effects of a weaker euro in the current quarter decreased European segment sales, when stated in U.S. dollars, by \$7.6 million.

Net sales for the International segment were \$85.0 million in the third quarter of 2012, an increase of \$2.0 million, or 2%, compared to \$83.0 million for the third quarter of 2011. Local currency sales in the International segment increased \$9.2 million for the quarter reflecting stronger product demand in emerging markets across Latin America and Africa. Local currency sales increased in most product lines, with the strongest improvements in SCBAs, head, eye and face protection, and safety clothing, up \$4.4 million, \$2.2 million and \$1.2 million, respectively. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$7.2 million, primarily related to a weaker Australian dollar, Brazilian real and South African rand.

**Other income.** Other income for the third quarter of 2012 was \$0.2 million, a decrease of \$2.2 million, compared to \$2.4 million of income for the third quarter of 2011. During the third quarter of 2011, we recognized a gain of \$2.0 million on the sale of land in our Cranberry Woods office park.

**Cost of products sold.** Cost of products sold was \$164.3 million in the third quarter of 2012, compared to \$177.4 million in the third quarter of 2011. Cost of products sold as a percentage of sales was 57.3% in the third quarter of 2012 compared to 59.5% in the third quarter of 2011. The improvement in cost of products sold as a percentage of sales was due to improved pricing, lower manufacturing cost and a more favorable product mix.

**Gross profit.** Gross profit for the third quarter of 2012 was \$122.3 million, which was \$1.4 million, or 1%, higher than gross profit of \$120.9 million in the third quarter of 2011. The ratio of gross profit to net sales was 42.7% in the third quarter of 2012 compared to 40.5% in the same quarter last year. The improved gross profit ratio in the current quarter reflects the previously discussed improvements in cost of products sold.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$81.6 million during the third quarter of 2012, an increase of \$3.0 million, or 4%, compared to \$78.6 million in the third quarter of 2011. Selling, general and administrative expenses were 28.5% of net sales in the third quarter of 2012, compared to 26.4% of net sales in the third quarter of 2011. Local currency selling, general and administrative expenses increased \$6.7 million in the current quarter, primarily in North America and International, reflecting increases of \$3.0 million in product liability related expenses, \$1.8 million in professional services fees related to due diligence on special projects, and \$2.0 million in selling expenses. Currency exchange effects decreased current quarter selling, general and administrative expenses, when stated in U.S. dollars, by \$3.7 million, primarily related to the weakening of the euro, Australian dollar, Brazilian real and South African rand.

**Restructuring and other charges.** We did not incur any restructuring charges during the third quarter of 2012. During the third quarter of 2011, we recorded charges of \$1.0 million (\$0.7 million after tax). European segment charges of \$0.6 million related primarily to staff reductions in Germany. North American segment charges of \$0.4 million included costs associated with the relocation of certain administrative and production activities.

**Interest expense.** Interest expense was \$2.8 million during the third quarter of 2012, a decrease of \$0.4 million, or 13%, compared to \$3.2 million in the same quarter last year. The decrease in interest expense was due to lower borrowing on our revolving line of credit and lower interest rates.

**Currency exchange.** Currency exchange losses were \$0.6 million in the third quarter of 2012, compared to losses of \$0.4 million in the third quarter of 2011. Currency exchange losses in both quarters were mostly unrealized and related primarily to the effect of euro exchange rate fluctuations on euro-denominated inter-company balances.

**Income taxes.** The effective tax rate for the third quarter of 2012 was 28.1%, compared to 33.5% for the same quarter last year. The lower effective tax rate in the current quarter was primarily related to the higher proportion of income in lower tax jurisdictions and a tax benefit associated with a non-cash charitable contribution of land at our Cranberry Woods office park. These improvements were partially offset by the expiration of the U.S. research and development tax credit at the end of 2011.

**Net income attributable to Mine Safety Appliances Company.** Net income was \$19.2 million for the third quarter of 2012, or \$0.52 per basic share, a decrease of \$0.8 million, or 4%, compared to \$20.0 million, or \$0.54 per basic share, for the same quarter last year.

North American segment net income for the third quarter of 2012 was \$15.1 million, a decrease of \$3.7 million, or 20%, compared to \$18.8 million in the third quarter of 2011. The decrease in North American segment net income reflects the previously-discussed increase in selling, general and administrative expenses and reduced pension income, partially offset by improved gross profit margins.

European segment net income for the third quarter of 2012 of \$2.0 million, an improvement of \$0.1 million, or 10%, compared to net income of \$1.9 million during the third quarter of 2011. Local currency net income in Europe increased \$0.5 million in the current quarter, due primarily to lower restructuring charges. The remainder of the improvement reflects lower selling, general and



administrative expenses in Western Europe, offset by lower gross profit margins. Currency translation effects decreased current quarter European segment net income, when stated in U.S. dollars, by \$0.4 million, primarily related to a weaker euro.

International segment net income for the third quarter of 2012 was \$6.0 million, a decrease of \$0.7 million, or 10%, compared to \$6.7 million in the same quarter last year. The decrease was primarily related to currency translation effects, which reduced current quarter International segment net income, when stated in U.S. dollars, by \$0.6 million, reflecting a weaker Australian dollar, Brazilian real and South African rand.

The net loss reported in reconciling items for the third quarter of 2012 was \$3.9 million compared to a net loss of \$7.4 million in the third quarter of 2011. The lower net loss in the third quarter of 2012 was primarily related to lower currency exchange losses and a tax benefit associated with the non-cash charitable contribution of land at our Cranberry Woods office park.

#### Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

**Net sales.** Net sales for the nine months ended September 30, 2012 were \$874.8 million, an increase of \$5.3 million, or 1%, compared with \$869.5 million for the nine months ended September 30, 2011. Excluding the effects of weakening currencies and the divestiture of our ballistic vest and North American ballistic helmet businesses, sales increased \$63.1 million, or 7%. Sales of ballistic vests and helmets were \$20.8 million lower in the nine months ended September 30, 2012, reflecting the divestiture of those businesses. The unfavorable translation effects of weaker foreign currencies decreased sales, when stated in U.S. dollars, by \$37.0 million.

(In millions)	Nine Months Ended September 30,		Dollar Increase (Decrease)	Percent Increase (Decrease)
	2012	2011		
North America	\$ 416.7	\$ 412.2	\$ 4.5	1%
Europe	207.5	211.4	(3.9)	(2%)
International	250.6	245.9	4.7	2%

Net sales by the North American segment were \$416.7 million for the nine months ended September 30, 2012, an increase of \$4.5 million, or 1%, compared to \$412.2 million for the same period in 2011. During the nine months ended September 30, 2012, we continued to see growth in the fire service and industrial markets. Shipments of instruments, head eye and face protection and SCBAs were up \$20.6 million, \$3.8 million and \$3.6 million, respectively. These increases were partially offset by a \$20.5 million decrease in shipments of ballistic helmets and vests to the military markets. We divested our ballistic vest and North American ACH businesses during the fourth quarter of 2011 and the second quarter of 2012, respectively.

Net sales for the European segment were \$207.5 million for the nine months ended September 30, 2012, a decrease of \$3.9 million, or 2%, compared to \$211.4 million for the same period in 2011. Local currency sales increased \$14.0 million, reflecting higher shipments of instruments, fire helmets and respirators, up \$7.2 million, \$3.1 million and \$3.0 million, respectively. The translation effects of a weaker euro decreased European segment sales, when stated in U.S. dollars, by \$17.9 million.

Net sales for the International segment were \$250.6 million for the nine months ended September 30, 2012, an increase of \$4.7 million, or 2%, compared to \$245.9 million in the same period in 2011. Local currency sales in the International segment increased \$21.8 million during the nine months ended September 30, 2012. Growth in fire service markets in China and Latin America lead an

increase in sales of SCBAs of \$8.9 million. In addition, sales of head eye and face protection and fire helmets improved by \$8.1 million and \$2.4 million, respectively. Currency translation effects decreased International segment sales, when stated in U.S. dollars, by \$17.1 million, primarily related to a weaker Australian dollar, South African rand and Brazilian real.

**Other income.** Other income for the nine months ended September 30, 2012 was \$8.4 million, an increase of \$4.0 million, compared to \$4.4 million for the same period in 2011. The increase was primarily related to gains on the sale of land in our Cranberry Woods office park. During the nine months ended September 30, 2012, gains on the sale of Cranberry Woods land were \$3.7 million higher than in the same period last year.

**Cost of products sold.** Cost of products sold was \$502.4 million for the nine months ended September 30, 2012, compared to \$519.2 million in the same period in 2011. Cost of products sold as a percentage of sales was 57.4% in the nine months ended September 30, 2012 and 59.7% for the same period last year. The decrease in cost of products sold in relation to sales was primarily due to improved pricing, lower manufacturing costs and a more favorable product mix.

**Gross profit.** Gross profit for the nine months ended September 30, 2012 was \$372.4 million, which was \$22.1 million, or 6%, higher than gross profit of \$350.3 million in the same period in 2011. The ratio of gross profit to net sales was 42.6% during the nine months ended September 30, 2012, compared to 40.3% for the same period last year. The higher gross profit ratio during the nine months ended September 30, 2012 was primarily related to the previously discussed improvements in cost of products sold.

**Selling, general and administrative expenses.** Selling, general and administrative expenses were \$236.6 million during the nine months ended September 30, 2012, an increase of \$9.2 million, or 4%, compared to \$227.4 million during the same period in 2011. Selling, general and administrative expenses were 27.0% of net sales for the nine months ended September 30, 2012, compared to 26.2% of net sales for the same period in 2011. Local currency selling, general and administrative expenses increased \$18.2 million across all segments, reflecting higher selling costs, an increase in due diligence expense related to special projects and an increase in product liability related expenses. Currency translation effects decreased selling, general and administrative expenses for the nine months ended September 30, 2012, when stated in U.S. dollars, by \$9.0 million, primarily related to a weaker euro, Australian dollar, Brazilian real and South African rand.

**Restructuring and other charges.** We did not incur any restructuring charges during the nine months ended September 30, 2012. During the nine months ended September 30, 2011, we recorded charges of \$6.1 million (\$4.0 million after tax). European segment charges of \$3.6 million for the nine months ended September 30, 2011 related primarily to staff reductions in Germany, France, and Spain and the transfer of certain production activities to China. North American segment charges for the nine months ended September 30, 2011 of \$1.5 million included costs associated with the relocation of certain administrative and production activities. International segment charges for the nine months ended September 30, 2011 of \$1.0 million were related to severance costs associated with the relocation of our Wuxi, China operations to Suzhou, China.

**Interest expense.** Interest expense was \$8.9 million during the nine months ended September 30, 2012, a decrease of \$1.5 million, or 15%, compared to \$10.4 million during the same period last year. The decrease in interest expense was due to lower borrowing on our revolving credit line and lower interest rates.

**Currency exchange.** Currency exchange losses were \$1.8 million during the nine months ended September 30, 2012, compared to losses of \$1.0 million during the same period in 2011. Currency

exchange losses for the nine months ended September 30, 2012 were related primarily to

euro-denominated inter-company balances and U.S. dollar denominated transactions at our Mexican affiliate. Currency exchange losses for the nine months ended September 30, 2011 were primarily related to euro-denominated inter-company balances.

**Income taxes.** The effective tax rate for the nine months ended September 30, 2012 was 30.4% compared to 33.6% for the same period last year. The lower effective tax rate in the first nine months of 2012 was primarily related to a higher proportion of income in lower tax jurisdictions and a tax benefit associated with a non-cash charitable contribution of land at our Cranberry Woods office park. These improvements were partially offset by the expiration of the U.S. research and development tax credit at the end of 2011.

**Net income attributable to Mine Safety Appliances Company.** Net income for the nine months ended September 30, 2012 was \$71.2 million, or \$1.93 per basic share, compared to \$52.9 million, or \$1.44 per basic share, for the same period last year.

North American segment net income for the nine months ended September 30, 2012 was \$51.6 million, an increase of \$6.8 million, or 15%, compared to \$44.8 million for the same period last year. The increase in North American segment net income reflects higher sales and gross profits, and a gain on the sale of our North American ballistic helmet business, partially offset by higher selling, general and administrative expenses.

European segment net income for the nine months ended September 30, 2012, was \$9.8 million, an improvement of \$4.3 million, or 77%, compared to \$5.5 million during the same period in 2011. Local currency net income increased by \$4.9 million, reflecting improved gross profits and lower restructuring charges. Currency translation effects decreased European segment net income, when stated in U.S. dollars by \$0.6 million, reflecting a weaker euro.

International segment net income for the nine months ended September 30, 2012 was \$17.9 million, a decrease of \$2.6 million, or 13%, compared to \$20.5 million in the same period last year. Local currency net income decreased \$0.5 million, reflecting lower gross profit margins and higher selling, general and administrative costs. Currency translation effects decreased current period International segment net income, when stated in U.S. dollars, by \$2.1 million, primarily due to a weaker Australian dollar, Brazilian real and South African rand.

The net loss reported in reconciling items for the nine months ended September 30, 2012 was \$8.2 million compared to a net loss of \$17.9 million for the same period last year. The improvement during the nine months ended September 30, 2012 reflects higher gains on the sale of land in our Cranberry Woods office park, lower administrative and interest expense, lower currency exchange losses, and the recognition of a tax benefit associated with the charitable contribution of Cranberry Woods land.

## LIQUIDITY AND CAPITAL RESOURCES

Our main source of liquidity is operating cash flows, supplemented by borrowings to fund working capital requirements and significant transactions. 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.

Cash and cash equivalents increased \$14.5 million during the nine months ended September 30, 2012, compared to decreasing \$0.9 million during the same period in 2011.

Operating activities provided cash of \$89.0 million during the nine months ended September 30, 2012, compared to providing \$38.4 million during the same period in 2011. The improvement in operating cash flow during 2012 is primarily related to higher net income, lower use of cash to fund other non-current assets and liabilities and improved performance related to working capital items. Trade receivables were \$214.9 million at September 30, 2012, compared to \$192.6 million at December 31, 2011. Inventories were \$142.8 million at September 30, 2012, compared to \$141.5 million at December 31, 2011. Accounts payable were \$61.2 million at September 30, 2012, compared to \$50.2 million at December 31, 2011. Local currency trade receivables increased \$22.1 million reflecting higher sales. Local currency accounts payable increased \$11.0 million, primarily in North America reflecting our ongoing initiative to improve working capital cash flow

Investing activities used cash of \$8.1 million during the nine months ended September 30, 2012, compared to using \$17.9 million in the same period last year. During the nine months ended September 30, 2012 and 2011, we used cash of \$24.9 million and \$21.3 million, respectively, for capital expenditures, primarily machinery and equipment. Higher cash provided from asset disposals in 2012 related primarily to the sale of our North American ballistic helmet business and land in our Cranberry Woods Office Park.

Financing activities used cash of \$66.4 million during the nine months ended September 30, 2012, compared to using \$20.0 million during the same period in 2011. The change was primarily related to borrowing on our long-term line of credit. During the nine months ended September 30, 2012, we made payments on long-term debt of \$38.0 million compared to borrowing of \$8.0 million in the same period in 2011. We paid cash dividends of \$30.3 million in the first nine months of 2012 compared to \$28.2 million in the same period last year.

#### **CUMULATIVE TRANSLATION ADJUSTMENTS**

The position of the U.S. dollar relative to international currencies at September 30, 2012 resulted in a translation gain of \$1.3 million during the nine months ended September 30, 2012, compared to a loss of \$10.7 million during the during the same period in 2011. The translation gain during the nine months ended September 31, 2012 was primarily related to the strengthening of the Mexican peso and the Chilean peso, partially offset by the weakening of the euro and the Brazilian real. The translation loss during the nine months ended September 30, 2011 was primarily related to the weakening of the South African rand, the Mexican peso, and the Brazilian real.

#### **COMMITMENTS AND CONTINGENCIES**

We made contributions of \$3.0 million to our pension plans during the nine months ended September 30, 2012. We expect to make total contributions of approximately \$4.1 million to our pension plans in 2012.

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

We categorize the product liability losses that we experience into two main categories, single incident and cumulative trauma. Single incident product liability claims are discrete incidents that are typically known to us when they occur and involve observable injuries and, therefore, more quantifiable damages. Therefore, we maintain a reserve for single incident product liability claims based on expected settlement costs for pending claims and an estimate of costs for unreported claims derived from experience, sales volumes and other relevant information. Our reserve for single incident product liability claims was \$4.2 million at September 30, 2012 and \$4.7 million at December 31, 2011. Single incident product liability expense was not significant during the nine months ended September 30,

2012 and 2011. 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 2,620 lawsuits in which plaintiffs allege to have contracted certain cumulative trauma diseases related to exposure to silica, asbestos, and/or coal dust. These lawsuits mainly involve respiratory protection products allegedly manufactured and sold by us. We are unable to estimate total damages sought in these lawsuits as they generally do not specify the injuries alleged or the amount of damages sought, and potentially involve multiple defendants.

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

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

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

A summary of cumulative trauma product liability claims activity follows:

	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Open claims, beginning of period	2,321	1,900
New claims	544	479
Settled and dismissed claims	(245)	(58)
Open claims, end of period	2,620	2,321

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

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

Our insurance receivables at September 30, 2012 totaled \$122.1 million, of which \$2.0 million is reported in other current assets and \$120.1 million in other non-current assets. Our insurance receivables at December 31, 2011 totaled \$112.1 million, all of which is reported in other non-current assets.

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

(In millions)	Nine Months Ended September 30, 2012	Year Ended December 31, 2011
Balance beginning of period	\$ 112.1	\$ 89.0
Additions	21.8	35.6
Collections and settlements	(11.8)	(12.5)
Balance end of period	122.1	112.1

Additions to insurance receivables in the above table represent insured cumulative trauma product liability losses and related defense costs. Uninsured cumulative trauma losses during the nine months ended September 30, 2012 and 2011 were \$7.3 million and \$0.1 million, respectively.

Our aggregate cumulative trauma product liability losses and administrative and defense costs for the three years ended December 31, 2011, totaled approximately \$102.7 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. The case is currently in discovery.

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. The case is currently in discovery.

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

The more critical judgments and estimates used in the preparation of our financial statements are discussed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU updated measurement guidance to improve the comparability of fair value measurements between U.S. GAAP and International Financial Reporting Standards and enhanced disclosure requirements. The most significant change in disclosures is an expansion of information related to fair value measurements categorized within Level 3 of the fair value hierarchy. The adoption of this ASU on January 1, 2012 did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income - Presentation of Comprehensive Income. This ASU requires net income and comprehensive income to be presented in

either a single continuous statement or in two separate, but consecutive, statements. The ASU eliminates the option of presenting other comprehensive income in the statement of shareholders' equity. In December 2011, the FASB issued ASU 2011-12, which indefinitely deferred the ASU 2011-5 requirement related to the presentation of reclassification adjustments from accumulated other comprehensive income. The adoption of ASU 2011-05 on January 1, 2012 did not have a material effect on our results of operations or financial position, but did change the format of the presentation of comprehensive income.

In September 2011, the FASB issued ASU 2011-08, Intangibles-Goodwill and Other-Testing Goodwill for Impairment. This ASU reduces the complexity of performing an annual goodwill impairment test by permitting companies to perform an assessment of qualitative factors to determine whether additional goodwill impairment testing is necessary. The adoption of this ASU on January 1, 2012 did not have a material effect on our consolidated financial statements.

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

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

**Currency exchange rate sensitivity.** We are subject to the effects of fluctuations in currency exchange rates on various transactions and on the translation of the reported financial position and operating results of our non-U.S. companies from local currencies to U.S. dollars. A hypothetical 10% strengthening or weakening of the U.S. dollar would decrease or increase our reported sales and net income for the nine months ended September 30, 2012 by approximately \$45.8 million and \$2.8 million, respectively.

When appropriate, we may attempt to limit our transactional exposure to changes in currency exchange rates through contracts or other actions intended to reduce existing exposures by creating offsetting currency exposures. At September 30, 2012, we had open foreign currency forward contracts with a U.S. dollar notional value of \$26.6 million. A hypothetical 10% increase in September 30, 2012, forward exchange rates would result in a \$2.7 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.

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 \$3.0 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, 2011 actuarial valuations.

**Impact of Changes in Actuarial Assumptions**

(In thousands)	Change in Discount Rate		Change in Expected Return		Change in Market Value of Assets	
	+1%	-1%	+1%	-1%	+5%	-5%
(Increase) decrease in net periodic pension credit	\$ (3,964)	\$ 4,782	\$ (3,920)	\$ 3,920	\$ (734)	\$ 734
(Decrease) increase in projected benefit obligations	(47,971)	55,077				
Increase (decrease) in funded status	47,971	(55,077)			17,898	(17,898)

**Item 4. Controls and Procedures**

- (a) *Evaluation of disclosure controls and procedures.* Based on their evaluation as of the end of the period covered by this Form 10-Q, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to our management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.
- (b) *Changes in internal control.* There were no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

## (c) Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased As Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 July 31, 2012		\$		1,419,004
August 1 August 31, 2012	1,465	36.97		1,396,622
September 1 September 30, 2012	867	34.87		1,306,687

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

We do not have any other share repurchase programs.

Shares purchased during the quarter related to stock compensation transactions.

**Item 6. Exhibits**

## (a) Exhibits

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

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MINE SAFETY APPLIANCES COMPANY

October 24, 2012

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

Duly Authorized Officer and Principal Financial Officer