good morning and welcome to the MSA first-quarter earnings call. My name is John and I will be your operator for today's call. (Operator Instructions). And now I will turn the call over to Ken Krause. Ken, you may begin.

Ken Krause - MSA Safety Incorporated - Executive Director-Global Finance

Thank you, John. Good morning, everyone and welcome to our first quarter conference call for 2014. I am Ken Krause, Executive Director of Global Finance.

Joining me on the call this morning are Bill Lambert, President and Chief Executive Officer; Stacy McMahan, Senior Vice President and Chief Financial Officer; Ron Herring, President of MSA Europe; Kerry Bove, President of MSA International; and Nish Vartanian, President of MSA North America.

Our first-quarter press release was issued last night and is available on our website at www.msasafety.com.

This morning, Bill Lambert will provide his commentary on our quarter; Stacy will then review our financials; and then Bill will conclude with his closing comments. After that we will open up the call for your questions.

Before we begin, I need to remind everyone that the matters discussed on this call, excluding historical information, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements including without limitation all projections and anticipated levels of future performance involve risks, uncertainties, and other factors that may cause our actual results to differ materially from those discussed here.

These risks, uncertainties, and other factors are detailed from time to time in our filings with the Securities and Exchange Commission, including our most recent Form 10-K, which was filed on February 24, 2014. You are strongly urged to review all such filings for a more detailed discussion of such risks. Our SEC filings can be obtained at no charge at www.sec.gov, our own website, and many other commercial sites.

In addition, we have included certain non-GAAP financial measures as part of our discussion today. These non-GAAP financial measures should not be considered replacements for GAAP results. Reconciliations to the most directly comparable GAAP statements are included in our press release and on the Investor Relations section of our website.

With that, let me introduce MSA’s President and Chief Executive Officer, Bill Lambert.
Bill Lambert - MSA Safety Incorporated - President and CEO

Thank you, Ken, and good morning, everyone.

As always, I want to begin by saying thank you for joining us today on this conference call and for your continued interest in MSA. Your support is something we never take for granted.

Presumably all of you have seen our first-quarter press release and have our financial figures with all comparisons corresponding to the equipment period in 2013.

I will begin this morning by reviewing the highlights of our first quarter and I will update you on the issues surrounding the US fire service market. I also will share further details about some important corporate initiatives we executed in the quarter and briefly expand on our upcoming Investor Day event. After that I will turn the call over to Stacy for a review of our actual Q1 results. Then we will open it up for your questions.

While we had a number of bright spots in the quarter, our overall financial results reflected challenging business conditions across several geographies as well as the continuing regulatory delays affecting new product approvals in our SCBA business. Despite these headwinds, we continued to successfully execute the pillars of our strategy responsible for ongoing value enhancement.

As disclosed in our fourth-quarter earnings release, we are in the midst of divesting our South African distribution business and our Zambian operations, which were previously reported in the International segment of our business. First-quarter revenue of $265 million, as reported in our press release financial statements and discussed on this call today, reflects continuing operations only and excludes $10 million of discontinued operations.

Accordingly, my comments today exclude the impact of discontinued operations in all figures and in all comparisons.

Sales from continuing operations of $265 million reflect a 2% decline from 2013. However, when you exclude the impact of weakening foreign currencies, sales were relatively flat compared with prior-year. As you know, growing the profitable core of MSA remains the central focus of our strategy as core product offerings comprise nearly 73% of our total revenue in the first quarter.

Core product offerings include fixed gas and flame detection systems, portable gas detection instruments, industrial head protection products, supplied air respirators where self-contained breathing apparatus -- or SCBA -- is our principal product. And lastly, fall protection products.

Overall performance reflected a 22% decline in North American SCBA revenue, which was hampered by regulatory delays throughout the quarter.

We’ve discussed this in detail on previous investor calls. SCBA sales aside, local currency core product sales increased 3% in the quarter with continued double-digit growth in portable gas detection.

As you know, MSA has a strong position in the portable gas detection space and we continue to successfully penetrate the oil and gas market vertical with our highly differentiated products. As a reflection of this, North American sales of portable gas detection instruments increased 22% over prior year during the quarter.

Another positive from the quarter was 6% consolidated growth in head protection, led by a 13% increase in our North American head protection sales. With a completely customizable product offering complemented by our broad range of accessories, such as eye, face, and hearing protection, MSA remains the market leader in industrial head protection in North America.

Emerging market sales comprised 29% of our total revenue, up slightly from last year. Results across the emerging markets were a mixed story in the quarter, led by nearly 20% growth in Southeast Asia and mid-single digit growth in most other areas, but offset by lower sales into China, Russia, and sub-Saharan Africa.
Overall, sales in emerging markets were up 3% from the year ago period. In just a bit, Stacy will detail our sales performance from both geographic and product line perspectives.

Now, I would like to turn my attention to the US Fire Service SCBA market where migratory delays continued as a headwind for us throughout the quarter.

As previously discussed in our press release back in March, we received notification from the National Fire Protection Association -- the NFPA -- that a second tentative interim amendment was issued extending the effective shipping date to June 30 for SCBA models that meet the older 2007 edition of the NFPA standard. Due to a time lapse between the first TIA expiration and the newest TIA extension, we were unable to ship our FireHawk M7 air masks for the majority of the month of March, adversely impacting North American SCBA results.

However, we were pleased to learn that our FireHawk M7XT air masks, an updated version of our successful M7 product, was certified as compliant to the new NFPA standard on March 24, providing fire departments with another dynamic SCBA option and one that is currently shipping here in the second quarter.

Of course, we are also looking forward to broadening our SCBA portfolio even further with our next-generation SCBA platform, the G1, which we just unveiled at the 86th Annual Fire Department Instructors Conference -- or FDIC -- in Indianapolis two weeks ago. The development of the G1 SCBA has been ongoing over the past five years and reflects the inputs of thousands of firefighters from an organized voice of customer process from around the world.

Believe me, we started this project with a clean sheet of paper and designed this new SCBA platform from the ground up, side-by-side with firefighters. Everything is new.

Of course, the G1 has been designed to meet the latest NFPA standards, but it dramatically eclipses competitive SCBA in terms of performance, comfort, visibility, communication, durability, heat resistance, ease-of-use, and lowest total cost of ownership. Based on the feedback we received at the FDIC, I am confident we have hit the mark.

The G1 is currently undergoing regulatory testing, and we hope to have the required approvals and start shipping the G1 in the latter part of the year.

MSA is breaking new ground in the area of portable gas detection as well. We just launched a new portable instrument family under the ALTAIR brand. This new line consists of three products. The ALTAIR 2X, the ALTAIR 2XP, and the ALTAIR 2XT. The ALTAIR 2XP is indeed revolutionary because it incorporates what is known as pulse technology. I will spare you the technicalities, but this new technology allows for bump testing to be completed by the user in the field without the need for costly calibration gas.

For those of you that might not be aware, a bump test, also known as a functional test, is performed at the start of each day's use for every gas detector unit in the facility. The procedure tests the alarms and sensors of a gas detector to be sure they are functional. Typically a daily bump test is performed by a qualified technician at the repair and maintenance facility where they use extensive calibration gas and equipment to perform this functional go, no go bump testing. This daily bump testing is time-consuming, it is inefficient to plant operations and it adds significantly to the total cost of ownership of a hand-held gas detection instrument.

Simplifying bump testing the way MSA's new ALTAIR 2XP does increases safety and improves productivity all while dramatically lowering the customer’s total cost of ownership. I might mention the ALTAIR 2XP also records the bump test event into its internal memory, providing traceability for the customer. Something generally not provided by traditional bump testing procedures. When you consider the thousands of instruments worn on thousands of workers within an industrial complex, or during a refinery turnaround, the savings to the customer are substantial, making the ALTAIR 2XP a compelling choice.
As I mentioned earlier, our portable instrument sales increased 22% year over year in North America in the first quarter. The ALTAIR family of portable instruments is a product line built on new technologies that is gaining significant momentum in the market which is just as we envisioned it, since strong acceptance was indicated by the market testing conducted as part of our product development efforts.

The next new product introduction that I will cover is in the fixed gas and flame detection core product group. The new MSA Observer-i is an advanced ultrasonic gas leak detector. Ultrasonic detectors listen for dangerous gas leaks and are used primarily by the oil and gas industry. The Observer-i significantly increases safety and greatly reduces the possibility of false alarms over competitive methods of gas detection.

You can imagine, it is very expensive when our customers have to shut down an operation due to a false alarm. So we have designed the Observer-i to minimize that possibility. The Observer-i and its ability to listen for gas leaks complements nicely our leading line of gas detectors sniffing for leaks or watching for flames.

We were also pleased to launch our FastTrac III Suspension system for the MSA V-Gard helmet in the first quarter. This new suspension provides customers with an improved level of comfort and improved helmet stability. The customer response has been extremely positive.

Industrial head protection is a key component of our core product offering and we continue to introduce innovations that underscore and enhance our market-leading position in this category.

As you can see, our pipeline of new products is robust and is having an impact. During the quarter, 19% of our total revenue and 23% of our core product revenue was from products introduced and developed in the last five years — a testament to the success of our new product development cycle and certainly a talented and committed team. We remain committed to investing in and developing new core products which help bolster our strong market position across these areas.

As I mentioned on our last investor call, 2014 marks our 100th year in the business of protecting the health and safety of workers and facility infrastructures across the globe. In addition to a global charitable giving program and brand ads associated with our Centennial celebration, we have also taken this milestone anniversary as an opportunity to recognize our corporate structure, to reorganize our corporate structure.

On February 27, our Board approved the implementation of a new holding company structure to modernize and better online our global organization with the future needs and strategy of the Company. The transaction closed on March 7 and the most visible change of this overhaul is a formal name change from Mine Safety Appliances Company to MSA Safety Incorporated.

The MSA Safety Incorporated now serves as our NYSE listed reporting company for a new group of holding companies but maintains the same bylaws, charter, Board of Directors, and ticker symbol as the former Mine Safety Appliances Company. This realignment provides several benefits to the Company including enhanced operational efficiency and flexibility.

Another important events surrounding our 100th anniversary is a special Investors Day on Friday, June 13th, near our corporate headquarters here in Cranberry Township, Pennsylvania, just outside of Pittsburgh. At this event, we look forward to giving you deeper insight into our strategy, key initiatives, driving shareholder value, and demonstrations of our innovative new core products. Attendees will also have a chance to speak with various levels of MSA management, gaining further understanding of how our leaders drive success throughout the organization. We very much look forward to hosting you in Cranberry on June 13th.

Now, I would like to turn the call over to our CFO, Stacy McMahan, to overview our first-quarter financial performance. After Stacy finishes with her report, I will provide some closing comments and then we will open up the call for your questions. Stacy?

Stacy McMahan  -  MSA Safety Incorporated  -  SVP and CFO

Thank you, Bill, and good morning, everyone. I will now share further insight into our first-quarter financial performance. Additional information will be available when we file our Form 10-Q with the Securities and Exchange Commission later today.
As Bill mentioned, sales of continuing operations in the first quarter were $265 million, down $5 million or 2% from the prior year on an as-reported basis but flat with a prior year in local currency terms with stronger growth in head protection, importable gas detection offset by lower level of self-contained breathing apparatus sales, primarily in the United States.

Order activity remained healthy during the quarter and backlog is up nearly 20% from the end of the year. About two thirds of this increase is associated with a large ballistic helmet order from the French military that will not ship until the end of this year and the beginning of next year.

We saw an uptick in backlog in North America, Latin America, in Asia, and throughout emerging Europe at the end of the quarter as the order pace picked up. Backlog growth was demand-driven with no issues in our supply chain. We have streamlined our detailed discussion on sales and will comment on two views of our sales performance by geographic reporting segment and then by product group.

When we consider our sales by product in the quarter, local currency sales in our combined five core product groups were relatively flat and represented 73% of sales. Strong results in portable instruments up 12%, head protection up 6%, and fixed gas and flame detection up 3% were largely offset by weakness in breathing apparatus and fall protection products.

A strong turnaround season in the US oil, gas and petrochemical market boosted sales of portable gas detection and head protection. Fixed gas and flame detection growth was driven by large order deliveries in Europe.

Breathing apparatus decreased 14% on regulatory-related delays in the United States. Fall protection, our smallest core product area, representing 4% of our sales decreased 5% from the prior year on weakness in the United States related to a product recall and replacement conducted late last year.

Next, I will offer more texture on our geographic reporting segments. In North America, sales in the first quarter were $130 million, up $1 million compared to prior year notably from core products. The continued low level of US fire service sales due to regulatory delays drove breathing apparatus down 22% from the prior year as Bill mentioned. This shortfall was offset by strong portable instrument sales up 22% and strong head protection sales up 13% on significant strength in the Gulf Coast region attributed to the aforementioned strong spraying turnaround season in oil, gas and petrochemicals.

Our European segment reported first-quarter sales of $75 million, down 1% in local currency from the prior year. Core product sales comprised 66% of European segment revenue and were down 3% with declines in self-contained breathing apparatus and portable gas detection partially offset by delivery of large orders in fixed gas and flame detection in the Middle East.

Timing of large government orders and geopolitical unrest in our Russia, Caspian region adversely impacted core product sales in the quarter. Non-core product sales were up 3% on a higher level of ballistic helmet sales in Western Europe.

Finally, first-quarter sales in our international segment were $61 million, unchanged on a local currency basis from the prior year. Core product sales represented 68% of international sales and were flat prior year. Portable gas detection sales in Latin America and Asia grew 28%, but were offset by a lower level of fixed gas and flame detection sales. Local currency non-core product sales were down 3% when compared to the same quarter a year ago, as we continued to see relative weakness in mining markets in Africa and Australia.

Our gross profit rate for this quarter was 46%, an increase of 90 basis points from last year. While a favorable mix drove considerable improvement, we also saw a meaningful expansion across substantially all of our core products on improved pricing and cost management. Selling, general and administrative costs were $85 million, increasing 4% or $4 million on a local currency basis compared to last year.

The increase was driven by a $2 million self-insured product liability settlement, $2 million of professional service costs related to corporate projects commenced this year, and $1 million of investment in our Europe 2.0 program. These were partially offset by a $2 million decline in legal fees related to our ongoing insurance coverage litigation and a $1 million improvement in pension income on our overfunded pension plan in the United States. The residual increase is primarily associated with merit increases for employees and new product launch expenses.
Our investment in research and development this quarter was $11 million, up $1 million as we continued to invest in our exciting new core products like the G1 SCBA, new portable gas detectors, fixed gas detectors and hardhat accessories. We recorded $2 million in restructuring expense from our ongoing initiative to reduce our footprint in Australia and across Europe. We had no restructuring expense in the first quarter of 2013.

The activities we continue to execute in these areas are driving improvements in key profitability ratios. For instance, in Australia, where local revenues were down 11% in the quarter, local currency operating costs were down 26%. We have previously spoken on the expected benefits of our Europe 2.0 program that we are implementing over the remainder of 2014 with benefits accruing in 2015 and beyond.

Absent these restructuring costs, operating income was $25 million or 9.6% of sales in the quarter, a 130 basis point decrease from the prior year. The lower level of North American SCBA sales and higher first-quarter SG&A expense unfavorably impacted quarterly operating margin results.

Our consolidated tax rate this quarter was 36.4%, up over 900 basis points from the same period a year ago of which half is associated with the R&D tax credit. If you remember, during the first quarter of 2013, we recognized benefits associated with the full year of 2012 as well as a partial amount associated with 2013. During the first quarter of 2014, we recognized the higher effective tax rate associated with nondeductible losses in several jurisdictions.

Net income was $14 million in the first quarter or $0.38 per basic share, excluding income from discontinued operations, and $2 million of pretax restructuring and foreign-exchange losses. Adjusted earnings were $15 million or $0.40 per basic share, a 24% decrease from the equivalently adjusted first quarter of the prior year.

Cash flow from operations of $9.4 million was 55% higher than the previous year. Netting out capital expenditures, free cash flow provided $2 million of cash in the first quarter compared to a use of $1 million in the equivalent period a year ago on improved working capital performance partially offset by a lower level of net income. Cash at the end of the quarter composed largely of cash outside the United States was $102 million, up $6 million from year end. Our total debt at the end of the quarter was $283 million, up $15 million from year end.

During the quarter, we took solid steps to modernize our capital structure complementing the activities on the corporate realignment project. During the realignment project, we successfully renegotiated a number of our existing credit facilities, providing MSA with access to an additional $150 million of capital on our revolving line of credit and $125 million on our senior unsecured term facility, all at historically low rates.

Considering these recent changes and our outstanding debt at year end, we have access to almost $500 million of capital.

Although orders were healthy, and backlog provides support going forward, we experienced a challenging first quarter that persists into this second quarter. Demand has been uneven in our international end markets and we continue to navigate the regulatory approval process with our revolutionary new SCBA.

While we expect approval on this key new product sometime in the third quarter, we don’t expect significant shipping activity until the fourth quarter. As a result of the ongoing uncertainty in our end market, we remain focused on controlling discretionary costs and executing key restructuring programs aimed at improving our cost structure.

Thank you for your attention and I will now return the microphone to Bill.

Bill Lambert - MSA Safety Incorporated - President and CEO

Thank you, Stacy. As you can see, despite challenges associated with the SCBA market, other key end markets such as the oil, gas and petrochemical industry drove solid performance in a number of core product lines for us.

We also continue to improve the profitability of our business as our strong and increasing gross profit performance reflects the value that our customers accord our products as well as an organizationwide dedication to lowering costs through operational excellence.
Difficult business conditions and other challenging exogenous factors cannot obscure the health of our business. I believe our strategy is sound and is being validated by the market. I also believe MSA’s setbacks in the North American fire service are merely temporary and will work their way out over the coming quarters.

I want to assure our shareholders we are attuned to the balance necessary to drive near-term performance while simultaneously making the right investments in innovation, product enhancements, capital and equipment, employee development, and technologies that enhance our customer’s experience. It is our commitment to these investments that we believe will sustain growth and value creation over the long term for MSA and for our shareholders.

Thank you for your attention this morning. At this time, our three geographic presidents, Nish Vartanian, Ron Herring, and Kerry Bove, have joined Stacy McMahan and me and we are happy to take any questions that you might have. Please remember that MSA does not give what is referred to as guidance and that precludes most discussion related to our expectations for future sales and earnings.

Having said that, we will now open the call to your questions.

QUESTIONS AND ANSWERS

Operator


Edward Marshall - Sidoti & Company - Analyst

Good morning. I wanted to ask if I could first on the revenue side, if we look at -- and I know you gave SCBA down 22%, but I know that is not all of your fire service sales. Can you tell me what US fire service sales were on a year-over-year basis? Or if you have the absolute number that would be helpful.

Bill Lambert - MSA Safety Incorporated - President and CEO

Stacy, do you have that absolute number? I don’t have that here.

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

(technical difficulty).

Bill Lambert - MSA Safety Incorporated - President and CEO

You want to move on while we dig that out? (multiple speakers)

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

We will locate that for you, Ed.
Edward Marshall - Sidoti & Company - Analyst

Okay. Then if I look at the standout in the quarter, the SG&A and I was curious. I know, Stacy, you gave some commentary surrounding it, but I was curious if this was related to maybe some timing of compensation like it was last year’s first quarter. Were there any costs for realignment in that number? And was there anything else related to maybe the G1 marketing efforts as we move forward and what’s temporary and maybe what is the ongoing -- the go-forward look on SG&A? Not asking for guidance.

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

Yes, I understand. The more temporary things were the things that I outlined in my script which was essentially that we had $2 million of professional service costs associated with the work that we did on our corporate reorganization as well as the Centennial branding and marketing efforts that we have going forward and some work that we are doing actually on our corporate strategy.

Then, we had $1 million of investment that was non-restructuring in Europe 2.0 as we invest in the infrastructure for the organization in Europe going forward. So those sorts of things would not repeat. I think that probably answers the question.

There were the -- oh, I’m sorry, the stock compensation expense. We are in sort of a -- for the foreseeable future -- a pattern where Q1 expense will have the majority part of our stock comp recognize, given the demographics, recipients of this -- in this equity program. So you will see a Q1 level that is elevated versus the remainder of the year for our foreseeable future until our demographics change. And so that is why it is very consistent with the prior year.

Edward Marshall - Sidoti & Company - Analyst

Okay, so there is some seasonality in that SG&A that is going to be recurring on an annual basis?

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

Yes, that’s correct.

Edward Marshall - Sidoti & Company - Analyst

Okay. And as we move forward, too, I mean the one comment I guess I would have on the quarter is there has been some very -- the most -- the highest gross margin that I have seen in the business since at least we picked up coverage? And it seems to me as you pare down some of that is G&A expense throughout the remainder of the year, you should see some additional leverage assuming sales comes back.

I guess a portion of it is removing that $23 million -- 23% gross margin peripherals business and the distribution in South Africa and Zambia. Is there other low-hanging fruit that you can target and look at and maybe in this gross margin range that can actually enhance the margin as we go forward from a gross margin perspective?

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

Well, as has been the case in our recent history, the mix is a huge impact. So our core products are more favorable in margin and as we continue to sell core products and even within the core products, the mix within core products in this quarter where you had a very strong performance of portable instruments and head protection, actually was favorable as the self-contained breathing apparatus is a slightly lower margin in the mix even though it is core. So that gave us some lift in the quarter. And that is the highest contributor to margin improvement.
The other thing (multiple speakers) I'm sorry, the other thing you will see affect us from time to time that makes it a little choppy is the mix of large orders. And actually the large orders contributed -- the large order mix in the quarter contributed a little bit of a headwind versus the prior year's quarter. But just a little bit, because we had a good amount of large orders ship in Q1 of this year.

Edward Marshall - Sidoti & Company - Analyst
So there is potential some plus [op] as we move forward with the headwinds going off to the side, assuming that the mix on -- and I assume it is related to what is going on in the Gulf region if that mix continues to be there. There's -- as headwinds subside, there is potential upside in that margin of that.

When I look at -- and I've seen -- and we saw the G1 masks two weeks ago now and I was curious if maybe it is too early and too preliminary, but have you noticed that some of the firefighters want to wait on the M7XT before purchasing and having a chance at the G1? Or is there going --? I know there's going to be some carry delay impact into 2Q, was kind of seeing what may be the preliminary assumptions are there, surrounding what firefighters might be thinking.

Nish Vartanian - MSA Safety Incorporated - President-MSA North America
This is Nish. We saw some of that. There are departments who were leaning towards the M7XT and certainly the G1, you saw the excitement at the conference and they got caught up in that excitement. So, there are a number of departments who are taking a look at the G1 as a possibility. So, we do have some departments who are excited about the product and waiting for that approval so they can do some field evaluations to do a comparison. So they got caught up in that excitement as everyone else did.

Bill Lambert - MSA Safety Incorporated - President and CEO
Yes, I think that there's some risk on the M7XT being -- orders being switched to the G1, but I think that risk in what we've seen so far is relatively low. I think where the greater excitement is quite honestly and what we have absolutely seen are folks holding off competitive SCBA purchases, waiting for the G1. And that's probably the more exciting part for us because we see the G1 as really providing us with a platform where we can take competitive market share in the fire service.

Edward Marshall - Sidoti & Company - Analyst
It is a high-class problem to have, I guess, having your own customers waiting and I assume that is what you wanted anyway to begin with or what you hoped for. So that is good news.

Last question and then I will move on. The fall protection business and you said it was down 5% on US weakness due to a recall. And I'm curious, I mean that is one of the areas of focus. I know it is a smaller portion of the business, but one of the areas of focus for improvement overall as you see a lot of plus upside there.

I am curious, where are we in that kind of bringing it up to the industry standard and what you see for that business on a go-forward basis.

Bill Lambert - MSA Safety Incorporated - President and CEO
I think that our first-quarter results in fall protection were disappointing, but were hampered by the recall that we had last year and implementing that recall and whatever residual effects that we had from it in the North American market. It doesn't dissuade us, though, from what we see as great potential in this market.
This product line is literally our fastest growing product line over the last 15 years when you look at 15-year compounded annual growth rate. We see it as great opportunity going forward with adoption of standards worldwide increasing. It is a very fragmented market on a global basis which provides both obstacles and opportunities.

And so, I think that as we look at the market, we are still very much interested in expanding our presence in fall protection and making it a stronger, bigger part of our core.

Edward Marshall - Sidoti & Company - Analyst

When you say adoption of safety product standards worldwide, is this to imply that maybe the share in US isn't necessarily what you are targeting and maybe you are targeting more the emerging market growth, et cetera, in that business? Or what did you mean by -- I mean, I understand --.

Bill Lambert - MSA Safety Incorporated - President and CEO

That is exactly right, Ed. I think that they are -- when we look at the market here in North America and the US, in particular, it is a very crowded space with a couple of really large leaders. But when you look internationally at the growth potential that exists, we see some great opportunities internationally.

Edward Marshall - Sidoti & Company - Analyst

And with the liquidity that Stacy discussed earlier, you have a lot of firepower, if necessary.

Bill Lambert - MSA Safety Incorporated - President and CEO

That is very accurate.

Edward Marshall - Sidoti & Company - Analyst

Okay, thank you.

Operator

Walter Liptak, Global Hunter.

Go ahead, Walter, with your question. If your line is on mute, unmute your line.

And we will move on. Richard Eastman, Robert W. Baird.


Nish Vartanian - MSA Safety Incorporated - President-MSA North America

Yes. So the industrial sales were robust, Rick. We obviously led by portable instrument sales up about 22% (multiple speakers) and then, obviously, head protection we are up about 13%. So overall our industrial piece was very strong and that was driven predominantly by the energy market along the Gulf Coast. So we had good sales in North America on the industrial side.


Was it --? Again, fall protection was a bit of an issue and then the fixed flame and gas, I think you might have had some tough comps with some larger orders. But with that business, was the industrial up at least -- was it up 10 or mid-singles?

Nish Vartanian - MSA Safety Incorporated - President-MSA North America

Yes, it was up -- no, it was up about 8.8% I believe was the number (multiple speakers)


8.8, okay.

Nish Vartanian - MSA Safety Incorporated - President-MSA North America

Yes, 8.8 was (multiple speakers).


Okay, thank you. Then, also, just a question, a similar question on Europe. Given in local currency it was maybe down a little bit, was the industrial and fire service business did they both perform about the same or did we get some growth out of the industrial piece of Europe?

Bill Lambert - MSA Safety Incorporated - President and CEO

Ken --

Ken Krause - MSA Safety Incorporated - Executive Director-Global Finance

The significant part of the growth came from the nonmilitary side of the business in the first quarter when we looked at the ballistic helmet business, for example, it was up considerably. But then also in the Middle East we saw a bit of a recovery in the Middle East with respect to fixed gas and flame detection. It was a bright spot for us over in the Middle East.

So it was somewhat of a mixed bag with strength in Western Europe, driven by ballistic helmet, and the Middle East business, driven predominately by the industrial base.


Okay. But are we seeing any -- on the industrial side of the business, are we seeing any signs of life just within industrial demand or is it probably -- is it too early?
Stacy McMahan - MSA Safety Incorporated - SVP and CFO

I think we could characterize it (multiple speakers). Rick, we would characterize it as modest. Not anything to get excited about, but it is not declining.


Yes, okay. And I wanted to circle back for a minute, on the SG&A line. I think, without restructuring, was about $85 million of SG&A in the quarter. And I may be a little surprised that we are putting SG&A investment into Europe with Europe 2.0 well underway.

But the one timers that you called out there, Stacy, are maybe about 5 million in what I guess I would think of as maybe one timers. I think that was the message you were sending. And so, sequentially, is it appropriate to think that maybe in Q2 we are going to be closer to $80 million all in?

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

What I would say, the characterization that when I was speaking with Ed about non-repeaters, essentially these were new investments and the quarter that didn’t appear in the prior year’s quarter. The product liability settlement, those can appear, it can be choppy from quarter to quarter. It is very difficult for us to predict when that is going to happen. So that one is just a variable, okay. The professional service cost, we still have ongoing corporate projects that we are supporting throughout the year, so, and there may be throughout the year they may [re-repeat]. We don’t necessarily say that they will repeat into next year. All right?

And then the 2.0 investment really relates to setting up again the new headquarters and infrastructure fourth the future structure of Europe. That is why it is not in restructuring charges. But you have an offset of a lot of the savings that are going to hit from those restructuring charges that we have taken to reduce the footprint overall.


So as we talk about those year over year, I am thinking more quarter over quarter and your commentary maybe to end your comments during the conference call was managing the discretionary expense side.

But is that $85 million a good run rate on a quarterly basis going forward? I am surprised that number is not high. Again, our revenue missed, which means our selling expense should be maybe a little bit less, but does an $85 million run rate on a quarterly basis persist through the year? Through this year?

Stacy McMahan - MSA Safety Incorporated - SVP and CFO

The stock compensation expense drives it higher in the first quarter. So, $85 million is high from that, but we continue to launch new products. Because we still have those new product launch expenses and we will continue to have -- fund our corporate projects. So, but it will -- it is a high quarter is what I am saying.


And is it -- the product liability, the $2 million for product liability, why would I think that would be more of a reserve than it would be an ongoing quarterly expense?
Stacy McMahan - MSA Safety Incorporated - SVP and CFO

If you will refer to some of the footnotes in our 10-K filing, you -- we can -- it explains it more completely than I can explain it right now. But the product liability for this type of what we call a toxic torch is something that we have various difficulty coming up with an estimate of what to reserve. And it is explained related to how we don’t know when a case comes to trial, we don’t know exactly what they are asking for and we don’t know how the jury is going to decide. So, traditionally, we have had great difficulty estimating that. When we know it, we estimate it, we put a reserve on. But this was one of those that we weren’t able to estimate.


Okay, all right.

Can I ask you, Bill, when you look at this first quarter and we all know there were lots of puts and takes both internationally and US, but do you -- how for off of your sales plan for the full calendar year do you feel that you are after this quarter? Because again, you have the commentary about the backlog and the order flow being good. But how are you assessing this quarter relative to your full-year sales plan?

Bill Lambert - MSA Safety Incorporated - President and CEO

Yes, it is a good question, Rick, and I will try to provide you a little bit of insight here. Actually, we put together a time phased plan internally here that we run the business to and we just about hit our time phased sales plan quite honestly. We were really close to our time phased sales plan and actually we are better than our time phased operating margin and operating income performance.

So, I am not perhaps as disappointed with the quarter as the comparison between consensus estimate and our actual performance was. This was going to be -- we knew this was going to be a challenging year in the sense that the first half would be much more difficult than the back of the year. And it is playing out that way.

But just as we said, the big miss, the biggest impact was on sales volume with the majority of that miss in SCBA compounded by some of these sales volume miss in China, Russia, sub-Saharan Africa, those parts of the emerging markets. All well documented as to some of the struggles that are going on in those geographies. And then you add in the SG&A expense that was a little bit lumpy and a little bit heavier in the first quarter and the effective tax rate. And that tells the story of how the first quarter went and what the issues were for us.


Understand. Okay, well thank you much.

Operator

(Operator Instructions). Walter Liptak, Global Hunter.

Walter Liptak - Global Hunter Securities, LLC - Analyst

Sorry about that missed cue before. I have a question on the portable instruments. You had strong growth there. Is there any sense on how sustainable that is? Whether that was possibly an inventory build at the distributor level or an indicator of stronger demand?
Bill Lambert - MSA Safety Incorporated - President and CEO

Well, I think as we have talked about in the past, we knew that the spring season in the refinery turnarounds and Gulf Coast turnaround area was going to be strong. And so, a part of that is associated with that very strong turnaround season that we see in the oil, gas, petro chem industry. I don't believe it was due to inventory build. I think it was due to some strong turnaround season factors as well as MSA gaining competitive market share.

Walter Liptak - Global Hunter Securities, LLC - Analyst

Okay, great. Then on SCBA, should we be thinking about Q2 more in line with Q1? Or can the M7XT make an impact from the start with a full quarter?

Bill Lambert - MSA Safety Incorporated - President and CEO

I'm sorry, I am chuckling there, Walt. It for lines on providing guidance, but we don't see the second quarter as Stacy indicated in her commentary as being significantly different on the SCBA front than the first quarter. We are shipping the M7XT now we are shipping the M7 SCBA, so fire departments do have those choices. But as we indicated with the new G1 SCBA, we have certain decisions that are being pushed out and that is not until the second half of the year product.

Walter Liptak - Global Hunter Securities, LLC - Analyst

Okay, great. Can you talk maybe a little bit about the feedback you got from customers at the show on the technology and the G1, broadly? Relative to your competition.

Bill Lambert - MSA Safety Incorporated - President and CEO

Yes, it exceeded our expectations. The feedback at the show was overwhelmingly positive and exceeded our expectations. I think that we really hit the mark there and those who were able to attend the show confirmed that for us.

Walter Liptak - Global Hunter Securities, LLC - Analyst

Okay, great. That's all for me. Thank you.

Operator

And I will turn it back over to you, Ken, for any closing remarks.

Ken Krause - MSA Safety Incorporated - Executive Director-Global Finance

Great. Thank you, John. Seeing that we have no more questions, that concludes this morning’s call. If you missed a portion of the conference call, an audio replay will be available on our website for the next 30 days as well as the transcript of the call. On behalf of our entire team here, I want to thank you for your continued interest in MSA and we look forward to talking with you again soon. Have a great day.

Operator

Thank you, ladies and gentlemen. That concludes today's call. Thank you for participating. You may all disconnect at this time.
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