MINE SAFETY APPLIANCES CO
Form 10-K
March 06, 2006
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2005	**Commission File No. 1-15579**

MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

Pennsylvania	**25-0668780**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
121 Gamma Drive	
RIDC Industrial Park	
O Hara Township	
Pittsburgh, Pennsylvania	**15238**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: 412-967-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, no par value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

Preferred Stock Purchase Rights

(Title of Class)

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in the definitive proxy statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of February 17, 2006, there were outstanding 36,545,045 shares of common stock, no par value, not including 3,000,525 shares held by the Mine Safety Appliances Company Stock Compensation Trust. The aggregate market value of voting stock held by non-affiliates as of June 30, 2005 was approximately $1,443 million.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the May 11, 2006 Annual Meeting of Shareholders are incorporated by reference into Part III.

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Forward-Looking Statements

This report may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements relate to future events or our future financial performance and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. These risks and other factors include, but are not limited to, those listed in this report under Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere in this report. In some cases, you can identify forward-looking statements by words such as may, will, should, expects, intends, plans, anticipates, believes, esti predicts, potential, continue or the negative of these terms or other comparable words. These statements are only predictions and are not guarantees of future performance. Therefore, actual events or results may differ materially from those expressed or forecast in these forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We are under no duty to update publicly any of the forward-looking statements after the date of this report whether as a result of new information, future events or otherwise.

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PART I

Item 1. Business

Overview Mine Safety Appliances Company was incorporated in Pennsylvania in 1914. We are a global leader in the development, manufacture and supply of sophisticated products that protect people s health and safety. Sophisticated safety products typically integrate any combination of electronics, mechanical systems and advanced materials to protect users against hazardous or life threatening situations. Our comprehensive line of safety products is used by workers around the world in the fire service, homeland security, construction and other industries, as well as the military. This broad product offering includes self-contained breathing apparatus, or SCBAs, gas masks, gas detection instruments, head protection, respirators and thermal imaging devices. We also provide a broad offering of consumer and contractor safety products through retail channels.

We dedicate significant resources to research and development, which allows us to produce innovative, sophisticated safety products that are often first to market and exceed industry standards. Our global product development teams include cross-geographic and cross-functional members from various areas throughout the company, including research and development, marketing, sales, operations and quality management. Our engineers and technical associates work closely with the safety industry s leading standards-setting groups and trade associations, such as the National Institute for Occupational Safety and Health, or NIOSH, and the National Fire Protection Association, or NFPA, to develop industry product requirements and standards and anticipate their impact on our product lines.

Segments 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 the following three geographic segments: North America, Europe, and International. Segment information is presented in the note entitled Segment Information in Item 8 Financial Statements and Supplementary Data.

Because our financial statements are stated in U.S. dollars, currency fluctuations may affect our results of operations and financial position and may affect the comparability of our results between financial periods.

Principal Products We manufacture and sell a comprehensive line of sophisticated safety products to protect workers around the world in the fire service, homeland security, construction and other industries, as well as the military. We also provide a broad offering of consumer and contractor safety products through retail channels. Our products protect people against a wide variety of hazardous or life-threatening situations. The following is a brief description of each of our principal product categories:

Respiratory protection. Respiratory protection products are used to protect against the harmful effects of contamination caused by dust, gases, fumes, volatile chemicals, sprays, micro-organisms, fibers and other contaminants. We offer a broad and comprehensive line of respiratory protection products, including:

- *Self Contained Breathing Apparatus, or SCBAs.* SCBAs are used by first responders, petrochemical plant workers and anyone entering an environment deemed immediately dangerous to life and health. SCBAs are also used by first responders to protect against exposure to chemical, biological, radiological and nuclear, or CBRN, agents.

- *Filtering respirators.* Filtering respirators cover a broad class of respirators for many hazardous applications, including:

  - full face gas masks for the military and first responders exposed to known and unknown concentrations of dangerous gases, chemicals, vapors and particulates;

  - half mask respirators for industrial workers, painters and construction workers exposed to known concentrations of gases, vapors and particulates;

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powered-air purifying respirators for industrial, hazmat and remediation workers who have longer term exposures to hazards in their work environment; and

dust and pollen masks for maintenance workers, contractors and at-home consumers exposed to nuisance dusts, allergens and other particulates.

Gas masks. We have supplied gas masks to the U.S. military for several decades. The latest versions of these masks are currently in use by the U.S. military in Iraq, Afghanistan and other parts of the world. Our commercial version of this gas mask, the Millennium, was developed based on the MCU-2/P, the gas mask currently used by the U.S. Air Force and U.S. Navy.

Escape hoods. Our Response Escape Hood is used by law enforcement personnel, government workers, chemical and pharmaceutical workers, and anyone needing to escape from unknown concentrations of a chemical, biological or radiological release of toxic gases and vapors. The hood gives users head and upper neck coverage and respiratory protection to help them escape from threatening situations quickly and easily.

Hand-held and permanent instruments. Our hand-held and permanent instruments include gas detection instruments and thermal imaging cameras. Our gas detection instruments are used to detect the presence or absence of various gases in the air. These instruments can be either hand-held or permanently installed. Typical applications of these instruments include the detection of the lack of oxygen in confined spaces or the presence of combustible or toxic gases. Our hand-held thermal imaging cameras are used by firefighters to see downed victims through dense smoke, or to detect the source of the fire.

Single- and multi-gas hand-held detectors. Our single- and multi-gas detectors provide portable solutions for detecting the presence of oxygen, hydrogen sulfide, carbon monoxide and combustible gases, either singularly or all four gases at once. Our hand held portable instruments are used by chemical workers, oil and gas workers, utility workers entering confined spaces, or anywhere a user needs protection to continuously monitor the quality of the atmosphere they are working in and around.

Thermal imaging cameras. Our infrared thermal imaging cameras, or TICs, are used in the global fire service market. TICs detect sources of heat in order to locate firefighters and other people trapped inside burning or smoke-filled structures. TICs can also be used to identify hot spots. Recently, we introduced the Evolution® 5200 Thermal Imaging Camera, which combines the functionality and durability required by the fire service with features and performance capabilities not found in other small format TICs.

Multi-point permanently installed gas detection systems. Our comprehensive line of gas monitoring systems is used to continuously monitor for combustible and toxic gases and oxygen deficiency in virtually any gas detection application where continuous monitoring is required. Our systems are used for gas detection in the pulp and paper, refrigerant monitoring, petrochemical and general industrial applications. Our newest line, the SafeSite Hazardous Gas Detection System, designed and developed for homeland security applications, combines the technologies and features from our line of permanent and portable gas detection offerings. The SafeSite System detects and communicates the presence of toxic industrial chemicals and chemical warfare agents. With up to 16 monitoring stations, wirelessly connected to a base station, the SafeSite System allows law enforcement officials to rapidly deploy and set up perimeter gas sensing sentinels that continuously monitor the air for toxic gases at large public events, in subways or at federal facilities, and continuously report their status to incident command.

Flame detectors and open-path infrared gas detectors. Our line of flame and combustible gas detectors is used for plant-wide monitoring of toxic gas concentrations and for detecting the presence of flames. These systems utilize infrared optics to detect potentially hazardous conditions across distances as far as 120 meters, making them suitable for use in such places as offshore oil rigs, storage vessels, refineries, pipelines, and ventilation ducts. First used in the oil and gas industry, our systems currently have broad applications in petrochemical facilities, the transportation industry and in pharmaceutical production.

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Eye, face, hearing and head protection. Eye, face, hearing and head protection is used in work environments where hazards present a danger to the eye, face, hearing and head, such as dust, flying particles, metal fragments, chemicals, extreme glare, optical radiation and items dropped from above. Our basic categories of these products are:

Industrial hard hats. Our broad line of hard hats include full-brim hats and traditional hard hats, available in custom colors and with custom logos. These hard hats are used by plant, steel and construction workers, miners and welders.

Fire helmets. Our fire service products include leather, traditional, modern and specialty helmets designed to satisfy the preferences of firefighters across geographic regions. Our CairnsHELMET is the number one helmet in the North American fire service market based on 2005 sales. Similarly, our Gallet firefighting helmet has a number one market position in Europe based on 2005 sales.

Military helmets. The Advanced Combat Helmet is used by the military for ballistic head protection. It was originally designed for the Special Forces of the U.S. military and has now been designated as the basis of issue by the U.S. Army. The Advanced Combat Helmet earned the distinction of being named one of the greatest inventions of 2002 by the Department of Army s Materiel Command.

Eye, face and hearing protection. We manufacture and sell a broad line of hearing protection products, non-prescription protective eyewear and face shields, used in a variety of industries.

Body protection.

Fall protection. Our broad line of fall protection equipment includes the following: confined space equipment; harnesses/fall arrest equipment; lanyards; and lifelines.

Ballistic body armor. Our ForceField Body Armor line, introduced in September 2005, features two concealable ballistic vests and one over-the-uniform tactical vest designed for SWAT applications.

Customers Our customers generally fall into three categories: industrial and military end-users, distributors, and retail consumers. In North America, we make nearly all of our non-military sales through our distributors. In our Europe and International segments, we make our sales through both indirect and direct sales channels. Our U.S. military customers, which are comprised of multiple U.S. government entities, including the Department of Defense, represented the largest group of customers based on our 2005 net sales and accounted for approximately 15% of sales. The year-end backlog of orders under contracts with U.S. government agencies was $57.9 million in 2005, $80.8 million in 2004, and $83.7 million in 2003.

Industrial and military end-users Examples of the primary industrial and military end-users of our core products are listed below:

Products	**Primary End-Users**
Respiratory Protection	First Responders; General Industry Workers; Military Personnel
Gas Detection	Oil, Gas, Petrochemical and Chemical Workers; First Responders; Hazmat and Confined Space Workers
Head, Eye and Face, and	Construction Workers and Contractors; First Responders; General Industry Workers; Military Personnel
Hearing Protection	
Thermal Imaging Cameras	First Responders

Sales and Distribution Our sales and distribution team consists of distinct marketing, field sales and customer service organizations for our three geographic segments: North America, Europe, and International. We believe our sales and distribution team, totaling over 400 dedicated associates, is the largest in our industry. In most geographic areas, our field sales organizations work jointly with select distributors to call on end-users, educating them about hazards, exposure limits, safety requirements and product applications, as well as specific performance requirements of our products. In our International segment and Eastern Europe where distributors are not well established, our sales associates work with and sell directly to end-users. Our development of relationships with end-users is critical to increasing the overall demand for our products.

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The in-depth customer training and education provided by our sales associates to our customers are critical to ensure proper use of many of our products, such as SCBAs and gas detection instruments. As a result of our sales associates working closely with end-users, they gain valuable insight into customers preferences and needs. To better serve our customers and to ensure that our sales associates are among the most knowledgeable and professional in the industry, we place significant emphasis on training our sales associates with respect to product application, industry standards and regulations, sales skills and sales force automation.

We believe our sales and distribution strategy allows us to deliver a customer value proposition that differentiates our products and services from those of our competitors, resulting in increased customer loyalty and demand.

In areas where we use indirect selling, we promote, distribute, and service our products to general industry through select authorized national, regional, and local distributors. Some of our key distributors include: Airgas; W.W. Grainger Inc.; Fisher Safety, a division of Fisher Scientific International Inc.; and Hagemeyer. In North America, we distribute fire service products primarily through specially trained local and regional distributors who provide advanced training and service capabilities to volunteer and paid municipal fire departments. In our Europe and International segments, we primarily sell to and service the fire service market directly. Because of our broad and diverse product line and our desire to reach as many markets and market segments as possible, we have over 4,000 authorized distributors worldwide.

We market consumer products under the MSA Safety Works brand through a dedicated sales and marketing force. We serve the retail consumer through various channels, including distributors, such as Orgill Bros., hardware and equipment rental outlets, such as United Rentals, and retail chains, such as The Home Depot and TrueValue.

Competition We believe the worldwide personal protection equipment market, including the sophisticated safety products market in which we compete, generates annual sales in excess of $12 billion. The industry supplying this market is broad and highly fragmented with few participants able to offer a comprehensive line of safety products. Generally, global demand for safety products has been stable or growing because purchases of these products are non-discretionary since they protect workers in hazardous and life-threatening work environments and because their use is often mandated by government and industry regulations. Moreover, safety products industry revenues reflect the need to consistently replace many safety products that have limited life spans due to normal course wear-and-tear or because they are one-time use products by design.

The safety products market is highly competitive, with participants ranging in size from small companies focusing on a single type of personal protection equipment to a few large multinational corporations which manufacture and supply many types of sophisticated safety products. Our main competitors vary by region and product. We believe that participants in this industry compete primarily on the basis of product characteristics (such as functional performance, agency approvals, design and style), price, brand name recognition and service.

We believe we compete favorably within each of our operating segments as a result of our high quality and cost-efficient product offering and strong brand trust and recognition.

Research and Development To maintain our position at the forefront of protective equipment technology, we operate three sophisticated research and development facilities. We believe our dedication and commitment to innovation and research and development allow us to produce innovative sophisticated safety products that are often first to market and exceed industry standards. In 2005, 2004, and 2003, on a global basis, we spent approximately $21.9 million, $22.6 million, and $20.9 million, respectively, on research and development. Our engineering groups operate primarily in the United States and Germany, and to a lesser extent in Australia, France, Brazil, China, Sweden, Japan, and Italy. Our global product development teams include cross-geographic and cross-functional members from various areas throughout the company, including research and development, marketing, sales, operations and quality management. These teams are responsible for setting product line strategy based on their understanding of the markets and the technologies, opportunities and challenges they foresee in each product area. These teams present their strategies, new product development portfolios and

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resource allocation recommendations to our global research and development alignment council, made up of senior executives from our global operations. The council refines the recommendations and presents them to our senior executive team, which consists of the chief executive officer, chief financial officer, and presidents of our North America, Europe and International segments. The senior executive team then establishes resource allocation, corporate alignment and strategic direction.

We believe our team-based, cross-geographic and cross-functional approach to new product development is a source of competitive advantage. Our approach to the new product development process allows us to tailor our product offerings and product line strategies to satisfy distinct customer preferences and industry regulations that vary across our three geographic segments.

We believe another important aspect of our approach to new product development is that our engineers and technical associates work closely with the safety industry s leading standards-setting groups and trade associations, such as the National Institute for Occupational Safety and Health, or NIOSH, and the National Fire Protection Association, or NFPA, to develop industry product requirements and standards and anticipate their impact on our product lines. For example, nearly every consensus standard-setting body around the world that impacts our product lines has one of our key managers as a voting member. Key members of our management team understand the impact that these standard-setting organizations have on our new product development pipeline and devote time and attention to anticipating a new standard s impact on our net sales and operating results. Because of our technological sophistication, commitment to and membership on global standard-setting bodies, resource dedication to research and development and unique approach to the new product development process, we believe we are well-positioned to anticipate and adapt to the needs of changing product standards and gain the approvals and certifications necessary to meet new government and multinational product regulations.

Patents and Intellectual Property We own and have obtained licenses to significant intellectual property, including a number of domestic and foreign patents, patent applications and trademarks related to our products, processes and business. Although our intellectual property plays an important role in maintaining our competitive position in a number of markets that we serve, no single patent, or patent application, trademark or license is, in our opinion, of such value to us that our business would be materially affected by the expiration or termination thereof, other than the MSA trademark. Our patents expire at various times in the future not exceeding 20 years. Our general policy is to apply for patents on an ongoing basis in the United States and other countries, as appropriate, to perfect our patent development. In addition to our patents, we have also developed or acquired a substantial body of manufacturing know-how that we believe provides a significant competitive advantage over our competitors.

Raw Materials and Suppliers Nearly all components of our products are formulated, machined, tooled, or molded in-house from raw materials. For example, we rely on integrated manufacturing capabilities for breathing apparatus, gas masks, ballistic helmets, hardhats and circuit boards. The primary raw materials that we source from third parties include rubber, chemical filter media, eye and face protective lenses, air cylinders, certain metals, electronic components and ballistic resistant and non-ballistic fabrics. We purchase these materials both domestically and internationally, and we believe our supply sources are both well established and reliable. We have close vendor relationship programs with the majority of our key raw material suppliers. Although we generally do not have long-term supply contracts, we have not experienced any significant problems in obtaining adequate raw materials.

Employees As of December 31, 2005, we had approximately 4,500 employees, approximately 2,300 of whom were employed by our Europe and International segments. None of our U.S. employees are subject to the provisions of a collective bargaining agreement. Some of our employees outside the United States are members of unions. We have not experienced a work stoppage in over 10 years and believe our relations with our employees are good.

Available Information We post the following filings on the Investor Relations page on our Web site at www.msanet.com as soon as reasonably practicable after they have been electronically filed with or furnished to the Securities and Exchange Commission: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. All such filings on our Investor Relations Web page are available to be viewed on this page free of charge. Information contained on our Web site is not part of this annual report on Form 10-K or our other filings with the Securities and Exchange Commission.

Item 1A. Risk Factors

A reduction in the spending patterns of government agencies could materially and adversely affect our net sales, earnings and cash flow.

The demand for our products sold to the fire service market, the homeland security market and to U.S. government agencies, including the Department of Defense, is, in large part, driven by available government funding. For example, the level of government funding in these areas increased significantly after the attacks of September 11, 2001 and fueled the demand for many of our products such as SCBAs, gas masks and Advanced Combat Helmets. Approximately 15% of our net sales for the year ended December 31, 2005 were made directly to U.S. military customers. Government budgets are set annually and we cannot assure you that government funding will be sustained at the same level in the future. A significant reduction in available government funding in the future could materially and adversely affect our net sales, earnings and cash flow.

The markets in which we compete are highly competitive, and some of our competitors have greater financial and other resources than we do. The competitive pressures faced by us could materially and adversely affect our business, results of operations and financial condition.

The safety products market is highly competitive, with participants ranging in size from small companies focusing on single types of safety products, to large multinational corporations that manufacture and supply many types of safety products. Our main competitors vary by region and product. We believe that participants in this industry compete primarily on the basis of product characteristics (such as functional performance, agency approvals, design and style), price, brand name trust and recognition, and customer service. Some of our competitors have greater financial and other resources than we do and our cash flows from operations could be adversely affected by competitors new product innovations, technological advances made to competing products and pricing changes made by us in response to competition from existing or new competitors. We may not be able to compete successfully against current and future competitors and the competitive pressures faced by us could materially and adversely affect our business, results of operations and financial condition.

If we fail to introduce successful new products or extend our existing product lines, we may lose our market position and our financial performance may be materially and adversely affected.

In the safety products market, there are frequent introductions of new products and product line extensions. If we are unable to identify emerging consumer and technological trends, maintain and improve the competitiveness of our products and introduce new products, we may lose our market position, which could have a material adverse effect on our business, financial condition and results of operations. Although we continue to invest significant resources in research and development and market research, continued product development and marketing efforts are subject to the risks inherent in the development of new products and product line extensions, including development delays, the failure of new products and product line extensions to achieve anticipated levels of market acceptance and the cost of failed product introductions.

Product liability claims could have a material adverse effect on our business, operating results and financial condition.

We face an inherent business risk of exposure to product liability claims arising from the alleged failure of our products to prevent the types of personal injury or death against which they are designed to protect. Although we have not experienced any material uninsured losses due to product liability claims, it is possible that we could

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experience material losses in the future. In the event any of our products prove to be defective, we could be required to recall or redesign such products. In addition, we may voluntarily recall or redesign certain products that could potentially be harmful to end users. A successful claim brought against us in excess of available insurance coverage, or any claim or product recall that results in significant expense or adverse publicity against us, could have a material adverse effect on our business, operating results and financial condition.

Our ability to market and sell our products is subject to existing regulations and standards. Changes in such regulations and standards or our failure to comply with them could materially and adversely affect our results of operations.

Most of our products are required to meet performance and test standards designed to protect the health and safety of people around the world. Our inability to comply with these standards may materially and adversely affect our results of operations. Changes in regulations could reduce the demand for our products or require us to reengineer our products, thereby creating opportunities for our competitors. Regulatory approvals for our products may be delayed or denied for a variety of reasons that are outside of our control.

We have significant international operations, and we are subject to the risks of doing business in foreign countries.

We have business operations in over 30 foreign countries. In 2005, approximately 38% of our net sales were made by operations located outside the United States. Our international operations are subject to various political, economic and other risks and uncertainties, which could adversely affect our business. These risks include the following:

- unexpected changes in regulatory requirements;
- currency exchange rate fluctuations;
- changes in trade policy or tariff regulations;
- changes in tax laws and regulations;
- intellectual property protection difficulties;
- difficulty in collecting accounts receivable;
- complications in complying with a variety of foreign laws and regulations, some of which conflict with U.S. laws;
- trade protection measures and price controls;
- trade sanctions and embargos;
- nationalization and expropriation;
- increased international instability or potential instability of foreign governments;

- the need to take extra security precautions for our international operations; and
- costs and difficulties in managing culturally and geographically diverse international operations.

Any one or more of these risks could have a negative impact on the success of our international operations and thereby materially and adversely affect our business as a whole.

Our future results are subject to availability of, and fluctuations in the costs of, purchased components and materials due to market demand, currency exchange risks, material shortages and other factors.

We depend on various components and materials to manufacture our products. Although we have not experienced any difficulty in obtaining components and materials, it is possible that any of our supplier relationships could be terminated. Any sustained interruption in our receipt of adequate supplies could have a material adverse effect on our business, results of operations and financial condition. While we attempt to minimize volatility in component and material pricing primarily by negotiating longer-term supply agreements with fixed prices or fixed price ranges and maintaining multiple sources of key materials, we cannot assure you that we will be able to successfully manage price fluctuations due to market demand, currency risks or material shortages, or that future price fluctuations will not have a material adverse effect on our business, results of operations and financial condition.

If we lose any of our key personnel or are unable to attract, train and retain qualified personnel, our ability to manage our business and continue our growth would be negatively impacted.

Our success depends in large part on the continued contributions of our key management, engineering and sales and marketing personnel, many of whom are highly skilled and would be difficult to replace. Our success also depends on the abilities of new personnel to function effectively, both individually and as a group. If we are unable to attract, effectively integrate and retain management, engineering or sales and marketing personnel, then the execution of our growth strategy and our ability to react to changing market requirements may be impeded, and our business could suffer as a result. Competition for personnel is intense, and we cannot assure you that we will be successful in attracting and retaining qualified personnel. In addition, we do not currently maintain key person life insurance.

We are subject to various environmental laws and any violation of these laws could adversely affect our results of operations.

We are subject to federal, state and local laws, regulations and ordinances relating to the protection of the environment, including those governing discharges to air and water, handling and disposal practices for solid and hazardous wastes, and the maintenance of a safe workplace. These laws impose penalties for noncompliance and liability for response costs and certain damages resulting from past and current spills, disposals or other releases of hazardous materials. We could incur substantial costs as a result of noncompliance with or liability for cleanup pursuant to these environmental laws. We have identified several known and potential environmental liabilities, which we do not believe are material. Environmental laws have changed rapidly in recent years, and we may be subject to more stringent environmental laws in the future. If more stringent environmental laws are enacted, these future laws could have a material adverse effect on our results of operations.

Our inability to successfully identify, consummate and integrate future acquisitions or to realize anticipated cost savings and other benefits could adversely affect our business.

One of our key operating strategies is to selectively pursue acquisitions. Any future acquisitions will depend on our ability to identify suitable acquisition candidates and successfully consummate such acquisitions. Acquisitions involve a number of risks including:

- failure of the acquired businesses to achieve the results we expect;
- diversion of our management s attention from operational matters;
- our inability to retain key personnel of the acquired businesses;
- risks associated with unanticipated events or liabilities;
- potential disruption of our existing business; and
- customer dissatisfaction or performance problems at the acquired businesses.

If we are unable to integrate or successfully manage businesses that we may acquire in the future, we may not realize anticipated cost savings, improved manufacturing efficiencies and increased revenue, which may result in material adverse short- and long-term effects on our operating results, financial condition and liquidity. Even if we are able to integrate the operations of our acquired businesses into our operations, we may not realize the full benefits of the cost savings, revenue enhancements or other benefits that we may have expected at the

time of acquisition. In addition, even if we achieve the expected benefits, we may not be able to achieve them within the anticipated time frame, and such benefits may be offset by costs incurred in integrating the companies and increases in other expenses.

Because we derive a significant portion of our sales from the operations of our foreign subsidiaries, future exchange rate fluctuations may adversely affect our results of operations and financial condition and may affect the comparability of our results between financial periods.

For the year ended December 31, 2005, our operations in our Europe and International segments accounted for 21% and 16% of our net sales, respectively. The results of our foreign operations are reported in the local currency and then translated into U.S. dollars at the applicable exchange rates for inclusion in our consolidated financial statements. The exchange rates between some of these currencies and the U.S. dollar have fluctuated significantly in recent years and may continue to do so in the future. In addition, because our financial statements are stated in U.S. dollars, such fluctuations may affect our results of operations and financial position and may affect the comparability of our results between financial periods. We cannot assure you that we will be able to effectively manage our exchange rate risks or that any volatility in currency exchange rates will not have a material adverse effect on our results of operations and financial condition.

Our continued success depends on our ability to protect our intellectual property. If we are unable to protect our intellectual property, our net sales could be materially and adversely affected.

Our success depends, in part, on our ability to obtain and enforce patents, maintain trade secret protection and operate without infringing on the proprietary rights of third parties. We have been issued patents and have registered trademarks with respect to many of our products, but our competitors could independently develop similar or superior products or technologies, duplicate any of our designs, trademarks, processes or other intellectual property or design around any processes or designs on which we have or may obtain patents or trademark protection. In addition, it is possible that third parties may have, or will acquire, licenses for patents or trademarks that we may use or desire to use, so that we may need to acquire licenses to, or to contest the validity of, such patents or trademarks of third parties. Such licenses may not be made available to us on acceptable terms, if at all, and we may not prevail in contesting the validity of third party rights.

In addition to patent and trademark protection, we also protect trade secrets, know-how and other confidential information against unauthorized use by others or disclosure by persons who have access to them, such as our employees, through contractual arrangements. These agreements may not provide meaningful protection for our trade secrets, know-how or other proprietary information in the event of any unauthorized use, misappropriation or disclosure of such trade secrets, know-how or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, our results of operations and financial condition could be materially and adversely affected.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our principal executive offices are located at 121 Gamma Drive, RIDC Industrial Park, O Hara Township, Pittsburgh, Pennsylvania 15238 in a 93,000 square-foot building owned by us. We own or lease our primary facilities located in seven states in the United States and in a number of other countries. We believe that all of our facilities, including the manufacturing facilities, are in good repair and in suitable condition for the purposes for which they are used.

The following table sets forth a list of our primary facilities:

Location	Function	Square Feet	Owned or Leased
North America			
Murrysville, PA	Manufacturing	295,000	Owned
Cranberry Twp., PA	Office, Research and Development, and Manufacturing	212,000	Owned
Evans City, PA	Manufacturing	194,000	Leased
Jacksonville, NC	Manufacturing	107,000	Owned
Pittsburgh, PA	Office	93,000	Owned
Pittsburgh, PA	Distribution	81,000	Leased
Cranberry Twp., PA	Research and Development	68,000	Owned
Sparks, MD	Office, Research and Development, and Manufacturing	52,000	Leased
Englewood, CO	Manufacturing	41,000	Leased
Clifton, NJ	Manufacturing	41,000	Owned
Englewood, CO	Distribution	15,000	Leased
Newport, VT	Manufacturing	12,000	Leased
Bowling Green, KY	Office, Research and Development, and Manufacturing	7,000	Leased
Mexico City, Mexico	Distribution and Manufacturing	6,000	Leased
Toronto, Canada	Distribution	5,000	Leased
Europe			
Berlin, Germany	Office, Research and Development, Manufacturing and Distribution	340,000	Leased
Chatillon sur Chalaronne, France	Office, Research and Development, Manufacturing and Distribution	94,000	Leased
Glasgow, Scotland	Office and Manufacturing	25,000	Leased
Milan, Italy	Office, Research and Development and Distribution	25,000	Owned
Mohammedia, Morocco	Manufacturing	24,000	Owned
Varnamo, Sweden	Office, Research and Development, Manufacturing and Distribution	17,000	Leased
Glasgow, Scotland	Distribution	6,000	Leased
International			
Wuxi, China	Office, Research and Development, Manufacturing and Distribution	92,000	Owned
Johannesburg, South Africa	Office, Manufacturing and Distribution	89,000	Leased
São Paulo, Brazil	Office, Research and Development, Manufacturing and Distribution	60,000	Owned
Sydney, Australia	Office, Research and Development, Manufacturing and Distribution	57,000	Owned
Lima, Peru	Office and Distribution	34,000	Owned
Santiago, Chile	Office, Manufacturing and Distribution	8,000	Owned

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Item 3. Legal Proceedings

We are subject to federal, state and local laws, regulations and ordinances relating to the protection of the environment, including those governing discharges to air and water, handling and disposal practices for solid and hazardous wastes, and the maintenance of a safe workplace. There are no current or expected legal proceedings or expenditures with respect to environmental matters that would materially affect our operations.

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 3,000 lawsuits primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 26,000 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

With some limited exceptions, we maintain insurance against product liability claims. We also maintain a reserve for uninsured product liability based on expected settlement charges for pending claims and an estimate of unreported claims derived from experience, sales volumes and other relevant information. We reevaluate our exposures on an ongoing basis and make adjustments to the reserve as appropriate. Based on information currently available, we believe that the disposition of matters that are pending will not have a materially adverse effect on our financial condition.

In connection with our sale of the Callery Chemical facility in Evans City, Pennsylvania, we have retained responsibility for certain environmental costs at this site, where relatively low levels of contamination are known to exist. Under the terms of the asset purchase agreement with BASF, our maximum liability for these matters is capped at $50.0 million. Based on environmental studies performed prior to the sale of the division, we do not believe that our potential exposure under the terms of this agreement will materially affect our financial condition.

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Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of 2005, there were no matters submitted to a vote of security holders through the solicitation of proxies or otherwise.

Executive Officers of the Registrant

The following sets forth the names and ages of our executive officers indicating all positions held during the past five years:

Name	Age	Principal Occupations or Employment During Past Five Years
John T. Ryan III	62	Chairman of the Board of Directors; Chief Executive Officer since October 1991.
James H. Baillie	59	Vice President; President, MSA Europe since March 1999.
Joseph A. Bigler	56	Vice President since January 1998; primarily responsible for North American sales and distribution.
Kerry M. Bove	47	Vice President since August 2000; primarily responsible for North American manufacturing operations and materials management and the optimization of global manufacturing operations.
Rob Cañizares M.	56	Vice President; President, MSA International since January 2003. Prior to that time, Mr. Cañizares was senior vice president of global sales and service group of Trane Company.
Ronald N. Herring, Jr.	45	Vice President since January 2004; primarily responsible for North American marketing, research and engineering, and quality assurance. Prior to that time, Mr. Herring served as the general manager of the safety products division, and as the director of marketing for the safety products division.
William M. Lambert	47	Vice President; President, MSA North America since January 2003. Prior to that time, Mr. Lambert was vice president and general manager of the safety products division.
Douglas K. McClaine	48	Vice President, Secretary and General Counsel since May 2005; and served as secretary and general counsel since July 2002. Prior to that time, Mr. McClaine was associate general counsel.
Stephen C. Plut	46	Vice President, Chief Information Officer since May 2005. Prior to that time, Mr. Plut was chief information officer.
Dennis L. Zeitler	57	Vice President; Chief Financial Officer and Treasurer since November 2000.

PART II

Item 5. Market for the Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded on the New York Stock Exchange under the symbol MSA. Stock price ranges and dividends declared and paid were as follows:

	Price Range of Our Common Stock High	Low	Dividends
Year ended December 31, 2004			
First Quarter	$ 31.92	$ 21.37	$ .07
Second Quarter	36.75	25.10	.10
Third Quarter	44.00	31.50	.10
Fourth Quarter	52.50	35.00	.10
Year ended December 31, 2005			
First Quarter	$ 53.00	$ 36.25	$ .10
Second Quarter	47.29	33.89	.14
Third Quarter	50.18	38.13	.14
Fourth Quarter	42.60	35.18	.14

On February 17, 2006, there were 405 registered holders of our shares of common stock.

The information appearing in Part III below regarding common stock issuable under our equity compensation plans is incorporated herein by reference.

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
October 1 - October 31, 2005				116,466
November 1 - November 30, 2005	731	$ 36.99	731	2,692,391
December 1 - December 31, 2005	100,000	36.69	100,000	2,777,403

On October 26, 2004, the Board of Directors authorized the purchase of up to 200,000 shares of common stock from time to time in private transactions and on the open market. The share purchase program has no expiration date.

On November 2, 2005, the Board of Directors authorized the purchase of up to $100 million of common stock from time to time in private transactions and on the open market. The share purchase program has no expiration date. The maximum shares that may yet be purchased are 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.

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Item 6. Selected Financial Data

The following selected financial data should be read in conjunction with our consolidated financial statements, including the respective notes thereto, as well as the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this annual report on Form 10-K.

	2005	2004	2003	2002	2001
			(In thousands, except as noted)		
Statement of Operations Data:					
Net sales	$ 907,912	$ 852,509	$ 696,473	$ 564,426	$ 509,736
Other income	4,058	5,004	1,724	2,271	2,776
Cost of products sold	552,472	512,089	422,273	344,847	306,759
Selling, general and administrative	207,816	204,799	180,060	149,730	139,861
Research and development	21,928	22,648	20,897	19,459	15,742
Interest expense	5,484	3,845	4,564	4,769	5,349
Currency exchange losses (gains)	474	264	(3,356)	(191)	1,197
Provision for income taxes	42,013	42,821	24,835	16,870	17,753
Net income from continuing operations	81,783	71,047	48,924	31,213	25,851
Net income from discontinued operations			2,685	3,864	5,780
Gain on sale of discontinued operations after tax			13,658		
Net income	81,783	71,047	65,267	35,077	31,631
Earnings per Share Data:					
Basic per common share continuing operations (in dollars)	$ 2.24	$ 1.91	$ 1.33	$ .85	$ .72
Diluted per common share continuing operations (in dollars)	2.19	1.86	1.31	.85	.71
Dividends paid per common share (in dollars)	.52	.37	.26	.22	.18
Weighted average common shares outstanding basic	36,560	37,111	36,730	36,512	35,729
Balance Sheet Data:					
Working capital	$ 246,367	$ 270,593	$ 207,216	$ 138,182	$ 135,186
Working capital ratio	2.9	3.1	2.8	2.4	2.6
Net property	116,209	123,716	120,560	130,407	156,413
Total assets	725,357	734,110	643,885	579,765	520,698
Long-term debt	45,834	54,463	59,915	64,350	67,381
Common shareholders equity	381,470	376,679	306,867	288,009	252,451
Equity per common share (in dollars)	10.44	10.09	8.31	7.86	6.95
Note:					
Cost of products sold, selling, general and administrative expenses, and research and development expenses include noncash pension income.					
Noncash pension income, pre-tax	$ 6,104	$ 7,188	$ 8,845	$ 13,125	$ 14,962
Working capital at December 31, 2003 and 2002 excludes assets held for sale.					

Item 7. 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 annual report on Form 10-K. 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

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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, including those discussed in the sections of this annual report entitled Forward-Looking Statements and Risk Factors.

BUSINESS OVERVIEW

We are a global leader in the development, manufacture and supply of sophisticated products that protect people s health and safety. Sophisticated 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, homeland security, construction and other industries, as well as the military.

In recent years, we have concentrated on specific initiatives intended to help improve our competitive position and profitability, including:

- identifying and developing promising new markets;
- focusing on innovation and new product introductions;
- further strengthening relationships with major distributors;
- optimizing factory performance and driving operational excellence;
- positioning international business to capture significant growth opportunities; and
- pursuing strategic acquisitions.

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 geographic segments: North America, Europe, and International. Each segment includes a number of operating companies. In 2005, approximately 63%, 21% and 16% of our net sales were made by our North America, Europe 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 Europe segment includes well-established companies in most Western European countries and more recently established operations in a number of Eastern European locations. Our largest European companies, based in Germany and France, develop, manufacture, and sell a wide variety of products. Operations in other European 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, and the U.S., or are purchased from third party vendors.

International. Our International segment includes operating entities located in Abu Dhabi, Argentina, Australia, Brazil, Chile, China, Hong Kong, India, Indonesia, Japan, Malaysia, Peru, Singapore, South Africa and Zimbabwe, some of which are in developing regions of the world. Principal manufacturing operations are located in Australia, Brazil, South Africa, and China. These companies develop and 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 the U.S., Germany and France, or are purchased from third party vendors.

In 2005, we achieved record sales and net income from continuing operations for the fifth consecutive year. We believe that this performance and our improving financial performance in recent years are the result of initiatives that have allowed us to anticipate and respond quickly to market requirements, particularly in the fire

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service, homeland security, construction and general industries, as well as the military. We believe that this sales growth reflects our ability to quickly bring to market products that comply with changing industry standards and to create new market demand with innovative products. For example, we have successfully responded to increased homeland security and military market demand for products such as the Advanced Combat Helmet and related communication system and the Millennium Chemical-Biological and the MCU-2/P gas masks that occurred after the September 11th attacks and during the ongoing war on terrorism.

Our results in Europe improved nicely in 2005 and have shown resiliency despite the generally poor economic climate in most of Western Europe. Our acquisition of CGF Gallet in 2002, now MSA Gallet, added the leading line of European firefighter head protection to our product line and has helped improve our overall performance in Europe. In 2004, we improved our market position and expertise in hearing protection by acquiring Sordin AB, which is headquartered in Varnamo, Sweden. In other international markets, 2005 sales were generally higher in most markets. These improvements reflect focused efforts to effectively reach customers and, particularly in Latin America, improvements in general economic conditions.

ACQUISITIONS

On September 1, 2005, we acquired Microsensor Systems, Inc. of Bowling Green, Kentucky. Microsensor Systems is a world leader in surface acoustic wave based chemical sensing technology used to detect chemical warfare agents. We believe the acquisition of Microsensor Systems significantly strengthens our position as a premier provider of leading edge detection technology, while expanding our product offerings in the homeland security, emergency responder, law enforcement, military and industrial markets. The initial purchase price was $12.8 million. Additional consideration of up to $2.3 million could be paid based on sales of certain Microsensor Systems products through August 31, 2010.

On June 30, 2004, we acquired Sordin AB of Varnamo, Sweden, a leading manufacturer of passive and electronic hearing protection designed for the industrial, law enforcement and military markets. We believe the acquisition of Sordin enhances our position as a provider of modern, leading-edge hearing protective devices. Many of Sordin s products are compatible with our other safety products, including our flagship V-Gard® Hard Hat. Sordin also developed the modular integrated communications system currently being used with the Advanced Combat Helmet that we manufacture for the U.S. Army. The initial purchase price was approximately $4.3 million. The acquisition agreement provided for additional consideration of up to $5.4 million to be paid to the former owners based on Sordin s earnings performance during the five year period from July 1, 2004 through June 30, 2009. In October 2005, the acquisition agreement was amended to satisfy our additional consideration obligation to 60% of the former shareholders with a lump sum payment of $2.2 million, which was charged to goodwill. The additional consideration due to the remaining 40% of the former shareholders, who comprise the current Sordin management team, is being recognized as compensation expense over the five year earn out period, as specified in the acquisition agreement.

DISCONTINUED OPERATIONS

In September 2003, we sold our Callery Chemical Division to BASF Corporation. In accordance with accounting principles generally accepted in the United States of America, the operating results of the Callery Chemical Division for all periods presented through the date of sale and the gain on the sale to BASF Corporation during the year ended December 31, 2003 have been reported as discontinued operations in the consolidated statements of income. The sale of the Callery Chemical Division to BASF Corporation resulted in an after-tax gain of $13.7 million.

The after-tax proceeds of $53.8 million received from the sale of the Callery Chemical Division and the subsequent liquidation of net assets retained by us were distributed to shareholders on November 24, 2003 and charged to retained earnings as a capital distribution.

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RESULTS OF CONTINUING OPERATIONS

Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

Net sales. Net sales for the year ended December 31, 2005 were $907.9 million, an increase of $55.4 million, or 6%, from $852.5 million for the year ended December 31, 2004. Our net sales increased in all segments as follows:

	2005	2004	Dollar Increase	Percent Increase
		(In millions)		
North America	$ 575.9	$ 564.6	$ 11.3	2%
Europe	187.2	173.0	14.2	8%
International	144.8	114.9	29.9	26%

Net sales of the North American segment were $575.9 million for the year ended December 31, 2005, an increase of $11.3 million, or 2%, compared to $564.6 million for the year ended December 31, 2004. The sales increase in the year ended December 31, 2005 reflects higher shipments of Advanced Combat Helmets and related communication systems, head protection, and instruments, partially offset by lower shipments of SCBAs and gas masks. Our shipments of Advanced Combat Helmets and communications systems to the military improved during the current year by approximately $8.3 million and $11.5 million, respectively, reflecting continued government funding to support the war on terrorism. Our sales of head protection, instruments and fall protection were up approximately $10.7 million, $6.5 million, and $3.4 million, respectively, on increased demand in construction and industrial markets. In the fire service market, our SCBA sales were down approximately $13.3 million compared to the prior year. We believe that the decrease in SCBA sales was primarily due to delays in 2005 federal funding to local fire departments under the Assistance to Firefighters Grant Program. Our 2005 SCBA sales rebounded late in the year after this funding was released to local fire departments. Gas mask sales were approximately $17.1 million lower than in 2004. The decrease in gas mask sales in 2005 reflects lower shipments of military masks, as well as commercial masks to the homeland security market, following very strong demand in 2004. During 2003 and 2004, we saw significant demand for gas masks in the homeland security market. Although we have seen significant interest and demand for the recently-introduced Evolution 5200 thermal imaging camera, sales of TICs have been flat year-to-year due to production delays earlier this year caused by a parts supply issue with a key vendor. The parts availability issue was largely resolved during the third quarter.

Net sales by European operations were $187.2 million for the year ended December 31, 2005, an increase of $14.2 million, or 8%, from $173.0 million for the year ended December 31, 2004. Approximately $6.1 million of the sales increase related to hearing protection sales by MSA Sordin, which we acquired on June 30, 2004. Local currency sales by other companies throughout Europe improved approximately $5.1 million during 2005, including shipments of several large breathing apparatus orders for the fire service and police markets. Approximately $3.0 million of the European segment sales increase was due to favorable exchange rate effects on the translation of local currency sales to U.S. dollars.

Net sales by International operations were $144.8 million for the year ended December 31, 2005 compared to $114.9 million for the year ended December 31, 2004, an increase of $29.9 million, or 26%. Local currency sales were up approximately $6.0 million in our South American companies, reflecting improved economic conditions and focused sales initiatives. Our sales in the Middle East were approximately $5.8 million higher during the current year, primarily due to a large breathing apparatus order. Operations in China and Australia reported sales increases of approximately $5.4 million and $4.5 million, respectively, for the year. Approximately $5.5 million of the increase in International segment sales, when stated in U.S. dollars, was related to the favorable effect of stronger international currencies, particularly the Brazilian real, Australian dollar and South African rand.

Cost of products sold. Cost of products sold was $552.5 million for the year ended December 31, 2005, an increase of $40.4 million, or 8%, from $512.1 million for the year ended December 31, 2004. The increase relates primarily to higher sales.

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Cost of products sold and operating expenses include net periodic pension benefit costs and credits. Pension credits, combined with pension costs, resulted in net pension credits for the year ended December 31, 2005 of $6.1 million, of which approximately $3.7 million was included in cost of products sold, $2.2 million in selling general and administrative expenses, and $0.2 million in research and development expenses. Net pension credits for the year ended December 31, 2004 were $7.2 million, of which approximately $4.4 million was included in cost of products sold, $2.5 million in selling, general and administrative expenses, and $0.3 million in research and development expenses. The recognition of pension income in the years ended December 31, 2005 and 2004 is primarily the result of the exceptional investment performance of the MSA Non-Contributory Pension Plan for the Employees, or the MSA Pension Plan, over the past ten years. During that period, the investment performance of the MSA Pension Plan has ranked among the top 1% of all U.S. pension funds according to a comparison of fund performance made by our investment consultant. Future net pension credits can be volatile depending on the future performance of plan assets, changes in actuarial assumptions regarding such factors as the selection of discount rates and rates of return on plan assets, changes in the amortization levels of actuarial gains and losses, plan amendments affecting benefit pay-out levels, and profile changes in the participant populations being valued. Changes in any of these factors could cause net pension credits to change. To the extent net pension credits decline in the future, our net income would be adversely affected.

Gross profit. Gross profit for the year ended December 31, 2005 was $355.4 million, an increase of $15.0 million, or 4%, from $340.4 million for the year ended December 31, 2004. The ratio of gross profit to sales decreased to 39.1% in 2005 compared to 39.9% in 2004. The lower gross profit ratio in 2005 was primarily due to sales mix changes in North America, on proportionately lower sales of higher margin SCBAs and gas masks and proportionately higher sales of Advanced Combat Helmets and communication systems to the U.S. military at gross margins that are generally lower than our margins on commercial sales.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2005 were $207.8 million, an increase of $3.0 million, or 1%, from $204.8 million for the year ended December 31, 2004. Selling, general and administrative expenses were 22.9% of sales in 2005 compared to 24.0% of sales in 2004. Current year selling, general and administrative expenses in the North American segment were approximately $3.4 million lower than in 2004, reflecting the favorable effect of cost control efforts. Exchange effects related to the strengthening of international currencies, particularly the euro, Brazilian real, and Australian dollar, increased selling, general and administrative expenses for the year ended December 31, 2005 by approximately $2.8 million. The remainder of the increase reflects higher local currency expenses in the European and International segments, on higher sales volumes, and includes an increase of approximately $1.3 million at MSA Sordin, which was acquired on June 30, 2004.

Research and development expenses. Research and development expenses were $21.9 million for the year ended December 31, 2005, a decrease of $0.7 million, or 3%, from $22.6 million for the year ended December 31, 2004. The decrease occurred primarily in North America and reflects the favorable effects of the previously-mentioned cost control efforts.

Depreciation and amortization expense. Depreciation and amortization expense, which is reported in cost of sales, selling, general and administrative expenses, and research and development expenses, was $24.3 million for the year ended December 31, 2005, a decrease of $1.2 million, or 5%, from $25.5 million for the year ended December 31, 2004. The decrease was primarily due to lower depreciation on Advanced Combat Helmet production equipment and our enterprise-wide system software.

Interest expense. Interest expense for the year ended December 31, 2005 was $5.5 million, an increase of $1.7 million, or 43%, from $3.8 million for the year ended December 31, 2004. Interest expense in 2004 was favorably affected by a realized gain of $0.7 million on an interest rate swap transaction that we terminated. The remainder of the increase was primarily related to higher short term borrowings during the year ended December 31, 2005.

Currency exchange adjustments. During the year ended December 31, 2005, we recorded currency exchange losses of $0.5 million compared to losses of $0.3 million for the year ended December 31, 2004. Currency exchange losses in 2005 were primarily related to euro-denominated assets held by us, and reflect a weakening of that currency since December 31, 2004. The currency exchange loss during 2004 was primarily due to losses on forward exchange contracts that we entered into to hedge our exposure to movements in euro exchange rates, partially offset by some strengthening of the euro.

Other income. Other income for the year ended December 31, 2005 was $4.1 million, a decrease of $0.9 million from $5.0 million in 2004. During the current year, we recognized a gain of approximately $0.7 million on the sale of idle production equipment in Germany and estimated interest income of approximately $0.5 million related to settled issues in the IRS audits of tax years 1995 through 2001. In 2004, we recognized approximately $1.1 million of estimated interest income with respect to settled issues in the audits of tax years 1995 through 2001.

Income tax provision. Our effective income tax rate for the year ended December 31, 2005 was 33.9% compared to 37.6% for the year ended December 31, 2004. In June 2005, we received communication from the Internal Revenue Service indicating that their audits of our federal income tax returns for the years 1995 through 2001 were substantially complete, with no adverse adjustments to research and development credits that we claimed during the period covered by the examinations. On the basis of this communication, our provision for income taxes for the year ended December 31, 2005 includes a one-time benefit of approximately $2.0 million, primarily related to the release of previously-established reserves taken on research and development credits claimed in those years. In 2004, we made unfavorable adjustments to prior years taxes at approximately $1.1 million.

No deferred U.S. income taxes have been provided on undistributed earnings of non-U.S. subsidiaries, which amounted to $114.2 million as of December 31, 2005. These earnings are considered to be reinvested for an indefinite period of time. It is not practicable to determine the deferred tax liability on these undistributed earnings.

The American Jobs Creation Act of 2004 provided a limited opportunity through 2005 to repatriate the undistributed earnings of non-U.S. subsidiaries at a U.S. tax cost that could be lower than the normal tax cost on such distributions. During 2005, we repatriated $29.7 million of dividends, $22.0 million of which qualified under these provisions. The resulting impact of these dividends on our income tax expense was not material.

The determination of annual income tax expense takes into consideration amounts which may be needed to cover exposures for open tax years. We have resolved all matters with the IRS related to our federal income tax returns through 2002 and are awaiting the final clearance on the 1995 through 2001 examination from the Joint Committee on Taxation. We believe that we have made adequate provision for income taxes and interest which may become payable or receivable for years not yet settled. We do not expect any material adverse impact on earnings to result from the resolution of matters related to open tax years.

Net income. Net income from continuing operations for the year ended December 31, 2005 was $81.8 million, an increase of $10.8 million, or 15%, over net income from continuing operations for the year ended December 31, 2004 of $71.0 million. Continuing operations earnings per basic share of common stock improved to $2.24 in 2005 compared to $1.91 in 2004.

North America segment net income from continuing operations for the year ended December 31, 2005 was $62.1 million, an increase of $6.5 million, or 12%, from $55.6 million for the year ended December 31, 2004. The improvement in North American net income was primarily due to the previously-discussed sales growth, cost controls and lower effective income tax rate.

Europe segment net income from continuing operations for the year ended December 31, 2005 was $11.1 million, an increase of $4.4 million, or 65%, from $6.7 million for the year ended December 31, 2004. The increase includes approximately $1.1 million of income related to Sordin which was acquired on June 30, 2004. The remainder of the improvement was primarily related to the previously-discussed sales improvement.

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International segment net income from continuing operations for the year ended December 31, 2005 was $9.2 million, an increase of $0.7 million, or 9%, from $8.5 million for the year ended December 31, 2004. The improvement in International segment net income was primarily related to the previously-discussed sales growth.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Net sales. Net sales for the year ended December 31, 2004 were $852.5 million, an increase of $156.0 million, or 22%, from $696.5 million for the year ended December 31, 2003. Our net sales increased in all segments as follows:

	2004	2003	Dollar Increase	Percent Increase
		(In millions)		
North America	$ 564.6	$ 452.6	$ 112.0	25%
Europe	173.0	146.2	26.8	18%
International	114.9	97.7	17.2	18%

Net sales of the North American segment were $564.6 million for the year ended December 31, 2004, an increase of $112.0 million, or 25%, compared to $452.6 million for the year ended December 31, 2003. We believe that our 2004 sales growth in North America was the direct result of our focus on key markets, including fire service, homeland security, and the military. Our sales of Advanced Combat Helmets, and related communications systems, to the military increased approximately $58.6 million during 2004, reflecting increased government funding to support the war on terrorism. In 2004, our sales of self-contained breathing apparatus, or SCBAs, and thermal imaging cameras, or TICs, to the fire service market increased approximately $33.0 million and $7.7 million, respectively. Throughout 2004, we saw strong demand for our latest generation SCBAs, which, in 2003, were the first to be approved under the 2002 NFPA performance standards and the NIOSH Chemical, Biological, Radiological and Nuclear, or CBRN, standard to protect first responders against possible terrorist attacks. Higher thermal imaging camera sales in 2004 reflect strong demand for our Evolution® 5000 TIC, which combines the functionality and durability required by the fire service with features and performance not found on other small format cameras. Sales of instrument products were approximately $10.6 million higher in 2004, on strong demand for our latest generation portable instruments.

During 2003, we changed our standard shipping terms to U.S. distributors from FOB Shipping Point to FOB Destination. We made this change to improve customer service by obtaining greater control and flexibility over carrier selection and delivery schedules and by reducing customer exposure to in-transit loss and damage. The effect of this change, which delayed revenue recognition on affected shipments until the goods reach their destination, reduced sales and gross margins in 2003 by approximately $4.7 million and $2.7 million, respectively.

Net sales by European operations were $173.0 million for the year ended December 31, 2004, an increase of $26.8 million, or 18%, from $146.2 million for the year ended December 31, 2003. Approximately half of the increase was due to the favorable effect of the stronger euro on net sales when stated in U.S. dollars. Sales by Sordin, which we acquired on June 30, 2004, accounted for approximately $4.5 million of the increase. The remainder of the improvement was primarily related to strong late year shipments of breathing apparatus by our German company to customers in Eastern Europe. Local currency sales at our other European affiliates were generally flat year-to-year, reflecting continued sluggishness in the Western European industrial sector.

Net sales by International operations were $114.9 million for the year ended December 31, 2004 compared to $97.7 million for the year ended December 31, 2003, an increase of $17.2 million, or 18%. Approximately half of the increase in International segment sales, when stated in U.S. dollars, was related to the favorable effect of stronger international currencies, particularly the Australian dollar and the South African rand. The remainder of the sales improvement was in Latin America, reflecting generally improved economic conditions.

Cost of products sold. Cost of products sold was $512.1 million for the year ended December 31, 2004, an increase of $89.8 million, or 21%, from $422.3 million for the year ended December 31, 2003. The increase related primarily to higher sales.

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Cost of products sold and selling, general and administrative expenses in 2003 were favorably affected by a change in the vacation vesting policy for U.S. employees. Under the vacation vesting policy adopted in 2003, employees earn their vacation entitlement during the current year. Previously, vacation was vested on the last day of the prior year. The policy change resulted in favorable adjustments to cost of products sold and selling, general and administrative expenses during 2003 of approximately $3.6 million and $1.8 million, respectively. The vacation policy was changed to align the year the benefit is earned with the year it is received.

Cost of products sold and operating expenses include net periodic pension benefit costs and credits. Pension credits, combined with pension costs, resulted in net pension credits for the year ended December 31, 2004 of $7.2 million, of which approximately $4.4 million was included in cost of products sold, $2.5 million in selling general and administrative expenses, and $0.3 million in research and development expenses. Net pension credits for the year ended December 31, 2003 were $8.8 million, of which approximately $5.4 million was included in cost of products sold, $3.1 million in selling, general and administrative expenses, and $0.3 million in research and development expenses. In 2003, an additional pension credit of $2.0 million relating to a curtailment gain from the sale of the Callery Chemical Division was included in net income from discontinued operations.

Gross profit. Gross profit for the year ended December 31, 2004 was $340.4 million, an increase of $66.2 million, or 24%, from $274.2 million for the year ended December 31, 2003. The ratio of gross profit to sales increased to 39.9% in 2004 compared to 39.4% in 2003. The improved gross profit ratio in 2004 was primarily due to production efficiencies associated with higher North American sales, partially offset by proportionately higher sales of Advanced Combat Helmets to the government at gross margins that are generally lower than our margins on commercial sales. Our European operations also reported improved gross profits primarily related to a product mix shift away from lower margin military helmets in 2003 to higher margin fire helmets in 2004.

Selling, general and administrative expenses. Selling, general and administrative expenses for the year ended December 31, 2004 were $204.8 million, an increase of $24.7 million, or 14%, from $180.1 million for the year ended December 31, 2003. Selling, general and administrative expenses were 24.0% of sales in 2004 compared to 25.9% of sales in 2003. Our selling, general and administrative expenses in North America increased approximately $15.5 million, primarily related to additional marketing and selling expenses associated with generating and supporting the higher sales volumes. Selling, general and administrative expenses for the year ended December 31, 2003 included a favorable adjustment of approximately $1.8 million related to the previously-discussed change in the vacation vesting policy for our U.S. employees. The strengthening of international currencies (particularly the euro, the Australian dollar, and the South African rand) increased selling, general and administrative expenses when stated in U.S. dollars by approximately $6.9 million for the year ended December 31, 2004. The remainder of the increase was primarily due to the acquisition of Sordin and higher rent expense in Germany associated with the leaseback of property that was sold in September 2003. Approximately $1.7 million of deferred gain related to the sale of the German property was recognized in other income during the year ended December 31, 2004.

Research and development expenses. Research and development expenses were $22.6 million for the year ended December 31, 2004, an increase of $1.7 million, or 8%, from $20.9 million for the year ended December 31, 2003. The increase reflects an increased focus on new product development, particularly in instruments and other electronic products.

Depreciation and amortization expense. Depreciation and amortization expense, which is reported in cost of sales, selling, general and administrative expenses, and research and development expenses, was $25.5 million for the year ended December 31, 2004, an increase of $2.3 million, or 10%, from $23.2 million for the year ended December 31, 2003. The increase was primarily due to new asset additions in the United States to support higher Advanced Combat Helmet production volumes.

Interest expense. Interest expense for the year ended December 31, 2004 was $3.8 million, a decrease of $0.8 million, or 16%, from $4.6 million for the year ended December 31, 2003. The decrease was related to reductions in long term debt and short term borrowings and the discontinuance of our accounts receivable securitization arrangement in August 2004.

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Currency exchange adjustments. During the year ended December 31, 2004, we recorded currency exchange losses of $0.3 million compared to gains of $3.4 million for the year ended December 31, 2003. Currency exchange gains in 2003 were primarily related to euro and Canadian dollar denominated assets held by us, and reflect a significant strengthening of those currencies during the year. Less favorable currency exchange adjustments during 2004 reflect a less significant strengthening of the euro and the Canadian dollar, as well as the offsetting effect of forward exchange contracts that we entered into to hedge our exposure to movements in euro exchange rates.

Other income. Other income for the year ended December 31, 2004 was $5.0 million, an increase of $3.3 million from $1.7 million in 2003. During 2004, we recognized approximately $1.1 million of estimated interest income with respect to settled issues in the federal income audits of tax years 1995 through 2001. As previously mentioned, approximately $1.7 million of deferred gain related to the sale of our German property was recognized as a gain on disposition of assets during 2004.

Income tax provision. Our effective income tax rate for the year ended December 31, 2004 was 37.6% compared to 33.7% for the year ended December 31, 2003**.** The higher effective tax rate in 2004 was primarily related to less favorable adjustments to previously-established valuation allowances on foreign tax credit carry forwards and adjustments to prior years taxes. In 2004, we released approximately $0.6 million of valuation allowances and made unfavorable adjustments to prior year s taxes of approximately $1.1 million. In 2003, we released approximately $1.2 million of valuation allowances and made favorable adjustments to prior year s taxes of approximately $0.8 million. The valuation allowances were released based on tax planning strategies that we implemented and an improved outlook for foreign source income.

Net income. Net income from continuing operations for the year ended December 31, 2004 was $71.0 million, an increase of $22.1 million, or 45%, over net income from continuing operations for the year ended December 31, 2003 of $48.9 million. Continuing operations earnings per basic share of common stock improved to $1.91 in 2004 compared to $1.33 in 2003.

North America segment net income from continuing operations for the year ended December 31, 2004 was $55.6 million, an increase of $16.5 million, or 42%, from $39.1 million for the year ended December 31, 2003. The improvement in North American net income was primarily due to the previously-discussed sales growth.

Europe segment net income from continuing operations for the year ended December 31, 2004 was $6.7 million, an increase of $3.9 million, or 141%, from $2.8 million for the year ended December 31, 2003. Approximately $0.4 million of the increase was due to the favorable currency translation effects of a stronger euro. Local currency net income improvement occurred primarily in Germany, where income was up approximately $2.4 million on improved sales and lower operating costs. Europe segment net income for 2004 also included approximately $0.6 million of income from the mid-year acquisition of Sordin AB.

International segment net income from continuing operations for the year ended December 31, 2004 was $8.5 million, an increase of $2.2 million, or 34%, from $6.3 million for the year ended December 31, 2003. Approximately $1.1 million of the income improvement occurred in Latin America, reflecting improved economic conditions. Favorable currency translation effects, primarily related to the strengthening of the Australian dollar and the South African rand, increased International segment income when stated in U.S. dollars by approximately $0.7 million.

LIQUIDITY AND CAPITAL RESOURCES

Our main sources of liquidity are cash generated from operations and borrowing capacity. Our principal liquidity requirements are for working capital, capital expenditures, and principal and interest payments on outstanding indebtedness.

Cash and cash equivalents decreased $31.7 million during 2005 compared to increasing $3.3 million during 2004. The decrease in cash during the current period was primarily due to net company stock purchases for treasury of $53.3 million, partially offset by a $34.2 million improvement in cash flow from continuing operations.

Continuing operations provided cash of $86.0 million in 2005 compared to providing $51.8 million in 2004. Better cash flow from operations during 2005 reflects improved net income from continuing operations and non-cash items and lower use of cash for working capital, particularly inventory. Trade receivables were $169.4 million at December 31, 2005 and $157.8 million at December 31, 2004. The increase in trade receivables during 2005 was primarily related to higher sales levels. Trade receivables expressed in number of days sales outstanding were 68 days at both December 31, 2005 and December 31, 2004. LIFO inventories were $119.7 million at December 31, 2005 and $124.8 million at December 31, 2004. On a FIFO basis, inventories measured against cost of products sold turned 3.4 times in 2005 and 3.1 times in 2004. Cash flow from continuing operations in 2004 was $19.3 million higher than in 2003, reflecting improved net income and non-cash items.

Discontinued operations provided $2.1 million of cash in 2004, primarily through collection of trade receivables that were reported as assets held for sale at December 31, 2003. In 2003, discontinued operations provided cash of $8.0 million, reflecting operating results through the date of the sale of the division and the liquidation of trade receivables.

Our investing activities used cash of $37.3 million in 2005, compared with using $32.8 million in 2004. During 2005 and 2004, we used cash of approximately $21.7 million and $27.3 million, respectively, for property additions, primarily production equipment in the U.S. Acquisitions and other investing activities during 2005 and 2004 used cash of $17.0 million and $6.4 million, respectively. In 2005, we used net cash of approximately $12.8 million for the acquisition of Microsensor Systems Inc. and $2.2 million for additional consideration on the Sordin acquisition. In 2004, we used net cash of approximately $4.3 million for the acquisition of Sordin. In 2003, the sale of the Callery Chemical Division and property in Germany provided cash of $63.0 million and $22.9 million, respectively.

Financing activities used cash of $78.0 million in 2005 compared to using $19.4 million in 2004. During 2005 and 2004, we used cash of $58.0 million and $6.1 million, respectively, to purchase treasury shares. In the current year, we made dividend payments of $19.1 million, compared to $13.8 million in 2004. During 2003, in addition to regular dividend payments of $9.5 million, we made a special distribution to common shareholders of $53.8 million, representing the after-tax proceeds from the sale of the Callery Chemical Division and the subsequent liquidation of net assets retained by us. Dividends paid on our common stock during 2005 (our 88th consecutive year of dividend payment) were $0.52 per share. Dividends paid on our common stock in 2004 and 2003 were $0.37 and $0.26, per share, respectively.

In April 2004, we entered into an eight year interest rate swap agreement. Under the terms of the agreement, we receive a fixed interest rate of 8.39% and pay a floating interest rate based on LIBOR. The notional amount of the swap is initially $20.0 million and declines $4.0 million per year beginning in 2008. The interest rate swap has been designated as a fair value hedge of a portion of our fixed rate 8.39% Senior Notes.

The fair value of the interest rate swap at December 31, 2005, has been recorded as a liability of $0.9 million that is included in other noncurrent liabilities, with an offsetting reduction in the carrying value of the long-term debt.

As a result of entering into the interest rate swap, we have increased our exposure to interest rate fluctuations. Differences between the fixed rate amounts received and the variable rate amount paid are recognized in interest expense on an ongoing basis. This rate difference resulted in a reduction in interest expense of approximately $0.1 million and $0.3 million during the years ended December 31, 2005 and 2004, respectively.

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Long-term debt, including the current portion at December 31, 2005 was $54.0 million, or 12.4% of total capital. For purposes of this calculation, total capital is defined as long-term debt plus the current portion of long-term debt and shareholders equity.

The following table sets forth our long-term debt obligations:

	2005	2004
	(In thousands)	
U.S.		
Industrial development debt issues payable through 2022, 2.39%	$ 10,750	$ 10,750
Series B Senior Notes payable through 2006, 7.69%	4,000	8,000
Senior Notes payable through 2012, 8.39%	39,070	39,585
Other	50	100
International		
Various notes payable through 2006, 9.63% to 19.0%	98	524
Total	53,968	58,959
Amounts due within one year	8,134	4,496
Long-term debt	45,834	54,463

Approximate maturities of these obligations are $8.1 million in 2006, $8.0 million in 2008, $8.8 million in 2009, $10.0 million in 2010, and $19.1 million thereafter. Some debt agreements require us to maintain certain financial ratios and minimum net worth and contain restrictions on the total amount of debt. We were in compliance with our debt covenants as of December 31, 2005.

Short-term bank lines of credit amounted to $59.0 million of which $58.3 million was unused at December 31, 2005. Generally, these short-term lines of credit are renewable annually, and there are no significant commitment fees or compensating balance requirements. Short-term borrowings with banks, which exclude the current portion of long-term debt, were $0.7 million and $1.9 million at December 31, 2005 and 2004, respectively. The average month-end balance of total short-term borrowings during 2005 was $23.9 million. The maximum month-end balance of $32.9 million occurred at June 30, 2005. The weighted average interest rates of short-term borrowings at December 31, 2005 and 2004 were 6% and 7%, respectively.

We believe our sources of liquidity currently available from our cash reserves on hand, cash flow from operations and borrowing capacity are sufficient to meet our principal liquidity requirements for at least the next 12 months.

ACCOUNTS RECEIVABLE SECURITIZATION

In August 2004, we terminated our securitization arrangement with a financial institution under which Mine Safety Funding Corporation, a consolidated wholly-owned bankruptcy remote subsidiary of the company, could sell up to $30.0 million of eligible accounts receivable to a multi-seller asset-backed commercial paper issuer. We terminated this arrangement because we no longer required the source of funding that the securitization provided.

CUMULATIVE TRANSLATION ADJUSTMENTS

The year-end position of the U.S. dollar relative to international currencies resulted in a translation loss of $11.1 million being charged to the cumulative translation adjustments shareholders equity account in 2005, compared to gains of $8.9 million in 2004 and $14.7 million in 2003. Translation losses in 2005 occurred primarily in Europe and reflect a weakening of the euro. Translation gains in 2004 were primarily due to the strengthening of the euro, Australian dollar, and South African rand. Translation gains in 2003 reflect the strengthening of most currencies against the U.S. dollar, primarily the euro and Australian dollar.

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COMMITMENTS AND CONTINGENCIES

We are obligated to make future payments under various contracts, including debt and lease agreements. Our significant cash obligations as of December 31, 2005 were as follows:

	Total	2006	2007	2008	2009	2010	Thereafter
				(In millions)			
Long-term debt*	$ 54.0	$ 8.1	$	$ 8.0	$ 8.8	$ 10.0	$ 19.1
Operating leases	27.6	7.0	5.1	4.0	3.7	3.8	4.0
Take or pay supply contract	4.0	1.5	1.5	1.0			
Totals	85.6	16.6	6.6	13.0	12.5	13.8	23.1

* Future interest payments are not included in the table above.

We expect to make net contributions of $1.7 million to our pension plans in 2006.

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

During 2003, we sold our real property in Berlin, Germany for approximately $25.7 million, resulting in a gain of approximately $13.6 million. At the same time, we entered into an eight year agreement to lease back the portion of the property that we occupy. Under sale-leaseback accounting, $12.1 million of gain was deferred and is being amortized over the term of the lease.

In 2003, we entered into a lease agreement with BASF pertaining to that portion of the Callery Chemical site that is occupied by our Evans City, Pennsylvania manufacturing operations. The initial term of the lease was one year, with a renewal option for five successive one year periods. In September 2005, we exercised our second one year renewal option.

Various lawsuits and claims arising in the normal course of business are pending against us. These lawsuits are primarily product liability claims. We are presently named as a defendant in approximately 3,000 lawsuits primarily involving respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 26,000 plaintiffs. Approximately 90% of these lawsuits involve plaintiffs alleging they suffer from silicosis, with the remainder alleging they suffer from other or combined injuries, including asbestosis. These lawsuits typically allege that these conditions resulted in part from respirators that were negligently designed or manufactured by us. Consistent with the experience of other companies involved in silica and asbestos-related litigation, in recent years there has been an increase in the number of asserted claims that could potentially involve us. We cannot determine our potential maximum liability for such claims, in part because the defendants in these lawsuits are often numerous, and the claims generally do not specify the amount of damages sought.

With some limited exceptions, we maintain insurance against product liability claims. We also maintain a reserve for uninsured product liability based on expected settlement charges for pending claims and an estimate of unreported claims derived from experience, sales volumes and other relevant information. We reevaluate our exposures on an ongoing basis and make adjustments to the reserve as appropriate. Based on information currently available, we believe that the disposition of matters that are pending will not have a materially adverse effect on our financial condition.

In the normal course of business, we make payments to settle product liability claims and related legal fees that are covered by insurance. We record receivables for the portion of these payments that we expect to recover from insurance carriers. At December 31, 2005, the net balance of receivables from insurance carriers was $5.0 million. We evaluate the collectibility of these receivables on an ongoing basis and make adjustments as appropriate.

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In connection with our sale of Callery Chemical facility in Evans City, Pennsylvania, we have retained responsibility for certain environmental costs at this site, where relatively low levels of contamination are known to exist. Under the terms of the asset purchase agreement with BASF, our maximum liability for these matters is capped at $50.0 million. Based on environmental studies performed prior to the sale of the division, we do not believe that our potential exposure under the terms of this agreement will materially affect our financial condition.

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.

We believe that the following are the more critical judgments and estimates used in preparation of our financial statements.

Accounting for contingencies. We accrue for contingencies in accordance with FAS No. 5, Accounting for Contingencies, when we believe that it is probable that a liability or loss has been incurred and the amount can be reasonably estimated. Contingencies relate to uncertainties that require our judgment both in assessing whether or not a liability or loss has been incurred and in estimating the amount of the probable loss. Significant contingencies affecting our financial statements include pending or threatened litigation, including product liability claims, and product warranties.

Product liability. We face an inherent business risk of exposure to product liability claims arising from the alleged failure of our products to prevent the types of personal injury or death against which they are designed to protect. We accrue for our estimates of the probable costs to be incurred in the resolution of product liability claims. These estimates are based on actuarial valuations, past experience, and our judgments regarding the probable outcome of pending and threatened claims. Due to uncertainty as to the ultimate outcome of pending and threatened claims, as well as the incidence of future claims, it is possible that future results could be materially affected by changes in our assumptions and estimates related to product liability matters**.** Our product liability expense averaged less than 1% of net sales from continuing operations during the three years ended December 31, 2005.

Product warranties. We accrue for the estimated probable cost of product warranties at the time that sales are recognized. Our estimates are principally based on historical experience. We also accrue for our estimates of the probable costs of corrective action when significant product quality issues are identified. These estimates are principally based on our assumptions regarding the cost of corrective action and the probable number of units to be repaired or replaced. Our product warranty obligation is affected by product failure rates, material usage, and service delivery costs incurred in correcting a product failure. Due to the uncertainty and potential volatility of these factors, it is possible that future results could be materially affected by changes in our assumptions or the effectiveness of our strategies related to these matters. Our product warranty expense averaged less than 2% of net sales during the three years ended December 31, 2005.

Income taxes. We account for income taxes in accordance with FAS No. 109, Accounting for Income Taxes, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. FAS No. 109 also requires that deferred tax assets be reduced by valuation allowances if it is more likely than not that some portion of the deferred tax asset will not be realized.

We record valuation allowances to reduce deferred tax assets to the amounts that we estimate are probable to be realized. When assessing the need for valuation allowances, we consider projected future taxable income and prudent and feasible tax planning strategies. Should a change in circumstances lead to a change in our judgments about the realizability of deferred tax assets in future years, we would adjust the related valuation allowances in the period that the change in circumstances occurs, along with a corresponding charge or credit to income. There were no valuation allowances as of December 31, 2005.

We record an estimated income tax liability based on our best judgment of the amounts likely to be paid in the various tax jurisdictions in which we operate. The tax liabilities ultimately paid are dependent on a number of factors, including the resolution of tax audits, and may differ from the amounts recorded. Tax liabilities are adjusted through income when it becomes probable that the actual liability differs from the amount recorded.

Pensions and other postretirement benefits. We account for our pension and postretirement benefit plans as required under FAS No. 87, Employers Accounting for Pensions, and FAS No. 106, Employers Accounting for Postretirement Benefits Other than Pensions. Accounting for the net periodic benefit costs and credits for these plans requires us to estimate the cost of benefits to be provided well into the future and to attribute these costs over the expected work life of the employees participating in these plans. These estimates require our judgment about discount rates used to determine these obligations, expected returns on plan assets, rates of future compensation increases, rates of increase in future health care costs, participant withdrawal and mortality rates, and participant retirement ages. Differences between our estimates and actual results may significantly affect the cost of our obligations under these plans and could cause net periodic benefit costs and credits to change materially from year-to-year. The discount rate assumptions used in determining projected benefit obligations are based on published long-term bond indices. We reduced the assumed discount rates in 2005, reflecting a decline in long-term bond rates.

Goodwill. As required by FAS No. 142, Goodwill and Other Intangible Assets, each year we evaluate for goodwill impairment by comparing the fair value of each of our reporting units with its carrying value. If carrying value exceeds fair value, then a possible impairment of goodwill exists and requires further evaluation. We estimate the fair value of our reporting units using a combination of discounted cash flow analysis and market capitalization based on historical and projected financial information. We apply our best judgment in assessing the reasonableness of the financial projections and other estimates used to determine the fair value of each reporting unit.

RECENTLY ISSUED ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board (FASB) issued FAS No. 151, Inventory Costs, an Amendment of ARB No. 43, Chapter 4. FAS No. 151 requires the exclusion of certain costs from inventories and the allocation of fixed production overheads to inventories to be based on the normal capacity of the production facilities. The provisions of this Statement are effective for costs incurred after December 31, 2005. We expect that our adoption of this statement effective January 1, 2006 will not have a material effect on our consolidated results of operations or financial condition.

In December 2004, the FASB issued FAS No. 123R, Share-Based Payment, which is a revision of FAS No. 123, Accounting for Stock-Based Compensation, and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and its related implementation guidance. FAS No. 123R establishes standards for accounting for transactions in which an entity exchanges its equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. FAS No. 123R requires an entity to recognize the cost of employee services received in share-based payment transactions, thereby reflecting the economic consequences of those transactions in the financial statements. This Statement applies to all awards granted on or after January 1, 2006, and to awards modified, repurchased, or cancelled after that date. We expect that adopting this Statement will reduce our net income in 2006 by approximately $1.6 million.

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Item 7A. 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 increase or decrease our reported sales and net income for the year ended December 31, 2005 by approximately $33.2 million and $2.0 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 December 31, 2005, contracts for the purpose of hedging cash flows were not significant.

Interest Rate Sensitivity. 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 which approximate fair values.

We hold one interest rate swap agreement, which is used to hedge the fair market value on a portion of our 8.39% fixed rate long-term debt. At December 31, 2005, the swap agreement had a notional amount of $20.0 million and a fair market value in favor of the bank of $0.9 million. The swap will expire in 2012. The notional amount of the swap declines $4.0 million per year beginning in 2008. A hypothetical increase of 10% in market interest rates would result in a decrease of approximately $0.4 million in the fair value of the interest rate swap.

We have $44.0 million of fixed rate debt which matures at various dates through 2012. 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 $0.8 million, excluding the impact of outstanding hedge instruments. 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.

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Item 8. Financial Statements and Supplementary Data

Management s Reports

Management s Report on Responsibility for Financial Reporting

Management of Mine Safety Appliances Company (the Company) is responsible for the preparation of the financial statements included in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include amounts that are based on the best estimates and judgments of management. The other financial information contained in this annual report is consistent with the financial statements.

Management s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company s internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company s assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on our assessment and those criteria, management has concluded that the Company maintained effective internal control over financial reporting as of December 31, 2005.

Our management s assessment of the effectiveness of the Company s internal control over financial reporting as of December 31, 2005 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ JOHN T. RYAN III
John T. Ryan III
Chairman of the Board
Chief Executive Officer

/s/ DENNIS L. ZEITLER
Dennis L. Zeitler
Vice President and Treasurer
Chief Financial Officer

March 6, 2006

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of Mine Safety Appliances Company:

We have completed integrated audits of Mine Safety Appliances Company s 2005 and 2004 consolidated financial statements and of its internal control over financial reporting as of 2005, and an audit of its 2003 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, cash flows, and changes in retained earnings and accumulated other comprehensive income present fairly, in all material respects, the financial position of Mine Safety Appliances Company and its subsidiaries at December 31, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Internal control over financial reporting

Also, in our opinion, management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

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with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PRICEWATERHOUSECOOPERS LLP

PricewaterhouseCoopers LLP

Pittsburgh, Pennsylvania

March 6, 2006

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MINE SAFETY APPLIANCES COMPANY

CONSOLIDATED STATEMENT OF INCOME

(In thousands, except per share amounts)

Year Ended December 31	**2005**	**2004**	**2003**
Net sales	$ 907,912	$ 852,509	$ 696,473
Other income	4,058	5,004	1,724
	911,970	857,513	698,197
Costs and expenses			
Cost of products sold	552,472	512,089	422,273
Selling, general and administrative	207,816	204,799	180,060
Research and development	21,928	22,648	20,897
Interest	5,484	3,845	4,564
Currency exchange losses (gains)	474	264	(3,356)
	788,174	743,645	624,438
Income from continuing operations before income taxes	123,796	113,868	73,759
Provision for income taxes	42,013	42,821	24,835
Net income from continuing operations	81,783	71,047	48,924
Net income from discontinued operations			2,685
Gain on sale of discontinued operations after tax			13,658
Net income	$ 81,783	$ 71,047	$ 65,267
Basic earnings per common share:			
Continuing operations	$ 2.24	$ 1.91	$ 1.33
Discontinued operations			0.45
Net income	$ 2.24	$ 1.91	$ 1.78
Diluted earnings per common share:			
Continuing operations	$ 2.19	$ 1.86	$ 1.31
Discontinued operations			0.44
Net income	$ 2.19	$ 1.86	$ 1.75

See notes to consolidated financial statements.

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MINE SAFETY APPLIANCES COMPANY

CONSOLIDATED BALANCE SHEET

(In thousands, except share amounts)

December 31		**2005**	**2004**
Assets			
Current Assets	Cash and cash equivalents	$ 44,797	$ 76,545
	Trade receivables, less allowance for doubtful accounts of $6,041 and $7,548	169,436	157,824
	Inventories	119,731	124,846
	Deferred tax assets	17,868	19,377
	Prepaid expenses and other current assets	25,394	19,068
	Total current assets	377,226	397,660
Property	Land	4,815	5,122
	Buildings	83,929	83,530
	Machinery and equipment	268,167	279,607
	Construction in progress	4,686	6,182
	Total	361,597	374,441
	Less accumulated depreciation	(245,388)	(250,725)
	Net property	116,209	123,716
Other Assets	Prepaid pension cost	140,575	131,496
	Deferred tax assets	19,364	21,513
	Goodwill	55,654	49,495
	Other noncurrent assets	16,329	10,230
	Total	$ 725,357	$ 734,110
Liabilities			
Current Liabilities	Notes payable and current portion of long-term debt	$ 8,808	$ 6,378
	Accounts payable	40,935	40,705
	Employees compensation	18,483	19,284
	Insurance and product liability	13,807	14,926
	Taxes on income	7,063	3,790
	Other current liabilities	41,763	41,984
	Total current liabilities	130,859	127,067
Long-Term Debt		45,834	54,463
Other Liabilities	Pensions and other employee benefits	80,656	83,628
	Deferred tax liabilities	75,511	76,704
	Other noncurrent liabilities	10,100	14,637
	Total other liabilities	166,267	174,969
Shareholders Equity			
	Preferred stock, 4 $^{1}/2$% cumulative, $50 par value (callable at $52.50)	3,569	3,569
	Common stock, no par value (shares outstanding:		

2005 36,545,984 2004 37,341,386)	50,887	39,248
Stock compensation trust	(15,667)	(16,436)
Treasury shares, at cost	(201,312)	(143,295)
Deferred stock compensation	(2,218)	(1,247)
Accumulated other comprehensive income	(9,571)	1,793
Earnings retained in the business	556,709	493,979
Total shareholders equity	382,397	377,611
Total	$ 725,357	$ 734,110

See notes to consolidated financial statements.

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MINE SAFETY APPLIANCES COMPANY

CONSOLIDATED STATEMENT OF CASH FLOWS

(In thousands)

Year Ended December 31	2005	2004	2003
Operating Activities			