SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2004 | Commission File No. 1-15579

MINE SAFETY APPLIANCES COMPANY

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No o

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

Yes ☒ No o

As of October 29, 2004, there were outstanding 37,243,735 shares of common stock without par value, not including 3,270,565 shares held by the Mine Safety Appliances Company Stock Compensation Trust.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

MINE SAFETY APPLIANCES COMPANY
CONSOLIDATED CONDENSED STATEMENT OF INCOME
(In thousands, except per share amounts)

	Three Months Ended September 30 Unaudited		Nine Months Ended September 30 Unaudited	
	2004	2003	2004	2003
Net sales	$219,962	$171,927	$627,566	$508,257
Other income	2,018	1,586	3,482	2,116
	221,980	173,513	631,048	510,373
Costs and expenses				
Cost of products sold	128,227	102,010	362,166	299,149
Selling, general and administrative	50,352	41,761	145,229	123,076
Research and development	5,588	5,599	15,890	15,495
Depreciation and amortization	6,647	5,522	18,228	16,572
Interest	996	1,033	2,725	3,325
Currency exchange loss (gain)	(951)	(121)	969	(1,922)
	190,859	155,804	545,207	455,695
Income from continuing operations before income taxes	31,121	17,709	85,841	54,678
Provision for income taxes	12,010	6,725	32,474	21,003
Net income from continuing operations	19,111	10,984	53,367	33,675
Net (loss) income from discontinued operations		(102)		2,685
Gain on sale of discontinued operations — after tax		13,658		13,658
Net income	$ 19,111	$ 24,540	$ 53,367	$ 50,018
Basic earnings per common share:				
Continuing operations	$ 0.51	$ 0.30	$ 1.44	$ 0.91
Discontinued operations		0.37		0.45
Net income	$ 0.51	$ 0.67	$ 1.44	$ 1.36
Diluted earnings per common share:				
Continuing operations	$ 0.50	$ 0.29	$ 1.40	$ 0.91
Discontinued operations		0.36		0.44
Net income	$ 0.50	$ 0.65	$ 1.40	$ 1.35
Dividends per common share	$ 0.10	$ 0.07	$ 0.27	$ 0.19

See notes to consolidated condensed financial statements.

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MINE SAFETY APPLIANCES COMPANY
CONSOLIDATED CONDENSED BALANCE SHEET
(In thousands, except share data)

	September 30 2004 Unaudited	December 31 2003
ASSETS		
Current assets		
Cash and cash equivalents	$ 62,210	$ 73,244
Trade receivables, less allowance for doubtful accounts of $5,917 and $6,418	160,565	129,900
Inventories:		
Finished products	43,097	34,660
Work in process	23,481	17,476
Raw materials and supplies	45,818	37,967
Total inventories	112,396	90,103
Deferred tax assets	17,319	17,890
Prepaid expenses and other current assets	16,642	10,794
Assets held for sale		2,311
Total current assets	369,132	324,242
Property, plant and equipment	362,038	359,946
Accumulated depreciation	(241,102)	(239,386)
Net property	120,936	120,560
Prepaid pension cost	130,243	121,290
Deferred tax assets	23,001	23,047
Goodwill	48,142	44,810
Other noncurrent assets	8,407	9,936
TOTAL	$ 699,861	$ 643,885
LIABILITIES AND SHAREHOLDERS’ EQUITY		
Current liabilities		
Notes payable and current portion of long-term debt	$ 5,365	$ 5,666
Accounts payable	37,973	40,029
Employees’ compensation	23,542	15,486
Insurance and product liability	14,099	13,518
Taxes on income	1,415	4,976
Other current liabilities	43,186	35,040
Total current liabilities	125,580	114,715
Long-term debt	59,911	59,915
Pensions and other employee benefits	76,189	74,808
Deferred tax liabilities	75,639	70,845
Other noncurrent liabilities	13,157	15,744
Shareholders’ equity		
Preferred stock, 4-1/2% cumulative — authorized 100,000 shares of $50 par value; issued 71,373 and 71,373 shares, callable at $52.50 per share	3,569	3,569
Second cumulative preferred voting stock — authorized 1,000,000 shares of $10 par value; none issued		
Common stock — authorized 180,000,000 shares of no par value; issued 61,740,327 and 61,740,327 shares (outstanding 37,243,735 and 36,927,984 shares)	33,956	31,187
Stock compensation trust — 3,270,565 and 3,711,231 shares	(17,085)	(19,385)
Treasury stock, at cost:		
Preferred — 52,736 and 51,554 shares	(1,746)	(1,690)
Common — 21,226,027 and 21,101,112 shares	(140,374)	(135,483)
Deferred stock compensation	(1,484)	(993)
Accumulated other comprehensive loss	(7,482)	(6,037)
Earnings retained in the business	480,031	436,690
Total shareholders’ equity	349,385	307,858
TOTAL	$ 699,861	$ 643,885

See notes to consolidated condensed financial statements.

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MINE SAFETY APPLIANCES COMPANY
CONSOLIDATED CONDENSED STATEMENT OF CASH FLOWS
(In thousands)

	Nine Months Ended September 30 Unaudited	
	2004	2003
OPERATING ACTIVITIES		
Net income	$ 53,367	$ 50,018
Net income from discontinued operations		(2,685)
Gain on the sale of discontinued operations		(13,658)
Net income from continuing operations	53,367	33,675
Depreciation and amortization	18,228	16,572
Pensions	(5,931)	(7,176)
Gain on sale of investments and assets	(71)	(1,691)
Deferred income taxes	5,108	4,412
Receivables and other receivables	(27,357)	(22,905)
Inventories	(21,560)	(6,702)
Accounts payable and accrued liabilities	9,611	13,181
Other assets and liabilities	(8,275)	(2,522)
Other — including currency exchange adjustments	(961)	(1,865)
Cash flow from continuing operations	22,159	24,979
Cash flow from discontinued operations	2,061	5,621
Cash flow from operating activities	24,220	30,600
INVESTING ACTIVITIES		
Property additions	(16,760)	(13,300)
Property disposals	172	169
Net proceeds from sale of discontinued operations		63,042
Acquisitions, net of cash acquired, and other investing	(6,044)	(570)
Cash flow from investing activities	(22,632)	49,341
FINANCING ACTIVITIES		
Additions to long-term debt	17	229
Reductions of long-term debt	(537)	(731)
Changes in notes payable and short-term debt	(286)	(9,149)
Cash dividends	(10,026)	(7,004)
Company stock purchases	(4,947)	(1,412)
Company stock sales	3,916	1,626
Cash flow from financing activities	(11,863)	(16,441)
Effect of exchange rate changes on cash	(759)	1,712
(Decrease) / Increase in cash and cash equivalents	(11,034)	65,212
Beginning cash and cash equivalents	73,244	36,477
Ending cash and cash equivalents	$ 62,210	$101,689

See notes to consolidated condensed financial statements.

MINE SAFETY APPLIANCES COMPANY
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS
UNAUDITED

(1) Basis of Presentation

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

The interim consolidated condensed financial statements are unaudited; however, we believe that all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of these interim periods have been included. The results for interim periods are not necessarily indicative of the results to be expected for the full year.

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

Certain prior year amounts have been reclassified to conform with the current year presentation.

The Management's Discussion and Analysis of Financial Condition and Results of Operations that is included elsewhere in this report contains additional information about our results of operations and financial position and should be read in conjunction with these notes.

(2) Three-for-One Stock Split

All share and per share information has been adjusted to reflect the three-for-one stock split of our common stock effected on January 28, 2004.

(3) Earnings per Share

Basic earnings per share is computed on the weighted average number of shares outstanding during the period. Diluted earnings per share includes the effect of the weighted average stock options outstanding during the period, using the treasury stock method. Antidilutive options are not considered in computing diluted earnings per share.

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2004**	**2003**	**2004**	**2003**
Net income from continuing operations	$19,111	$10,984	$53,367	$33,675
Preferred stock dividends	11	11	33	35
Income available to common shareholders	19,100	10,973	53,334	33,640
Basic shares outstanding	37,127	36,744	37,048	36,690
Stock options	1,118	598	1,033	414
Diluted shares outstanding	38,245	37,342	38,081	37,104
Antidilutive stock options	0	0	0	0

(4) Comprehensive Income

Components of comprehensive income are as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	**2004**	**2003**	**2004**	**2003**
Net income from continuing operations	$19,111	$10,984	$53,367	$33,675
Net income from discontinued operations		13,556		16,343
Cumulative translation adjustments	1,220	910	(1,445)	7,726
Comprehensive income	20,331	25,450	51,922	57,744

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Components of accumulated other comprehensive loss are as follows:

(In thousands)	September 30 2004	December 31 2003
Cumulative translation adjustments	$(6,339)	$(4,894)
Minimum pension liability adjustments	(1,143)	(1,143)
Accumulated other comprehensive loss	(7,482)	(6,037)

(5) Segment Information

We are organized into three geographic operating segments (North America, Europe, and International), each of which includes a number of operating companies.

A summary of our reportable segment information is as follows:

	Three Months Ended September 30, 2004				
(In thousands)	North America	Europe	International	Reconciling	Consolidated Totals
Sales to external customers	$151,197	$40,739	$28,026	$	$219,962
Intercompany sales	7,557	13,036	1,101	(21,694)	
Net income from continuing operations	16,022	1,304	2,230	(445)	19,111

	Nine Months Ended September 30, 2004				
(In thousands)	North America	Europe	International	Reconciling	Consolidated Totals
Sales to external customers	$424,846	$121,795	$80,925	$	$627,566
Intercompany sales	21,435	40,169	3,020	(64,624)	
Net income from continuing operations	44,492	4,447	5,522	(1,094)	53,367

	Three Months Ended September 30, 2003				
(In thousands)	North America	Europe	International	Reconciling	Consolidated Totals
Sales to external customers	$112,889	$34,890	$24,148		$171,927
Intercompany sales	5,361	12,625	694	(18,680)	
Net income from continuing operations	9,636	686	919	(257)	10,984
Income from discontinued operations	13,556				13,556

	Nine Months Ended September 30, 2003				
(In thousands)	North America	Europe	International	Reconciling	Consolidated Totals
Sales to external customers	$331,054	$106,164	$71,039		$508,257
Intercompany sales	18,241	38,292	2,339	(58,872)	
Net income from continuing operations	26,681	2,750	3,792	452	33,675
Income from discontinued operations	16,343				16,343

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

(6) Pensions and Other Postretirement Benefits

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

	Three Months Ended September 30			
	Pension Benefits		Other Benefits	
(In thousands)	2004	2003	2004	2003
Service cost	$ 1,599	$ 1,601	$128	$106
Interest cost	3,548	3,482	376	349
Expected return on plan assets	(7,087)	(6,995)		
Amortization of transition asset	58	(115)		
Amortization of prior service cost	74	65	(57)	(57)
Recognized net actuarial (gains) losses	(217)	(488)	207	148
Net periodic benefit (credit) cost	(2,025)	(2,450)	654	546

Nine Months Ended September 30	
Pension Benefits	Other Benefits

(In thousands)	2004	2003	2004	2003
Service cost	$ 4,774	$ 4,495	$ 384	$ 318
Interest cost	10,591	10,195	1,128	1,047
Expected return on plan assets	(21,243)	(20,393)		
Amortization of transition asset	172	(347)		
Amortization of prior service cost	222	206	(171)	(171)
Recognized net actuarial (gains) losses	(447)	(1,332)	621	444
Net periodic benefit (credit) cost	(5,931)	(7,176)	1,962	1,638

We made contributions of $1.1 million to our pension plans in the nine months ended September 30, 2004. We expect to make pension contributions of $1.4 million during 2004.

(7) Accounts Receivable Securitization

In August 2004, we terminated our securitization arrangements 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.

At December 31, 2003, $15.0 million of securitized accounts receivable had been removed from our balance sheet under this program. Our retained interest in accounts receivable available for securitization was $40.0 million at December 31, 2003.

(8) Goodwill and Intangible Assets

Changes in goodwill and intangible assets for the nine months ended September 30, 2004 were as follows:

(In thousands)	Goodwill	Intangibles
Balances at January 1, 2004	$44,810	$3,307
Amortization expense		(508)
Goodwill acquired	3,495	
Currency translation and other	(163)	
Balances at September 30, 2004	48,142	2,799

At September 30, 2004, goodwill of $35.0 million and $13.1 million related to the North America and European operating segments, respectively.

(9) Stock Plans

We apply the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation cost is recognized for stock option grants. If we had elected to recognize compensation cost based on the fair value of stock options at the grant date as prescribed by FAS 148, Accounting for Stock-Based Compensation — Transition and Disclosure, net income and earnings per share would have been reduced to the pro forma amounts shown below:

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2004	2003	2004	2003
Net income as reported	$19,111	$24,540	$53,367	$50,018
Fair value of stock options granted, net of tax	(450)	(419)	(1,331)	(928)
Pro forma net income	18,661	24,121	52,036	49,090
Basic earnings per share:				
As reported	$ 0.51	$ 0.67	$ 1.44	$ 1.36
Pro forma	0.50	0.66	1.40	1.34
Diluted earnings per share:				
As reported	$ 0.50	$ 0.65	$ 1.40	$ 1.35
Pro forma	0.49	0.65	1.37	1.32

Stock options granted in 2004 and 2003 vest in one year. For purposes of the pro forma disclosure, the estimated fair value of the options is amortized over the vesting period. The fair value of the options granted was estimated at the grant dates using the Black-Scholes option pricing model and the following weighted average assumptions for options granted in 2004 and 2003, respectively: risk-free interest rate of 4.2% and 4.0%; dividend yield of 2.0% and 2.1%; expected option life of 9.9 years and 9.9 years; and expected volatility factor of 29% and 23%.

We grant restricted stock awards to eligible key employees and non-employee directors without payment to the company in consideration of services to be performed in the ensuing three years. Compensation cost for restricted stock awards is measured at the market value of the shares when awarded. Unearned compensation related to restricted stock awards is reported in shareholders' equity and charged to income over the restriction period. Restricted stock awards expense was $233,000 and $197,000 in the third quarters of 2004 and 2003, respectively, and $663,000 and $536,000 for the nine months ended September 30, 2004 and 2003, respectively.

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(10) Acquisitions

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. 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 following pro forma summary presents our consolidated results as if the Sordin acquisition had occurred at the beginning of 2003. The pro forma information does not necessarily reflect the actual results that would have occurred and is not necessarily indicative of future results of operations for the combined companies.

	Three Months Ended September 30		Nine Months Ended September 30	
(In thousands)	2004	2003	2004	2003
Net sales	$219,962	$173,810	$631,603	$514,906
Net income from continuing operations	19,111	11,180	53,834	34,282
Basic earnings per share — continuing operations	0.51	0.30	1.45	0.93
Diluted earnings per share — continuing operations	0.50	0.30	1.41	0.92

Our preliminary allocation of the $4.2 million purchase price included goodwill of $2.8 million. The acquisition agreement provides for additional consideration, not to exceed approximately $5.4 million, to be paid to the former owners annually based on Sordin's earnings during the period from July 1, 2004 through June 30, 2009.

(11) Discontinued Operations

On September 12, 2003, we sold certain assets of the Callery Chemical Division to BASF Corporation. The operating results of Callery Chemical Division and the gain on the sale of the division, as summarized below, have been classified as discontinued operations for all periods presented.

(In thousands)	Three Months ended September 30, 2003	Nine Months ended September 30, 2003
Net sales	$ 6,522	$21,345
Income before income taxes	(216)	4,210
Provision for income taxes	(114)	1,525
Net income from discontinued operations	(102)	2,685
Gain on sale of discontinued operations	22,390	22,390
Provision for income taxes	8,732	8,732
Gain on sale of discontinued operations — after tax	13,658	13,658

At December 31, 2003, approximately $2.3 million of trade receivables and other current assets related to the Callery Chemical Division operation were reported as assets held for sale. These amounts were received during the first quarter of 2004.

(12) Derivative Financial Instruments

On April 6, 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.

In order to account for these derivatives as hedges, the interest rate swap must be highly effective at offsetting changes in the fair value of the hedged debt. We have assumed that there is no ineffectiveness in the hedge, since all of the critical terms of the hedge match the underlying terms of the hedged debt.

The fair value of the interest rate swap at September 30, 2004, has been recorded as a liability of $290,000 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 $105,000 for the third quarter of 2004 and $230,000 for the nine months ended September 30, 2004.

On March 5, 2004, we terminated an interest rate swap agreement which we had entered into on December 2, 2003. The termination of this agreement resulted in a realized gain of $678,000, which was reported as a reduction of interest expense during the quarter ended March 31, 2004.

(13) Contingencies

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 2,125 lawsuits involving primarily respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 30,200 plaintiffs. Approximately 85% 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, 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 reserves 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 position.

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 currently believe that we have any remediation obligations.

(14) Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities (FIN 46). FIN 46 establishes criteria to be used in determining whether an investment in a variable interest entity should be consolidated and is based on the premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. The provisions of FIN 46, which we adopted in the quarter ended March 31, 2004, did not have a material impact on our financial position, results of operations or cash flow.

In May 2004, the FASB issued Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Specific authoritative guidance on accounting for the federal subsidy is pending, and that guidance, when issued, could require plan sponsors to change previously reported information. The provisions of FASB Staff Position No. 106-2, which we adopted in the quarter ended September 30, 2004, did not have a material effect on our financial position, results of operations or cash flow.

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Item 2. Management's discussion and analysis of financial condition and results of operations

The following discussion and analysis should be read in conjunction with the historical financial statements and other financial information included elsewhere in this report on Form 10-Q. This discussion contains forward-looking statements that involve risks and uncertainties. The forward-looking statements are not historical facts, but rather are based on current expectations, estimates, assumptions and projections about our industry, business and future financial results. Our actual results could differ materially from the results contemplated by these forward-looking statements due to a number of factors, including those discussed in the sections of this report entitled "Forward-looking statements" and "Business Overview".

BUSINESS OVERVIEW

We are a global leader in the development, manufacture and supply of sophisticated products that protect people's health and safety. In recent years, we have concentrated on specific initiatives intended to help improve our competitive position and profitability. Our growth strategy includes the following:

- identify and develop promising new markets;
- focus on innovation and new product introductions;
- further strengthen relationships with major distributors;
- optimize factory performance and drive operational excellence;
- position international business to capture growth; and
- pursue 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 2003, approximately 65%, 21%, and 14% of our net sales from continuing operations 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, comprising 13 operating entities, 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 purchased from third party vendors.

International. Our International segment comprises 13 operating entities located in Abu Dhabi, Argentina, Australia, Brazil, Chile, China, India, 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 purchased from third party vendors.

Because some of the countries that comprise our International segment are located in developing regions of the world, several factors have the potential to adversely affect our operations and our financial results, including:

- significant changes in economic, social, political, monetary or trade policies of the governments of countries that comprise our International segment, as well as political or social unrest in those countries;
- trade protection measures and price controls;
- trade sanctions and embargos; and
- nationalization and expropriation.

These events are infrequent and unpredictable. However, it is highly unlikely that such events will occur simultaneously in several or all of the countries that comprise our International segment. We believe that our exposure is not material since, with the exception of Australia, which represents approximately 5% of our net sales, no individual international affiliate represents more than 3% of our total assets, net sales or gross profits.

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. We manage our exchange rate risks primarily by sourcing our products in the same currency as our customer pays us. In the few instances where product cost and product payment are not in the same currency and such mismatch creates a material exchange rate risk, we use foreign currency forward contracts. On a global basis, we have a broad based balance sheet exposure to numerous currencies that serves to minimize the impact of fluctuations in any one currency.

In 2003, we achieved record sales and net income from continuing operations for the third consecutive year. This trend has continued through the first nine months of 2004. 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 service, homeland security, construction and general industries, as well as the military. We believe that sales growth in the fire service market 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 the increased homeland security and military market demand for products such as the Millennium Chemical-Biological Mask and the MCU-2/P gas masks and the Advanced Combat Helmet that has occurred since the September 11th attacks and during the ongoing war on terrorism. Additionally, in 2003, we developed our Solaris handheld multi-gas detector and brought it from concept-to-customer in only 10 months in response to the gas detection needs of our industrial and petrochemical customers. Demand in the homeland security and military markets has more than offset continuing sluggishness in North American industrial markets.

The level of demand for our products in the fire service, homeland security and military markets is strongly influenced by the levels of government funding available to address the needs of first responders and to meet the requirements of military operations. A reduction in available government funding in the future could adversely affect the demand for our products in these markets.

Our results in Europe improved modestly in 2003 and for the first nine months of 2004, but continue to suffer from the effects of the poor economic climate in 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. As discussed further below under “Acquisitions”, we recently improved our market position and expertise in hearing protection by acquiring Sordin AB, which is headquartered in Sweden. In other international markets, results in 2003 and the first nine months of 2004 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.

To sharpen our focus on our core safety products business, in November 2002, we announced our decision to explore the potential sale of Callery Chemical, our only non-safety products business unit. As discussed further below under “Discontinued Operations,” this division was sold in September 2003.

ACQUISITIONS

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. 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.

DISCONTINUED OPERATIONS

On September 12, 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 the three months and nine month periods ended September 30, 2003 have been reported as discontinued operations in the consolidated statements of income.

Discontinued operations reported sales of $6.5 million and $21.3 million for the three and nine month periods ended September 30, 2003, respectively. Net income from discontinued operations, including an after-tax gain of $13.7 million on the sale of the operations, was $13.6 million, or $0.37 per basic share, and $16.3 million, or $0.45 per basic share, for the three months and nine month periods ended September 30, 2003, respectively.

At December 31, 2003, approximately $2.3 million of trade receivables and other current assets related to the Callery Chemical Division operation were reported as assets held for sale. These amounts were received during the first quarter of 2004.

RESULTS OF CONTINUING OPERATIONS

Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

Net Sales. Net sales for the three months ended September 30, 2004 were $220.0 million, compared with $171.9 million in the same period in 2003, an increase of $48.1 million, or 28%.

(In millions)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Dollar Increase	Percent Increase
North America	$151.2	$112.9	$38.3	34%
Europe	40.7	34.9	5.8	17%
International	28.0	24.1	3.9	16%

Net sales of the North America segment were $151.2 million for the three months ended September 30, 2004, an increase of $38.3 million, or 34%, compared to $112.9 million for the same period in 2003. We believe that our third quarter 2004 sales growth in North America is the direct result of our focus on key markets, including fire service, homeland security and the military. Third quarter growth includes increases in sales of self contained breathing apparatus, or SCBAs, and thermal imaging cameras, or TICs, to the fire service market of approximately $10.1 million and $1.8 million, respectively. We continue to see particularly strong demand for our latest generation SCBAs, which, in 2003, were the first to be approved under the 2002 NFPA performance standard and the NIOSH Chemical, Biological, Radiological and Nuclear, or CBRN, standard to protect first responders against possible terrorist attacks. Higher thermal imaging camera sales 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. Our sales of Advanced Combat Helmets, and related communication systems, to the military increased approximately $18.6 million in the three months ended September 30, 2004, reflecting increased government funding to support the war on terrorism. Gas mask sales increased by approximately $3.7 million in the current quarter, primarily in military and homeland security markets. Demand has been particularly strong for our new Millennium CBRN masks. Sales of instrument products were approximately $3.4 million higher in the current quarter, on strong demand for our latest generation portable instruments, such as the Solaris® Multigas Detector, one of the smallest and lightest four-gas monitors available today. In recent months, we have seen a modest improvement in the industrial sector demand for instrument products.

In Europe, net sales for the three months ended September 30, 2004 were $40.7 million, an increase of $5.8 million, or 17%, compared to $34.9 million in the same quarter of 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. The remainder of the increase was mainly related to the inclusion of sales by Sordin, which we acquired on June 30, 2004. Third quarter 2004 sales by existing European operations improved slightly when compared to third quarter 2003, reflecting continuing sluggishness in European industrial markets.

Net sales for the International segment were $28.0 million for the three months ended September 30, 2004, an increase of $3.9 million, or 16%, compared to $24.1 million in the third quarter of 2003. The sales improvement occurred primarily in Latin America and the Asia Pacific region. These areas each reported local currency sales growth of approximately $1.5 million, reflecting improved economic conditions. Approximately a third 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.

Cost of Products Sold. Cost of products sold was $128.2 million for the three months ended September 30, 2004, an increase of $26.2 million, or 26%, from $102.0 million in the third quarter of 2003. The increase was primarily related to higher sales.

Cost of products sold and selling, general and administrative expenses for the three months ended September 30, 2003 were favorably affected by a change in our vacation vesting policy for U.S. employees. Under the vacation vesting policy that we 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 the third quarter of 2003 of approximately $1.0 million and $500,000, respectively. We made the vacation policy change 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 three month periods ended September 30, 2004 and 2003 of $2.0 million and $2.5 million, respectively.

Gross Profit. Gross profit for the three months ended September 30, 2004 was $91.7 million, which was $21.8 million, or 31%, higher than gross profit of $69.9 million in the third quarter of 2003. The ratio of gross profit to net sales improved to 41.7% in the third quarter of 2004 compared to 40.7% in the same quarter last year. The improved gross profit ratio in the three months ended September 30, 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 from lower margin military helmets in the third quarter of 2003 to higher margin fire helmets in the third quarter of 2004.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $50.4 million during the three months ended September 30, 2004, an increase of $8.6 million, or 21%, compared to $41.8 million in the third quarter of 2003. Selling, general and administrative expenses were 22.9% of net sales in the third quarter of 2004 compared to 24.3% of net sales in the third quarter of 2003. Our selling, general and administrative expenses in North America increased approximately $5.2 million, primarily related to additional costs associated with generating and supporting the higher sales volumes**.** In addition, third quarter 2003 selling, general and administrative expenses included a favorable adjustment of approximately $500,000 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 $1.7 million in the current quarter. The remainder of the increase was due to the inclusion of Sordin and higher rent expense in Germany associated with the leaseback of property that was sold in September 2003.

Research and Development Expense. Research and development expense was $5.6 million for the three months ended September 30, 2004, which was unchanged from the third quarter of 2003.

Depreciation and Amortization Expense. Depreciation and amortization expense for the three months ended September 30, 2004 was $6.6 million, an increase of $1.1 million, or 20%, compared to $5.5 million in the third quarter of 2003. The increase was primarily related to production equipment additions that we have made in North America in response to higher sales volumes.

Interest Expense. Interest expense was $1.0 million in both the three months ended September 30, 2004 and in the same period last year.

Currency Exchange Adjustments. Currency exchange adjustments resulted in a gain of $1.0 million in the three months ended September 30, 2004 compared to a gain of $121,000 in the same quarter last year. The current quarter gain was primarily due to the strengthening of the Canadian dollar and the Euro.

Other Income. Other income for the three months ended September 30, 2004 was $2.0 million compared to $1.6 million in the three months ended September 30, 2003. During the current quarter, we recognized $1.1 million of estimated interest income with respect to settled issues in the audits of tax years 1995 through 2001. The estimated interest income is based on our current expectations regarding the final outcome of the IRS audits.

Income Taxes. The effective tax rate for the three months ended September 30, 2004 was 38.6% compared to 38.0% in the same quarter last year.

Our federal income tax returns for the years 1995 through 2001 remain under audit with the only open issue relating to the calculation of Research and Development tax credits. We believe that we have made adequate provision for income taxes and interest which may become payable or receivable for the years not yet settled.

We are currently studying the impact of the one-time favorable foreign dividend provisions and other tax changes enacted in October as part of the American Jobs Creation Act of 2004. Based on tax laws in effect at September 30 2004, it was our intent to indefinitely reinvest our undistributed foreign earnings and, accordingly, we have not recorded a deferred tax liability on these earnings. We are currently considering whether, and to what extent, the provisions of the Act may alter our viewpoint as to the amount of such earnings that are indefinitely reinvested.

Net Income from Continuing Operations. Net income from continuing operations in the three months ended September 30, 2004 was $19.1 million, or $0.51 per basic share, compared to $11.0 million, or $0.30 per basic share, for the same quarter last year.

North America segment net income from continuing operations for the three months ended September 30, 2004 was $16.0 million, an increase of $6.4 million, or 66%, compared to $9.6 million in the third quarter of 2003. The improvement in North American net income was due to the previously discussed sales growth.

European segment net income from continuing operations in the three months ended September 30, 2004 was $1.3 million, an increase of $618,000, or 90%, from $686,000 in the third quarter of 2003. Approximately half of the income improvement was related to the inclusion of Sordin results following its acquisition on June 30, 2004.

International segment net income from continuing operations for the three months ended September 30, 2004 was $2.2 million, an increase of $1.3 million, or 143%, compared to $919,000 in the same quarter of last year. The improvement in International net income was primarily related to the previously discussed sales growth.

Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

Net Sales. Net sales for the nine months ended September 30, 2004 were $627.6 million, an increase of $119.3 million, or 23%, from $508.3 million for the nine months ended September 30, 2003.

	Nine Months Ended September 30,			
(In millions)	**2004**	**2003**	**Dollar Increase**	**Percent Increase**
North America	$424.8	$331.1	$93.7	28%
Europe	121.8	106.2	15.6	15%
International	80.9	71.0	9.9	14%

Net sales of the North America segment for the nine months ended September 30, 2004 were $424.8 million, an increase of $93.7 million, or 28%, compared to $331.1 million for the same period in 2003. We believe that our sales growth in North America is the direct result of our focus on key markets, including fire service, homeland security and the military. The growth includes increases in SCBA and TIC sales to the fire service market of approximately $29.6 million and $8.5 million, respectively. We continue to see

particularly strong demand for our latest generation SCBAs, which, in 2003, were the first to be approved under the 2002 NFPA performance standard and the NIOSH Chemical, Biological, Radiological and Nuclear, or CBRN, standard to protect first responders against possible terrorist attacks. Higher thermal imaging camera sales 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. Our sales of Advanced Combat Helmet, and related communication systems, to the military increased approximately $36.6 million in the nine months ended September 30, 2004, reflecting increased government funding to support the war on terrorism. Gas mask sales have also increased in the current year by approximately $6.1 million, primarily in military and homeland security markets. Demand has been particularly strong for our new Millennium CBRN masks. Sales of instrument products were approximately $7.4 million higher in the current period, on strong demand for our latest generation portable instruments, such as the Solaris® Multigas Detector, one of the smallest and lightest four-gas monitors available today. In recent months, we have seen a modest improvement in the industrial sector demand for instrument products.

In Europe, net sales for the nine months ended September 30, 2004 were $121.8 million, an increase of $15.6 million, or 15%, compared to $106.2 million in the same period in 2003. The improvement includes Sordin sales of approximately $2.8 million, following its acquisition on June 30, 2004. The remainder of the sales increase was primarily related to the favorable effect of the stronger Euro on net sales when stated in U.S. dollars. Local currency sales at the other European operations for the nine months ended September 30, 2004 were flat when compared to the same period last year.

Net sales for the International segment were $80.9 million for the nine months ended September 30, 2004, an increase of $9.9 million, or 14%, from $71.0 million for the same period in 2003. Local currency sales in the current period were generally flat, reflecting an increase in local currency sales in Latin America of approximately $4.4 million, offset by a similar decrease in local currency sales in Australia and Japan. Both Australia and Japan reported unusually high sales during the first nine months of 2003 on significant one-time orders. When stated in U.S. dollars, International segment sales benefited from favorable currency exchange effects associated with a stronger Australian dollar and South African rand.

Cost of Products Sold. Cost of products sold was $362.2 million for the nine months ended September 30, 2004, an increase of $63.1 million, or 21%, compared to $299.1 million for the same period last year. The increase was primarily related to higher sales.

Cost of products sold and selling, general and administrative expenses for the nine months ended September 30, 2003 were favorably affected by a change in our vacation vesting policy for U.S. employees. Under the vacation vesting policy that we 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 the nine months ended September 30, 2003 of approximately $2.7 million and $1.3 million, respectively. We made the vacation policy change 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 nine month periods ended September 30, 2004 and 2003 of $5.9 million and $7.2 million, respectively.

Gross Profit. Gross profit for the nine months ended September 30, 2004 was $265.4 million, which was $56.3 million, or 27%, higher than $209.1 million for the same period in 2003. The ratio of gross profit to net sales was 42.3% for the nine months ended September 30, 2004 compared to 41.1% in the same period last year. The improved gross profit ratio in the first nine months of 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 on commercial sales. Our European operations also reported improved gross profits primarily related to a product mix shift from lower margin military helmets in 2003 to higher margin fire helmets in 2004.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were $145.2 million during the nine months ended September 30, 2004, an increase of $22.1 million, or 18%,

compared to $123.1 million for the same period last year. Selling, general and administrative expenses were 23.1% of net sales in the nine months ended September 30, 2004 compared to 24.2% of net sales in the first nine months of last year. Our selling, general and administrative expenses in North America increased approximately $13.4 million, primarily related to additional costs associated with generating and supporting the higher sales volumes. In addition, selling, general and administrative expenses for the nine months ended September 30, 2003 included a favorable adjustment of approximately $1.3 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 $5.1 million in the first nine months of 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.

Research and Development Expense. Research and development expense for the nine months ended September 30, 2004 was $15.9 million, an increase of $395,000, or 3%, compared to $15.5 million for the nine months ended September 30, 2003.

Depreciation and Amortization Expense. Depreciation and amortization expense was $18.2 million for the nine months ended September 30, 2004, an increase of $1.6 million, or 10%, compared to $16.6 million for the same period last year. The increase was primarily due to production equipment additions that we have made in North America in response to higher sales volumes.

Interest Expense. Interest expense for the nine months ended September 30, 2004 was $2.7 million, a decrease of $600,000, or 18%, compared to $3.3 million in the same period last year. Interest expense for the nine months ended September 30, 2004 was favorably affected by a gain of $678,000 on an interest rate swap transaction that was terminated during the first quarter.

Currency Exchange Adjustments. Currency exchange adjustments resulted in a loss of $969,000 during the nine months ended September 30, 2004 compared to a gain of $1.9 million in the same period last year. The loss in the nine months ended September 30, 2004 was primarily due to the weakening of the Euro and the Canadian dollar. The gain during the first nine months of 2003 related to the strengthening of the same currencies.

Other Income. Other income for the nine months ended September 30, 2004 was $3.5 million, an increase of $1.4 million compared to $2.1 million in the same period last year. During the current period, we recognized $1.1 million of estimated interest income with respect to settled issues in the audits of tax years 1995 through 2001. The estimated interest income is based on our current expectations regarding the final outcome of the IRS audits.

Income Taxes. The effective tax rate for the nine months ended September 30, 2004 was 37.8% compared to 38.4% for the same period last year. The lower effective rate reflects the release of approximately $475,000 in research and development credit tax reserves established in 2002 and 2003. The release of these reserves was based on agreement on the calculation of these credits that was reached with the Internal Revenue Service during the third quarter of 2004.

Our federal income tax returns for the years 1995 through 2001 remain under audit with the only open issue relating to the calculation of Research and Development tax credits. We believe that we have made adequate provision for income taxes and interest which may become payable or receivable for the years not yet settled.

We are currently studying the impact of the one-time favorable foreign dividend provisions and other tax changes enacted in October as part of the American Jobs Creation Act of 2004. Based on tax laws in effect at September 30 2004, it was our intent to indefinitely reinvest our undistributed foreign earnings and, accordingly, we have not recorded a deferred tax liability on these earnings. We are currently considering whether, and to what extent, the provisions of the Act may alter our viewpoint as to the amount of such earnings that are indefinitely reinvested.

Net Income from Continuing Operations. Net income from continuing operations for the nine months ended September 30, 2004 was $53.4 million, or $1.44 per basic share, compared to $33.7 million, or $0.91 per basic share, in the same period last year.

North America segment net income from continuing operations for the nine months ended September 30, 2004 was $44.5 million, an increase of $17.8 million, or 67%, compared to $26.7 million for the same period in 2003. The improvement in North American net income was due to the previously discussed sales growth.

Europe segment net income from continuing operations for the nine months ended September 30, 2004 was $4.4 million, an improvement of $1.6 million, or 62%, over income of $2.8 million for the same period last year. The net income improvement occurred primarily in Germany and France. The income improvement in France was largely due to product mix changes. During the first nine months of 2003, we shipped significant quantities of military helmets to the French army at lower gross margins. In 2004, the product mix included proportionately higher sales of fire helmets at higher gross margins.

International segment net income from continuing operations for the nine months ended September 30, 2004 was $5.5 million, an increase of $1.7 million, or 46%, compared to income of $3.8 million in the same period last year. Net income for the first nine months of 2003 was reduced by write-offs of accounts receivable in Chile and China of approximately $600,000 and $500,000 after-tax, respectively. In addition, when stated in U.S. dollars, approximately a third of the net income improvement in the International segment was due to favorable currency exchange effects.

LIQUIDITY AND CAPITAL RESOURCES

The main sources of our 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 $11.0 million during the nine months ended September 30, 2004 compared to an increase of $65.2 million in the same period last year. The increase in 2003 included $63.0 million in net proceeds that we received on the sale of discontinued operations.

During the nine months ended September 30, 2004, continuing operations provided $22.2 million in cash, compared to providing $25.0 million in the nine months ended September 30, 2003. The reduction in cash provided by operations reflects higher income from continuing operations, which was offset by a larger increase in working capital. During the first nine months of 2004 inventory increased $21.6 million compared to an increase of $6.7 million in the first nine months of 2003. Accounts receivable increased approximately $27.4 million during the first nine months of 2004 compared to an increase of $22.9 million in the first nine months of 2003.

Discontinued operations provided $2.1 million of cash during the nine months ended September 30, 2004, primarily through collection of trade receivables that were reported as assets held for sale at December 31, 2003. In the first nine months of 2003, discontinued operations provided cash of $5.6 million, primarily through collection of trade receivables and inventory reductions.

Investing activities used cash of $22.6 million during the nine months ended September 30, 2004, compared to providing $49.3 million in the same period last year. In the nine months ended September 30, 2003, the sale of discontinued operations provided $63.0 million of cash. Excluding this amount, investing activities used $13.7 million of cash in the nine months ended September 30, 2003. The increased use of cash in the current year-to-date period related to higher property additions, primarily production equipment, a $1.5 million installment payment on a technology transfer agreement that we finalized in 2003, and approximately $4.2 million for the acquisition of Sordin AB.

Financing activities used $11.9 million of cash in the nine months ended September 30, 2004, compared to using $16.4 million in the same period last year. The lower use of cash for financing activities in 2004 was primarily related to short term debt. During the first nine months of 2003, we used $9.1 million of cash to reduce borrowings under our short-term lines of credit in the U.S.

Long-term debt, including the current portion at September 30, 2004 was $64.8 million, or 15.6% 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.

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.

At December 31, 2003, $15.0 million of securitized accounts receivable had been removed from our balance sheet under the securitization arrangement and our retained interests in accounts receivable available for securitization was $40.0 million.

CUMULATIVE TRANSLATION ADJUSTMENTS

The September 30, 2004 and December 31, 2003 positions of the U.S. dollar relative to international currencies resulted in translation losses of $1.4 million being charged to the cumulative translation adjustments shareholders' equity account in the nine months ended September 30, 2004 compared to translation gains of $7.7 million in same period of 2003. The translation loss in the nine months ended September 30, 2004 related primarily to our operations in Europe, Australia, and South Africa, reflecting a weakening of the respective local currency in relation to the U.S. dollar. Translation gains in the nine months ended September 30, 2003 reflect the strengthening of most currencies against the U.S. dollar. The most significant gains in 2003 related to our operations in Europe, Australia, South Africa, and Brazil.

COMMITMENTS AND CONTINGENCIES

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

During the third quarter of 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.

On September 12, 2003, we entered into a lease agreement with BASF Corporation 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 and we have the option to renew for five successive one year periods. We have renewed the lease through September 2005.

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 2,125 lawsuits involving primarily respiratory protection products allegedly manufactured and sold by us. Collectively, these lawsuits represent a total of approximately 30,200 plaintiffs. Approximately 85% 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, 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 reserves 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 position.

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 currently believe that we have any remediation obligations.

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 liabilities 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 the uninsured portion 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, 2003.

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, 2003.

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. Valuation allowances as of September 30, 2004 were not significant.

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.

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.

RELATED PARTY TRANSACTIONS

We do not have any related party transactions that materially affect our results of operations, cash flow or financial condition.

RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board, or FASB, issued FASB Interpretation No., or FIN, 46, Consolidation of Variable Interest Entities. FIN 46 establishes criteria to be used in determining whether an investment in a variable interest entity should be consolidated and is based on the premise that companies that control another entity through interests other than voting interests should consolidate the controlled entity. The provisions of FIN 46, which we adopted in the quarter ended March 31, 2004, did not have a material effect on our financial position, results of operations or cash flow.

In May 2004, the FASB issued Staff Position No. 106-2, Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003. This act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. Specific authoritative guidance on accounting for the federal subsidy is pending, and that guidance, when issued, could require plan sponsors to change previously reported information. The provisions of FASB Staff Position No. 106-2, which we adopted in the quarter ended September 30, 2004, did not have a material effect on our financial position, results of operations or cash flow.

FORWARD-LOOKING STATEMENTS

This report contains 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, among other things: the availability of government funding in the fire service, homeland security and military markets; our ability to compete successfully against current and future competitors; the timely and successful introduction of new products; risks inherent in litigation, including product liability claims; currency exchange rate fluctuations and various political and economic risks associated with international operations; fluctuations in the cost and availability of purchased materials and components; our ability to successfully identify and integrate future acquisitions; and the impact of unforeseen economic and political changes, including the threat of terrorism and its potential consequences. In some cases, you can identify forward-looking statements by words such as "may," "will," "should," "expects," "intends," "plans," "anticipates," "believes," "estimates," "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. In evaluating these statements, you should specifically consider various factors, including the risks outlined under "Risk factors" in this prospectus.

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 prospectus whether as a result of new information, future events or otherwise.

Item 3. Quantitative and qualitative disclosures about market risk

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

Currency exchange rate sensitivity. By the very nature of our global operations, our cash flow and earnings are subject to fluctuations due to exchange rate changes. Because we operate in a number of locations around the world, currency exchange risk is well diversified. When appropriate, we may attempt to limit our exposure to changes in currency exchange rates through both operational and financial market actions. These actions may include contracts and other actions designed to reduce existing exposures by essentially creating offsetting currency exposures. At September 30, 2004, 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 September 30, 2004, the swap agreement had a notional amount of $20.0 million and a fair market value in favor of the bank of $290,000. 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 $450,000 in the fair value of the interest rate swap.

We have $52.0 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 $1.0 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.

Item 4. Controls and procedures

Disclosure Controls and Procedures

Management has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of September 30, 2004. These disclosure controls and procedures are the controls and other procedures that were designed to ensure that information required to be disclosed in reports that are filed with or submitted to the SEC is: (1) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures and (2) recorded, processed, summarized and reported within the time periods specified in applicable law and regulations. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of September 30, 2004, the company’s disclosure controls and procedures were effective.

Internal Controls

As of September 30, 2004, there have not been any changes in the company’s internal control over financial reporting that occurred during the fiscal quarter covered by this quarterly report, which have materially affected, or are reasonably likely to materially affect, the company’s internal control over financial reporting.

PART II OTHER INFORMATION
MINE SAFETY APPLIANCES COMPANY

Item 1. Legal Proceedings

Not Applicable

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
July 1 - July 31, 2004	—	—	—	110,641
August 1 - August 31, 2004	40,567	41.75	40,567	70,074
September 1 - September 30, 2004	55,192	43.21	55,192	14,882

On December 19, 1996, the company announced that its Board of Directors had authorized management to purchase up to 4,500,000 split-adjusted 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 October 26, 2004, the Board of Directors authorized the purchase of up to 200,000 additional shares of common stock from time to time in private transactions and on the open market. The share purchase program has no expiration date.

The company does not have any other share repurchase programs.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a)

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)

32 Certification pursuant to 18 U.S.C. (S)1350

(b) Reports on Form 8-K

During the quarter ended September 30, 2004, the company filed or furnished the following reports on Form 8-K:

Date	Contents
August 4	Item 9 (pursuant to Item 12) — press release announcing financial results for the quarter and year ended June 30, 2004.

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SIGNATURES

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

MINE SAFETY APPLIANCES COMPANY

Date: November 5, 2004

By /s/ Dennis L. Zeitler
Dennis L. Zeitler
Vice President — Finance; Duly Authorized Officer and
Principal Financial Officer

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO RULE 13a-14(a)

I, John T. Ryan III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mine Safety Appliances Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ John T. Ryan III

John T. Ryan III
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO RULE 13a-14(a)

I, Dennis L. Zeitler, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Mine Safety Appliances Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a—15(e) and 15d—15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: November 5, 2004

/s/ Dennis L. Zeitler

Dennis L. Zeitler
Chief Financial Officer

Exhibit 32

Certification

Pursuant to 18 U.S.C. (S) 1350, the undersigned officers of Mine Safety Appliances Company (the “Company”), hereby certify, to the best of their knowledge, that the Company’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2004 (the “Report”) fully complies with the requirements of Section 13 (a) or 15 (d), as applicable, of the Securities Exchange Act of 1934 and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 5, 2004

/s/ John T. Ryan III

Name: John T. Ryan III
Title: Chief Executive Officer

/s/ Dennis L. Zeitler

Name: Dennis L. Zeitler
Title: Chief Financial Officer