MINE SAFETY APPLIANCES CO
Form DEF 14A
March 25, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)

of the Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
x Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §167;240.14a-12

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

Mine Safety Appliances Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

MINE SAFETY APPLIANCES COMPANY P.O. BOX 426, PITTSBURGH, PENNSYLVANIA 15230 PHONE (412) 967-3000

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Holders of Common Stock of

Mine Safety Appliances Company:

Notice is hereby given that the Annual Meeting of Shareholders of Mine Safety Appliances Company will be held on Thursday, April 29, 2004, at 9:00 A.M., local Pittsburgh time, at the Company s headquarters, 121 Gamma Drive, RIDC Industrial Park, O Hara Township, Pittsburgh, Pennsylvania for the purpose of considering and acting upon the following:

(1) *Election of Directors:* The election of three directors for a term of three years and one director for a term of one year;

(2) *Selection of Independent Auditors:* The selection of independent auditors for the year ending December 31, 2004;

and such other business as may properly come before the Annual Meeting or any adjournment thereof.

Only the holders of Common Stock of the Company of record on the books of the Company at the close of business on February 20, 2004 are entitled to notice of and to vote at the meeting and any adjournment thereof.

You are cordially invited to attend the meeting. Whether or not you expect to attend the meeting, please execute and date the accompanying form of proxy and return it in the enclosed self-addressed, stamped envelope at your earliest convenience. If you attend the meeting, you may, if you wish, withdraw your proxy and vote your shares in person.

By Order of the Board of Directors,

Douglas K. McClaine

Secretary

March 25, 2004

March 25, 2004

MINE SAFETY APPLIANCES COMPANY

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Mine Safety Appliances Company (the Company) of proxies in the accompanying form to be voted at the Annual Meeting of Shareholders of the Company to be held on Thursday, April 29, 2004, and at any and all adjournments thereof, for the purposes set forth in the accompanying Notice of Annual Meeting of Shareholders. If a proxy in the accompanying form is duly executed and returned, the shares of Common Stock represented thereby will be voted and, where a specification is made by the shareholder, will be voted in accordance with such specification. A shareholder giving the accompanying proxy has the power to revoke it at any time prior to its exercise upon written notice given to the Secretary of the Company.

The mailing address of the principal executive offices of the Company is P.O. Box 426, Pittsburgh, Pennsylvania 15230.

VOTING SECURITIES AND RECORD DATE

As of February 20, 2004, the record date for the Annual Meeting, 36,968,557 shares of Common Stock were issued and outstanding, not including 3,670,658 shares held in the Company s Stock Compensation Trust. The shares held in the Stock Compensation Trust are not considered outstanding for accounting purposes but are treated as outstanding for certain purposes, including voting at the Annual Meeting. See Stock Ownership Beneficial Ownership of Management.

Only holders of Common Stock of the Company of record on the books of the Company at the close of business on February 20, 2004 are entitled to notice of and to vote at the Annual Meeting and at any adjournment thereof. Such holders are entitled to one vote for each share held and do not have cumulative voting rights with respect to the election of directors. Holders of outstanding shares of the Company s 4½% Cumulative Preferred Stock are not entitled to vote at the meeting.

See Stock Ownership for information with respect to share ownership by the directors and executive officers of the Company and the beneficial owners of 5% or more of the Company s Common Stock.

PROPOSAL NO. 1 ELECTION OF DIRECTORS

Three directors will be elected at the Annual Meeting to serve until the Annual Meeting in 2007, and one director will be elected to serve until the Annual Meeting in 2005. The term of each director will continue until a successor has been elected and qualified. The Board of Directors and its Nominating and Governance Committee recommend a vote FOR the election of the nominees named below, each of whom has consented to be named as a nominee and to serve if elected. Properly executed proxies timely received in the accompanying form will be voted for the election of the nominees named below, unless otherwise directed thereon, or for a substitute nominee designated by the Nominating and

Governance Committee in the event a nominee named becomes unavailable for election.

The following table sets forth certain information about the nominees, all of whom are currently members of the Board, and about the other directors whose terms of office will continue after the Annual Meeting:

Name	Principal Occupation and any Position with the Company; Other Reporting Company Directorships	Age	Director Since
	Nominees for terms expiring in 2007		
James A. Cederna	Founder and owner, Cederna International Inc. (executive coaching)	53	2002
John T. Ryan III	Chairman and Chief Executive Officer of the Company	60	1981
John C. Unkovic	Partner and General Counsel, Reed Smith LLP (full service law firm)	60	2002
	Nominee for term expiring in 2005		
Diane M. Pearse	Chief Financial Officer, Crate and Barrel (home furnishings retailer)	46	2004
	Continuing Directors with terms expiring in 2005		
L. Edward Shaw, Jr.	Attorney in private practice	59	1998
Thomas H. Witmer	Chairman of the Board, Granite State Log Homes (log home construction)	61	1997
	Continuing Directors with terms expiring in 2006		
Calvin A. Campbell, Jr.	Retired (2003); formerly Chairman, President and Chief Executive Officer, Goodman Equipment Corporation (manufactured underground mining and tunneling locomotives and parts and services for plastics injection molding machinery); Director of Eastman Chemical Company	69	1994
Thomas B. Hotopp	Retired (2003); formerly President of the Company	62	1998

The Board of Directors has determined that directors Campbell, Cederna, Hotopp, Pearse, Unkovic and Witmer are each independent as defined in the listing standards of the American Stock Exchange.

Mr. Cederna was Chairman, President and Chief Executive Officer of Calgon Carbon Corporation until February 2003. Prior to becoming President of Calgon Carbon Corporation in April 1999, Mr. Cederna was President of Arizona Chemical Co., a specialty chemicals manufacturer, and an officer of International Paper Co., a paper and forest products company. From April 2000 to January 2001, Ms. Pearse was Chief Financial Officer of iCastle.com, Inc., a home improvement business. From January 1999 to April 2000, she was Vice President, Business Financial Services Americas, of BP Amoco, Plc., an oil and gas company. Mr. Shaw was Executive Vice President and General Counsel of Aetna, Inc., a health care and group benefits insurer, until his retirement in December 2003. From May 1996 to April 1999, Mr. Shaw served in various positions for National Westminster Bank Plc., including most recently as Chief Corporate Officer, North America. Mr. Shaw is the brother-in-law of Mr. Ryan. Each other director has engaged in the principal occupation indicated in the above table for at least the past five years.

The Board of Directors has established an Audit Committee, a Compensation Committee, a Nominating and Governance Committee and certain other committees.

The Audit Committee, which met seven times during 2003, assists the Board in fulfilling its oversight responsibility relating to the integrity of the Company s financial statements and financial reporting process. The Committee selects and recommends annually to the Board and the shareholders the firm of independent auditors to audit the Company s financial statements, approves in advance all audit and non-audit services performed by the independent auditors, reviews the plans, findings and recommendations of the independent auditors, and reviews and evaluates the performance of the independent auditors, their independence and their fees. The Committee reviews and discusses with management and the independent auditors the Company s financial statements and reports, its internal and disclosure controls and matters relating to the Company s organizational structure, its business ethics policy and legal and regulatory compliance. The current members of the Audit Committee are directors Campbell, Cederna, Pearse and Witmer, each for a term expiring at the 2004 organizational meeting of the Board of Directors. The Board of Directors has determined that Director Pearse is an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

The Compensation Committee presently consists of directors Campbell, Cederna, Shaw, Unkovic and Witmer, each for a term expiring at the 2004 organizational meeting of the Board. The Compensation Committee, which met two times in 2003, makes recommendations to the Board with respect to the compensation of officers of the Company. A report of the Compensation Committee as to its policies in recommending the 2003 compensation of the Company s executive officers appears later. The Compensation Committee also administers the Company s 1998 Management Share Incentive Plan (the MSIP).

The current members of the Nominating and Governance Committee are directors Campbell, Ryan, Shaw and Unkovic, each for a term expiring at the 2004 organizational meeting of the Board. The Committee, which met three times in 2003, reviews and makes recommendations to the Board regarding the composition and structure of the Board, criteria and qualifications for Board membership and evaluation of current directors and potential candidates for director. It is also responsible for establishing and monitoring policies and procedures concerning corporate governance. Further information concerning the Nominating and Governance Committee and its procedures appears below.

The Board of Directors met on eleven days during 2003. All directors attended at least 75% of the combined total of the meetings of the Board and of all committees on which they served. Directors are expected to attend the Annual Meeting of Shareholders. In 2003, all members of the Board of Directors attended the Annual Meeting.

Vote Required

In the election of directors for terms expiring in 2007, the three candidates receiving the highest numbers of votes cast by the holders of Common Stock voting in person or by proxy will be elected as directors. In the election of a director for a term expiring in 2005, the candidate who receives the highest number of such votes cast by the holders of Common Stock will be elected. A proxy vote indicated as withheld from a nominee will not be cast for such nominee but will be counted in determining whether a quorum exists for the meeting.

The Company s Restated Articles require that any shareholder intending to nominate a candidate for election as a director must give written notice, containing specified information, to the Secretary of the Company not later than 90 days in advance of the meeting at which the election is to be held. No such notices were received with respect to the 2004 Annual Meeting. Therefore, only the nominees named above will be eligible for election at the meeting.

OTHER INFORMATION CONCERNING DIRECTORS AND OFFICERS

Executive Compensation

The following table sets forth information concerning the annual, long-term and other compensation earned from the Company and its subsidiaries for the years 2003, 2002 and 2001 by the persons who were in 2003 the chief executive officer and the other four most highly compensated executive officers of the Company (the Named Officers):

SUMMARY COMPENSATION TABLE

		Annual Compensation (1)		Long-Term Compensation Awards		
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Restricted Stock Awards ($)(2)**	**Shares Underlying Stock Options (# of Shares) (3)**	**All Other Compensation ($)(4)**
John T. Ryan III	2003	$ 555,990	$ 744,750	$ 207,045	205,575	$59,319
Chairman and	2002	$ 525,207	$ 364,120	$ 200,986	151,326	$66,244
Chief Executive Officer	2001	$ 483,323	$ 608,890		233,952	$57,035
William M. Lambert	2003	$ 259,647	$ 300,760	$ 100,250	97,629	$20,675
Vice President;	2002	$ 210,209	$ 106,110	$ 39,648	29,184	$19,705
President,	2001	$ 194,049	$ 173,030		45,678	$17,852
North America						
James H. Baillie	2003	$ 304,705	$ 252,927	$ 76,824	74,700	$33,041
Vice President;	2002	$ 277,808	$ 127,733	$ 71,052	52,500	$25,666
President, MSA Europe	2001	$ 250,124	$ 200,000		22,200	$24,878
Rob Cañizares M. (5)	2003	$ 245,000	$ 163,460	$ 64,766	62,931	$18,686
Vice President;	2002					
President, MSA	2001					
International						
Dennis L. Zeitler	2003	$ 240,674	$ 252,430	$ 68,556	66,747	$ 8,656
Vice President, Chief	2002	$ 225,477	$ 119,300	$ 66,734	49,071	$22,624
Financial Officer and Treasurer	2001	$ 193,073	$ 204,530		76,782	$ 8,940

(1) For each year, the incremental cost to the Company of personal benefits provided to any Named Officer did not exceed the lesser of $50,000 or 10% of aggregate salary and bonus.

(2) The amounts shown in this column represent the market values on March 12, 2003 and March 11, 2002 of restricted shares awarded on those dates. At December 31, 2003 the number and market values of restricted shares held by the Named Officers were as follows: Mr. Ryan, 50,895 shares ($1,363,647); Mr. Lambert, 15,495 shares ($415,163); Mr. Baillie, 19,815 shares ($530,910); Mr. Cañizares, 5,640 shares ($151,114); and Mr. Zeitler, 14,130 shares ($378,590). Holders of restricted shares receive dividends at the same rate as paid on other shares of Common Stock.

(3) Share numbers have been adjusted to reflect the special distribution to shareholders in November 2003 and the 3-for-1 Common Stock split in January 2004.

(4) 2003 amounts include Company matching contributions to the Company s Retirement Savings and Supplemental Savings Plans as follows: Mr. Ryan, $36,804; Mr. Lambert, $14,630; Mr. Cañizares, $9,800; and Mr. Zeitler, none. The 2003 amounts also include life insurance premiums paid by the Company as follows: Mr. Ryan, $22,515; Mr. Lambert, $6,045; Mr. Cañizares, $8,886; and Mr. Zeitler, $8,656. The 2003 amount for Mr. Baillie is the amount paid to him in lieu of contributions to a retirement plan.

(5) Mr. Cañizares was first employed by the Company in January 2003.

Stock Option Grants in 2003

The following table sets forth information concerning stock options granted to the Named Officers in 2003 under the MSIP:

Name	Number of Shares Underlying Options Granted (#)(1)	Percent of Total Options Granted to Employees in 2003	Exercise Price ($/Share) (1)(2)	Expiration Date	Grant Date Present Value (3)
John T. Ryan III	9,378	1.3%	$ 11.7183	3/12/2008	$ 16,153
	196,197	27.6%	$ 10.653	3/12/2013	$ 604,273
William M. Lambert	97,629	13.7%	$ 10.653	3/12/2013	$ 300,763
James H. Baillie	74,700	10.5%	$ 10.653	3/12/2013	$ 230,143
Rob Cañizares M.	62,931	8.9%	$ 10.653	3/12/2013	$ 193,875
Dennis L. Zeitler	66,747	9.4%	$ 10.653	3/12/2013	$ 205,681

(1) The numbers of shares underlying the options and the exercise prices per share have been adjusted to reflect the special distribution to shareholders in November 2003 and the 3-for-1 Common Stock split in January 2004.

(2) The exercise price is the market value of the Common Stock on the date the options were granted, except that in the case of the option for 9,378 shares granted to Mr. Ryan it is 110% of such value. The options became exercisable on March 12, 2004. The option for 9,378 shares granted to Mr. Ryan, and 9,378 shares of the options granted to each other Named Officer are intended to qualify as incentive stock options under the Internal Revenue Code.

(3) The grant date present value of the options has been determined utilizing the Black-Scholes option pricing model. The assumptions used to arrive at the present values were: stock price volatility of 23.48%, expected dividend yield of 2.10%, expected option term of five years for the option for 9,378 shares granted to Mr. Ryan and ten years for the remaining options, and a risk-free rate of return of 2.57% for the option for 9,378 shares granted to Mr. Ryan and 3.97% for the remaining options.

Stock Option Exercises and Year-End Values

The following table sets forth information concerning the stock options under the MSIP exercised by the Named Officers during 2003 and the stock options under the MSIP held by the Named Officers at December 31, 2003.

Name	Number of Shares Acquired on Exercise (1)	Value Realized (2)	Number of Shares Underlying Unexercised Options at 12/31/2003 (1)		Value of Unexercised In-the-Money Options at 12/31/2003 (3)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
John T. Ryan III	55,983	$ 648,973	518,481	205,575	$ 9,428,248	$ 3,308,059
William M. Lambert	6,855	$ 51,555	110,709	97,629	$ 2,024,954	$ 1,575,765
James H. Baillie			52,500	74,700	$ 769,363	$ 1,205,683

Rob Cañizares M.				62,931		$ 1,015,727
Dennis L. Zeitler	42,123	$ 615,458	49,071	66,747	$ 719,113	$ 1,077,319

(1) Share numbers have been adjusted to reflect the special distribution to shareholders in November 2003 and the 3-for-1 Common Stock split in January 2004.

(2) Represents the difference between the fair market value of the shares acquired on the date of the option exercise and the option price of those shares.

(3) Represents the amount by which the December 31, 2003 market value of the shares subject to unexercised options exceeded the option price of those options.

Compensation Committee Report on Executive Compensation

The Compensation Committee of the Board of Directors has furnished the following report on 2003 executive compensation:

The Compensation Committee of the Board of Directors is responsible for recommending to the Board salaries and bonuses to be paid to the Company s executive officers. The Compensation Committee is also responsible for administering the Company s shareholder approved 1998 Management Share Incentive Plan (the MSIP), which permits the Committee to make discretionary grants of stock options and restricted stock as incentives to executive officers and other key employees.

The Compensation Committee s policy in recommending salaries is designed to pay executive officer salaries at competitive levels necessary to attract and retain competent personnel while at the same time recognizing individual performance factors. To do this, the Company periodically retains compensation consultants to assist in evaluating each United States executive officer position and in determining the market level salary range for the position based on salaries paid for executive positions with similar duties and responsibilities by other manufacturing companies of comparable size and sales volumes. Between these periodic evaluations, market level salary ranges for each position are reviewed to reflect changes shown by data provided from compensation surveys. Within the market level salary range for each executive officer position, the salary to be paid to the individual officer is determined by taking into consideration the relationship of the officer s current salary to the market level range and an evaluation of the officer s individual performance made initially by the chief executive officer or the officer s other immediate supervisor. In the case of the chief executive officer, the individual performance evaluation and the determination of the amount of the salary adjustment are made by the Compensation Committee.

The Company has one executive officer located overseas, James H. Baillie, Vice President of the Company and President of MSA Europe. Mr. Baillie s salary is determined in a manner similar to that used for executive officers located in the United States, except that the market level salary range for his position is determined by reference to salaries paid for similar executive positions in Europe.

At its meeting in March 2003 the Committee considered executive officer salaries for the period April 1, 2003 through March 31, 2004. The increase in Mr. Ryan s salary for this period was awarded in recognition of his leadership in the Company s growth over the preceding three years from disappointing results in 1999 to record sales and net income in 2002 in a difficult economic environment, as well as his leadership in 2002 in the Company s acquisition of the Gallet line of head protective equipment.

The Company s annual bonus policy is designed to make a significant percentage of an executive officer s total cash compensation dependent upon corporate and individual performance. At targeted levels for 2003, this percentage was 60% of median market level salary for the chief executive officer, and was either 40% or 45% of median market level salary for other executive officers. For the chief executive and chief financial officers, the percentage of the targeted bonus earned is initially determined as the percentage of achievement of a targeted level of consolidated earnings before interest and taxes (EBIT) for the year by the Company s worldwide operations. For other officers, 25% of the initial bonus determination is based on the percentage of achievement of the consolidated EBIT target, and the remainder is determined based on the percentage of achievement of EBIT or other targets established for the geographic areas and/or operating divisions with which the officer is associated. The initial percentage of the targeted bonus earned based on Company performance may be adjusted upward or downward for each officer based upon an evaluation of the individual officer s performance during the year, which is made initially by the chief executive officer or the officer s other immediate supervisor or, in the case of the chief executive officer, by the Compensation Committee. Individual bonuses under the regular bonus program may not exceed 150% of targeted levels, and no bonus is paid based on EBIT or other performance which is less than 50% of the targeted amount. The Committee may make exceptions to these rules in special cases. The total amounts payable as bonuses in any year for all participants under the regular bonus program may not exceed 6% of consolidated EBIT.

At its meeting in March 2003, the Committee determined to continue its practice of offering additional incentives to meet and exceed the Company s annual consolidated net income target. Under the additional incentive plan approved for 2003, annual bonuses earned under the regular bonus plan would be increased by 10% if the Company exceeded its plan for 2003 consolidated net income and could be increased by up to 50% if the Company exceeded the plan by a specified percentage amount. The Company exceeded its plan for 2003 consolidated net income by the amount required to trigger the maximum 50% increase in the bonuses payable under the regular bonus program.

The Committee determined bonuses for 2003 at its meeting in March 2004. The amount of the bonus awarded to Mr. Ryan was the amount determined based on Company performance under the regular and enhanced bonus program formulas, as reduced by the application of the cap of 150% of the targeted bonus under the regular bonus program.

Awards under the MSIP are intended to provide executive officers with long-term incentives in the form of stock-based compensation to remain with the Company and to work to increase shareowner value. Under both types of awards utilized under the MSIP, stock options and restricted stock, the value realized in the future by the officer is a direct function of the Company s success in achieving a long-term increase in the market value of its Common Stock. The Committee s long-term incentive award program under the MSIP was modified in 2001 based on recommendations resulting from a study by a compensation consulting firm. Under the program, the annual dollar value of MSIP awards for each executive officer position is based on the market level annual dollar value of long-term incentive awards for similar positions, as determined from compensation survey data.

Each year, 75% of the dollar value of long-term incentive awards, as so determined, is made in the form of stock options and 25% in the form of restricted stock awards. The number of shares for which stock options are granted to each executive officer is determined by dividing 75% of the dollar value for the officer s position by the per share value of the options as determined under the Black-Scholes option pricing model. Stock options are normally granted as incentive stock options within the limits established by the Internal Revenue Code and as nonqualified options above those limits. The option price is equal to the fair market value of the option shares as of the date the options are granted, except that in the case of incentive stock options granted to Mr. Ryan, the option price is 110% of the grant date fair market value. The options granted in 2003 become exercisable one year from the date of grant and have a term of ten years, except that in the case of incentive stock options granted to Mr. Ryan the term is five years. The options generally are exercisable only while the grantee remains an employee of the Company or a subsidiary, except that the options may be exercised for limited periods after a termination of employment due to death, disability or retirement or a voluntary termination with the consent of the Company.

The number of shares awarded in the form of restricted stock is determined by dividing 25% of the dollar value of long-term incentive awards for each executive officer position by the per share market value on the date of the award. Beginning in 2002, restricted shares are awarded annually and vest on March 15 of the third year following the award date. Until vesting, the restricted shares are held in escrow by the Company, may not be sold and generally will be forfeited if the officer s employment terminates other than by death, disability or retirement under a Company retirement plan. Unless and until the restricted shares are forfeited to the Company, the officer may vote the restricted shares and receives dividends on the shares which are not subject to forfeiture.

In accordance with the Committee s long-term incentive program, the Committee granted stock options and restricted stock awards under the MSIP at its meeting in March 2003. The awards granted to Mr. Ryan were in the amounts determined under the program formulas.

At 2003 compensation levels, the Company anticipates that any effects of the $1 million cap on deductibility of individual executive officer compensation imposed by Section 162(m) of the Internal Revenue Code will be minimal.

The foregoing report was submitted by the Compensation Committee of the Board of Directors:

Calvin A. Campbell, Jr., Chairman

James A. Cederna

L. Edward Shaw, Jr.

John C. Unkovic

Thomas H. Witmer

Compensation Committee Interlocks and Insider Participation

There are no interlocking relationships, as defined in regulations of the Securities and Exchange Commission, involving members of the Compensation Committee.

Directors Campbell, Cederna, Shaw, Unkovic and Witmer served as members of the Compensation Committee during all of 2003. Following the 2004 organizational meeting of the Board of Directors, the membership of the Compensation Committee will consist entirely of independent directors, as defined in the listing standards of the American Stock Exchange.

In April 2003, Goodman Equipment Corporation, of which Mr. Campbell was Chairman, Chief Executive Officer and majority owner, executed an assignment for the benefit of creditors. At that time, Goodman Equipment Corporation owed the Company commissions of approximately $138,000, which remain unpaid, for acting as sales agent with respect to sales of certain mining locomotives and spare parts. Mr. Unkovic is a partner in the law firm of Reed Smith LLP, which provides legal services to the Company as its outside counsel.

Retirement Plans

The following table shows the estimated annual retirement benefits payable upon normal retirement at age 65 under the Company s Non-Contributory Pension Plan for Employees to participating employees, including executive officers, in selected compensation and years-of-service classifications.

Years of	5 Year Average Compensation					
Service	$200,000	$400,000	$600,000	$800,000	$1,000,000	$1,200,000
5	$ 12,462	$ 26,929	$ 41,395	$ 55,862	$ 70,329	$ 84,795
15	37,386	80,786	124,186	167,586	210,986	254,386
25	62,310	134,643	206,977	279,310	351,643	423,977
35	87,234	188,501	289,767	391,034	492,301	593,567
45	105,901	225,834	345,767	465,701	585,634	705,567

Notes:

1. Years of service are based upon completed months of service from date of hire to date of retirement.

2. The benefits actually payable under the plan will be subject to the limitations of Sections 415 and 401(a)(17) of the Internal Revenue Code. These limitations have not been reflected in the table. However, the Company has a supplemental plan providing for the payment by the Company to officers on an unfunded basis of the difference between the amounts payable under the benefit formula of the pension plan and the benefit limitations of Sections 415 and 401(a)(17) of the Internal Revenue Code.

3. This table applies to employees born in calendar year 1944. The actual benefits payable will vary slightly depending upon the actual year of birth.

4. The benefits shown have been calculated using the Social Security law in effect on January 1, 2004, with a maximum taxable wage base of $87,900 assumed until retirement.

The amounts shown in the table are straight-life annuity amounts, assuming no election of any available survivorship option, and are not subject to any Social Security or other offsets. Benefits under the plan are based on the highest annual average of the participant s covered compensation for any five consecutive years of service, with covered compensation including salary and bonus. As of December 31, 2003, years of service under the plan for the Named Officers were: Mr. Ryan, 34.50 years; Mr. Lambert, 22.33 years; Mr. Cañizares, 0.95 years; and Mr. Zeitler, 27.00 years.

Mr. Baillie does not participate in the Company s retirement plans, but instead receives an annual payment in lieu of retirement plan contributions. This payment is included under All Other Compensation in the Summary Compensation Table on page 4. Mr. Ryan also participates in the Retirement Plan for Directors. Under this plan, the annual benefit payable to Mr. Ryan upon retirement after 5 years service as a director, and commencing when the sum of age and years of service equals 75, would be $20,000.

The Company s Executive Insurance Program was established to assist members of senior management approved by the Board in procuring life insurance during their working careers and to provide them with additional flexibility and benefits upon retirement. Under the program, the Company s group term life insurance in excess of $50,000 is replaced with individual insurance up to an approved amount. Premiums are paid by the Company and are included under All Other Compensation in the above compensation table. In lieu of insurance after retirement, the participant may elect (i) an uninsured death benefit from the Company in the insurance amount, which would be taxable when paid, or (ii) to have the insurance amount paid to him by the Company in monthly installments over 15 years. If the second uninsured alternative were selected, the annual amount payable by the Company upon retirement would be $66,667 for Mr. Ryan, $50,000 for Mr. Lambert, $40,000 for Messrs. Cañizares and Zeitler. If either of the two uninsured alternatives are selected, the death benefit on the insurance policy would be paid to the Company. Mr. Baillie does not participate in this program.

Change In Control Severance Agreements

The Company has entered into agreements with each of the Named Officers the stated purpose of which is to encourage the officers continued attention and dedication to their duties without distraction in the event of an actual or potential change in control of the Company. In the agreements, the officers agree that if a potential change in control, as defined in the agreements, occurs, the officers will remain in the employment of the Company for at least 6 months or until an actual change in control occurs, unless employment is sooner terminated by the executive for good reason, as defined in the agreement, or due to death, disability or retirement or by the Company. In return, the agreements provide that if within 3 years after a change in control, as defined in the agreement, the officer s employment is terminated by the Company without cause, as defined in the agreement, or the officer terminates his employment for good reason, as defined in the agreement, the officer will be entitled to receive (a) a lump sum payment equal to three times the sum of (i) the officer s annual salary plus (ii) the average annual bonus paid to the officer for the preceding two years, (b) continuation for 36 months of medical, dental, accident and life insurance benefits and (c) 36 months additional service credit under the Company s executive insurance and post-retirement health care programs. In the case of Mr. Ryan, these benefits would also be payable if he voluntarily terminated his employment for any reason within one year after a change in control. The benefits payable under the agreements are limited to the amount that can be paid without triggering any excise tax or rendering any amounts non-deductible under the Internal Revenue Code. Except in the case of Mr. Ryan, the limitation will not apply if the reduced benefit is less than the unreduced benefit after payment of any excise tax.

Director Compensation

Directors who are not employees of the Company or one of its subsidiaries are paid a retainer at the rate of $6,250 per quarter and $1,200 for each day of a Board meeting and each meeting of a Committee of the Board that they attend. Members of the Audit Committee receive $300 for participating in telephone meetings of the Committee. Non-employee directors who serve as Chair of a Board Committee receive an additional retainer of $1,250 per quarter.

The 1990 Non-Employee Directors Stock Option Plan (the DSOP) was approved by the shareholders at the 1991 Annual Meeting. Its purposes are to enhance the mutuality of interests between the Board and the shareholders by increasing the share ownership of the non-employee directors and to assist the Company in attracting and retaining able persons to serve as directors. The total number of shares which may be issued under the DSOP is limited to 450,000 shares of Common Stock. Under the DSOP, directors who are not employees of the Company or a subsidiary receive on the third business day following each annual meeting stock option grants having a grant date value under the Black-Scholes option pricing model equal to 75% of the annual directors retainer and grants of restricted stock having a grant date market value equal to 25% of the annual directors retainer. The options will have an option price equal to the market value on the grant date, will become exercisable one year from the date of grant and will expire ten years from the date of grant. If a director resigns or is removed from office for cause, options which have not yet become exercisable are forfeited, and exercisable options will remain exercisable for 90 days. Otherwise, unexpired options may generally be exercised for five years following termination of service as a director. The restricted shares will vest on the date of the third annual meeting following the date of grant. Unvested shares are forfeited if the director terminates service for reasons other than death, disability or retirement. Pursuant to the terms of the DSOP, on May 10, 2002 directors Campbell, Cederna, Hotopp, Shaw, Unkovic and Witmer were each granted options and shares of restricted stock. As adjusted to reflect the special shareholder distribution in November 2003 and the 3-for-1 Common Stock split in January 2004, each director received an option to purchase 5,238 shares of Common Stock at an option price of $12.3754 and 465 shares of restricted stock.

Prior to April 1, 2001, directors who retired from the Board after completing at least 5 years of service as a director were entitled under the Retirement Plan for Directors to receive a lifetime quarterly retirement allowance, beginning when the sum of their age and years of service equals or exceeds 75, in an amount equal to the quarterly directors retainer payable at the time of their retirement. Effective April 1, 2001, benefits under the Plan were frozen so that the quarterly retirement allowance, if any, payable to future retirees will be limited to (a)(1) the director s years of service as of April 1, 2001 divided by (2) the years of service at the date the sum of the director s age and years of service would equal 75, times (b) the $5,000 quarterly retainer amount previously in effect. Directors who are employees of the Company or a subsidiary participated in the Retirement Plan for Directors, but do not receive other additional compensation for service as a director.

Nominating and Governance Committee Procedures

The current members of the Nominating and Governance Committee are directors Campbell, Ryan, Shaw and Unkovic, whose terms as Committee members will expire at the 2004 organizational meeting of the Board to be held on the date of the Annual Meeting of Shareholders. The Board has determined that each of the current members of the Committee, other than Mr. Ryan, who is an executive officer of the Company, and Mr. Shaw, who is the brother-in-law of Mr. Ryan, is independent as defined in the listing standards of the American Stock Exchange. In accordance with the listing standards of the Exchange, following the 2004 organizational meeting of the Board, the membership of the Nominating and Governance Committee will consist entirely of independent directors.

The Nominating and Governance Committee has a written charter which was approved by the Board of Directors in December 2003, amended in March 2004 and will become effective at the 2004 Annual Meeting. The Committee s charter is available in the Investor Relations section of the Company s Internet website at www.MSAnet.com.

The Committee will consider nominees brought to the attention of the Board by a shareholder, a non-management director, the chief executive officer, any other executive officer, a third-party search firm or other appropriate sources. The fundamental criterion for selecting a prospective director of the Company shall be the ability to contribute to the well-being of the Company and its shareholders. Good judgment, integrity and a record of ethical conduct are essential. Other criteria used in connection with selecting prospective directors shall include skills and experience needed by the Board, diversity, commitment and any other factor considered relevant by the Committee and/or the Board. The Committee may prioritize the criteria depending on the current needs of the Board and the Company.

Any shareholder who desires to have an individual considered for nomination by the Committee must submit a recommendation in writing to the Corporate Secretary, at the Company s address appearing on page 1, not later than November 30 preceding the annual meeting at which the election is to be held. The recommendation should include the name and address of the both the shareholder and the candidate and the qualifications of the candidate recommended.

The Committee does not at this time have a formal process for identifying and evaluating nominees for director. It is not anticipated that the process for evaluating a nominee would differ based on whether the nominee is recommended by a shareholder.

10

In 2003, the Committee engaged a search firm to assist in the identification and evaluation of potential candidates for director. It was this search firm which originally identified Ms. Pearse, whom the Nominating and Governance Committee evaluated and is recommending for election by the shareholders at the Annual Meeting.

Shareholder Communications

A shareholder who wishes to communicate with the Board, a Committee of the Board or any individual director or group of directors may do so by sending the communication in writing, addressed to the Board, the Committee, the individual director or group of directors, c/o Corporate Secretary, at the Company s address appearing on page 1.

AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors assists the Board in fulfilling its oversight responsibilities relating to, among other things, the quality and integrity of the Company s financial reports. The Committee operates pursuant to a written charter. A copy of the Audit Committee Charter, as last amended by the Board in March 2004, is attached to this Proxy Statement as Appendix A. The Board of Directors, in its business judgment, has determined that all members of the Audit Committee are independent as defined in Section 121(A) of the listing standards of the American Stock Exchange [and Securities and Exchange Commission Rule 10A-3].

The management of the Company is responsible for the preparation, presentation and integrity of the Company s financial statements and the adequacy of its internal controls. The independent auditors are responsible for planning and carrying out an audit in accordance with generally accepted auditing standards and expressing an opinion based on the audit as to whether the Company s audited financial statements fairly present the Company s consolidated financial position, results of operation and cash flows in conformity with generally accepted accounting principles.

In the performance of its oversight function, the Audit Committee has reviewed the Company s audited financial statements for the year ended December 31, 2003 and has discussed the financial statements with management and with PricewaterhouseCoopers LLP, the Company s independent auditors for 2003. The Audit Committee has received from the independent auditors written disclosures pursuant to Statement on Auditing Standards No. 61, *Communication with Audit Committees*, and has discussed those matters with the independent auditors. The Audit Committee has also received from the independent auditors the written disclosures and the letter required by Independence Standards Board Standard No. 1, *Independence Discussions with Audit Committee*s, and has discussed with the independent auditors their independence.

Based upon the review and discussions described in this Report, and subject to the limitations on the role and responsibilities of the Audit Committee as referred to in this report and described in the Committee s charter, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2003 to be filed with the Securities and Exchange Commission.

The foregoing report was submitted by the Audit Committee of the Board of Directors.

Calvin A. Campbell, Jr.

James A. Cederna

Diane M. Pearse

Thomas H. Witmer

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN

Among S&P 500 Index, Russell 2000 Index and Mine Safety Appliances Company

Set forth below is a line graph and table comparing the cumulative total returns (assuming reinvestment of dividends) for the five years ended December 31, 2003 of $100 invested on December 31, 1998 in each of the Company s Common Stock, the Standard & Poor s 500 Composite Index and the Russell 2000 Index. Because its competitors are principally privately held concerns or subsidiaries or divisions of corporations engaged in multiple lines of business, the Company does not believe it feasible to construct a peer group comparison on an industry or line-of-business basis. The Russell 2000 Index, while including corporations both larger and smaller than the Company in terms of market capitalization, is composed of corporations with an average market capitalization similar to that of the Company.

STOCK OWNERSHIP

Under regulations of the Securities and Exchange Commission, a person is considered the beneficial owner of a security if the person has or shares with others the power to vote the security (voting power) or the power to dispose of the security (investment power). In the tables which follow, beneficial ownership of the Company s stock is determined in accordance with these regulations and does not necessarily indicate that the person listed as a beneficial owner has an economic interest in the shares indicated as beneficially owned.

Beneficial Ownership of Management

The following table sets forth information regarding the amount and nature of beneficial ownership of the Company s Common Stock and 4 1/2% Cumulative Preferred Stock as of February 20, 2004 by each director and Named Officer and by all directors and executive officers as a group. Except as otherwise indicated in the footnotes to the table, the person named or a member of the group has sole voting and investment power with respect to the shares listed.

	Common Stock				4 1/2% Cumulative Preferred Stock	
	Amount and Nature of Beneficial Ownership					
	Non-Trust Shares (1)	Trust Shares (2)	Total Common Stock	Percent of Class (1)	Amount and Nature of Beneficial Ownership	Percent of Class
John T. Ryan III	2,177,676(3)	6,395,573(4)(5)	8,573,249	20.73%	187	0.94%
Calvin A. Campbell, Jr.	43,458		43,458	0.11%		
James A. Cederna	5,016		5,016	0.01%		
Thomas B. Hotopp	131,616(3)		131,616	0.32%		
Diane M. Pearse						
L. Edward Shaw, Jr.	511,179(3)	59,406	570,585	1.40%	(3)	
John C. Unkovic	10,794	2,933,397(5)	2,944,191	7.24%	93(5)	0.47%
Thomas H. Witmer	21,858		21,858	0.05%		
James H. Baillie	147,015	174,793(6)	321,808	0.79%		
Rob Cañizares M.	68,571	174,793(6)	243,364	0.60%		
William M. Lambert	253,305	2,638,293(4)(6)	2,891,598	7.08%		
Dennis L. Zeitler	154,215	2,638,293(4)(6)	2,792,508	6.85%		
All executive officers and directors as a group (16 persons)	3,885,175(3)	8,108,468(6)	11,993,643	28.39%	280	1.41%

(1) The number of shares of Common Stock beneficially owned and the number of shares of Common Stock outstanding used in calculating the percent of class include the following shares of Common Stock which may be acquired within 60 days upon the exercise of stock options held under the MSIP or the DSOP: Mr. Ryan, 724,056 shares; Mr. Campbell, 24,819 shares; Mr. Cederna, none; Mr. Hotopp, 71,775 shares; Ms. Pearse, none; Mr. Shaw, 19,968 shares; Mr. Unkovic, none; Mr. Witmer, 10,266 shares; Mr. Baillie, 127,200 shares; Mr. Cañizares, 62,931 shares; Mr. Lambert, 208,338 shares; Mr. Zeitler, 115,818 shares; and all directors and executive officers as a group, 1,606,772 shares. The number of shares of Common Stock beneficially owned also includes the following restricted shares awarded under the MSIP, as to which such persons have voting power only: Mr. Ryan, 50,895 shares; Mr. Campbell, 1,539 shares; Mr. Cederna, 894 shares; Mr. Hotopp, 465 shares; Ms. Pearse, none; Mr. Shaw, 1,539 shares; Mr. Unkovic, 894 shares; Mr. Witmer, 1,539 shares; Mr. Baillie, 19,815 shares; Mr. Cañizares, 5,640 shares; Mr. Lambert, 15,495 shares; Mr. Zeitler, 14,130 shares; and all directors and executive officers as a group, 147,855 shares.

(2) The shares in this column are those as to which the director or officer holds voting and or investment power as a fiduciary or otherwise under the terms of a trust instrument as explained in the other footnotes below. In certain cases, the director or officer is also among the beneficiaries of the trust.

(3) Includes shares of Common Stock as to which voting and investment power is shared with the spouse as follows: Mr. Ryan, 458,292 shares; Mr. Hotopp, 59,376 shares; Mr. Shaw, 446,097 shares; and all directors

and executive officers as a group, 986,764 shares. Amounts shown do not include 582,318 shares of Common Stock held by Mr. Ryan s wife, including 160,344 shares held as trustee, or 556,203 shares of Common Stock and 721 shares of 4 $^{1}/2$% Cumulative Preferred Stock held by Mr. Shaw s wife.

(4) Includes 2,463,500 shares of Common Stock held by the trust for the Company s Non-Contributory Pension Plan for Employees. Mr. Ryan, Mr. Lambert and Mr. Zeitler share voting and investment power over these shares as members of the Investment Committee for the Plan. Under the trust agreement, the members of the Committee may vote the shares of Common Stock held by the trust with respect to uncontested elections of directors, ratification of auditors and approval of employee benefit and stock plans previously approved by the Board of Directors or a Board Committee. As to any other matter, shares held by the trust are to be voted as directed by the Board of Directors.

(5) Includes 157,500 shares of Common Stock as to which Messrs. Ryan and Unkovic share voting power as co-trustees and 2,695,545 shares of Common Stock as to which Messrs. Ryan and Unkovic share voting power with Mary Irene Ryan as co-trustees. The amount for Mr. Ryan also includes 707,994 shares of Common Stock as to which Mr. Ryan, Mary Irene Ryan and certain other individuals share voting and investment power as co-trustees. See the following discussion of the beneficial ownership of Mary Irene Ryan. Mr. Unkovic also holds 93 shares of 4 $^{1}/2$% Cumulative Preferred Stock as trustee.

(6) The Company has established a Stock Compensation Trust which holds 3,670,658 shares of Common Stock which are available to satisfy obligations of the Company under its stock incentive plans. Under the terms of the Trust Agreement, the trustee, PNC Bank, must follow the directions of the holders of stock options under the plans, excluding members of the Board of Directors, in voting the shares held by the Trust and in determining whether such shares should be tendered in the event of a tender or exchange offer for the Common Stock. Each such option holder has the power to direct the trustee with respect to a number of shares of Common Stock equal to the shares held by the Trust divided by the number of option holders. Included in the table are 174,793 shares of Common Stock each for Messrs. Baillie, Cañizares, Lambert and Zeitler, and 1,573,137 shares of Common Stock for all directors and executive officers as a group, as to which such persons and other executive officers of the Company have such voting and investment power. See the following discussion of the beneficial ownership of The PNC Financial Services Group, Inc.

5% Beneficial Owners

As of February 20, 2004, to the best of the Company s knowledge, nine persons or entities beneficially owned more than 5% of the Company s Common Stock. The beneficial ownership of John T. Ryan III, John C. Unkovic, William M. Lambert and Dennis L. Zeitler appears in the immediately preceding table. The following table sets forth the beneficial ownership of the other 5% beneficial owners, based upon information provided by such persons:

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Mary Irene Ryan 20 West Woodland Road Pittsburgh, Pennsylvania 15232	4,868,991(1)	11.98%
The PNC Financial Services Group, Inc. PNC Bank Building Pittsburgh, Pennsylvania 15265	3,852,213(2)(3)	9.48%
Bruce S. Sherman 8889 Pelican Bay Blvd.	4,071,834(4)	10.02%

Naples, FL 34108

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Gregg J. Powers 8889 Pelican Bay Blvd. Naples, FL 34108	4,025,634(4)	9.91%
Private Capital Management, Inc. 8889 Pelican Bay Blvd. Naples, FL 34108	4,025,634(4)	9.91%

(1) Mary Irene Ryan has sole voting and investment power with respect to 1,465,452 and 601,452 shares, respectively, and shares voting and investment power with respect to 3,403,539 and 4,267,539 shares, respectively with co-fiduciaries. Of such shares, voting and investment power over 3,403,539 shares of Common Stock is shared with John T. Ryan III, and voting and investment power over 2,695,545 shares of Common Stock is shared with John Unkovic. Mary Irene Ryan is the mother of John T. Ryan III.

(2) All shares are held by subsidiary banks of The PNC Financial Services Group, Inc. in various fiduciary capacities. The banks have sole voting and investment power with respect to 180,555 and 37,050 shares, respectively, and share voting and investment power with respect to 0 and 3,794,613 shares, respectively.

(3) Includes 3,670,658 shares of Common Stock held by the Company s Stock Compensation Trust, as to which investment power is shared with certain executive officers of the Company and other holders of stock options under Company plans. See footnote (6) to the immediately preceding table.

(4) According to a Schedule 13G filed February 13, 2004, Mr. Sherman is CEO and Mr. Powers is President of Private Capital Management, Inc., an investment advisor (PCM), and in that capacity share voting and investment power with PCM over 4,025,634 shares of Common Stock which PCM holds on behalf of its clients. Mr. Sherman has sole voting and investment power over 46,200 shares of Common Stock.

Beneficial Ownership of Ryan Family

The preceding tables disclose in accordance with Securities and Exchange Commission requirements only a portion of the aggregate beneficial ownership of the Company s Common Stock by the Ryan family. As of February 20, 2004, members of the extended family of John T. Ryan III and Mary Irene Ryan, including trusts for their benefit, beneficially owned to the knowledge of the Company an aggregate of 14,103,993 shares of Common Stock, representing 34.10% of the outstanding shares.

Shareholder Rights Plan

The Company has established a shareholder rights plan intended to promote continuity and stability, deter coercive or partial offers and other unfair takeover tactics which will not provide fair value to all shareholders, and enhance the Board s ability to represent all shareholders and thereby maximize shareholder values.

Under the plan, each share of Common Stock presently outstanding or which is issued hereafter prior to the Distribution Date (defined below) is granted one-ninth of a Right. Each Right entitles the registered holder to purchase from the Company one one-thousandth of a share of Series A Junior Participating Preferred Stock of the Company (the Preferred Shares) at a price of $225.00 per one one-thousandth of a Preferred Share, subject to adjustment in the event of stock dividends and similar events occurring prior to the Distribution Date. Each one one-thousandth of a Preferred Share would have voting, dividend and liquidation rights which are the approximate equivalent of one share of Common Stock.

The Rights are not exercisable until the Distribution Date, which is the earlier to occur of (i) 10 days following a public announcement that a person (an Acquiring Person) has acquired beneficial ownership, as defined in the Rights Agreement, of 15% or more of the outstanding Common Stock or (ii) 10 business days (unless extended by the Board of Directors) following the commencement of a tender offer or exchange offer which would result in the beneficial ownership by a person of 15% or more of the outstanding Common Stock. Until the Distribution Date, the Rights will be transferred only with the Common Stock, and the transfer of a share of Common Stock will also constitute the transfer of the associated Right. Following the Distribution Date, separate certificates evidencing the Rights will be mailed to record holders of Common Stock on the Distribution Date, and the Rights will then become separately tradable. In determining whether an individual or a qualifying nonbusiness entity has become an Acquiring Person, shares of Common Stock held continuously on and after February 10, 1997, or acquired by gift or inheritance from another individual or qualifying entity which held them on that date, are excluded from the 15% beneficial ownership calculation.

In the event that any person becomes an Acquiring Person (other than pursuant to certain qualifying tender or exchange offers approved by the Board) and after expiration of the period during which the Rights may be redeemed, each holder of a Right, other than Rights beneficially owned by the Acquiring Person or its associates or affiliates (which will be void), will thereafter have the right to receive upon exercise shares of Common Stock (or in certain circumstances, cash, property or other securities of the Company) having a market value of two times the exercise price of the Right. In the event that after the first public announcement that any person has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction (other than a merger pursuant to certain qualifying tender or exchange offers) or 50% or more of its assets or earning power are sold, each holder of a Right, other than Rights beneficially owned by the Acquiring Person or its associates or affiliates (which will be void), will thereafter have the right to receive upon exercise of the Right, shares of common stock of the acquiring company having a market value of two times the exercise price of the Right.

At any time after a person becomes an Acquiring Person and prior to the acquisition by such person of 50% or more of the outstanding Common Stock, the Board of Directors may exchange the Rights (other than Rights which have become void), in whole or in part, at an exchange ratio of one share of Common Stock, or one one-thousandth of a Preferred Share (or of a share of a class or series of the Company s preferred stock having equivalent rights, preferences and privileges) per Right, subject to adjustment.

At any time prior to 10 days after the public announcement of an Acquiring Person, the Board of Directors may redeem the Rights in whole, but not in part, at a redemption price of $.01 per Right. Prior to the Distribution Date, the terms of the Rights may be amended by the Board of Directors in any respect whatever, without the consent of the holders of the Rights, except that the redemption price, the expiration date of the Rights, the exercise price or the number of Preferred Shares for which a Right is exercisable may not be amended. After the Distribution Date, the Board may amend certain time periods and other provisions relating to the Rights, except that the time period for redemption of the Rights may not be amended after the Rights have become nonredeemable. The Rights will expire on February 21, 2007 unless earlier redeemed or exchanged by the Company as described above.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires that directors and officers of the Company and beneficial owners of more than 10% of its Common Stock file reports with the Securities and Exchange Commission with respect to changes in their beneficial ownership of equity securities of the Company. Douglas K. McClaine, an officer of the Company, was inadvertently late in filing reports of three acquisitions, involving a total of 21 shares of Common Stock, through automatic reinvestment of dividends on shares held in a brokerage account. Based solely upon a review of the copies of such reports furnished to the Company and written representations by certain persons that reports on Form 5 were not required, the Company believes that all other 2003 Section 16(a) filing requirements applicable to its directors, officers and greater-than-10% beneficial owners were complied with.

PROPOSAL NO. 2

SELECTION OF INDEPENDENT AUDITORS

Because of the importance to the shareholders of having the Company s financial statements audited by independent auditors, it is the opinion of the Board of Directors that the selection of independent auditors should be submitted to the shareholders. The Board of Directors and its Audit Committee recommend that the shareholders approve the selection of the firm of PricewaterhouseCoopers LLP as the Company s independent auditors for the year ending December 31, 2004. PricewaterhouseCoopers LLP has advised the Company that neither the firm nor any of its partners has any direct or material indirect financial interest in the Company or any of its subsidiaries.

The following table sets forth the fees billed to the Company by PricewaterhouseCoopers LLP for professional services rendered for 2003 and 2002:

	2003	2002
Audit Fees	1,004,803	820,683
Audit-Related Fees (1)	55,727	106,483
Tax Fees (2)	766,651	773,097
All Other Fees	0	0

(1) Audit-related fees were primarily for employee benefit plan audits, due diligence related to acquisitions, and internal control reviews.

(2) Tax fees consisted of tax compliance, tax advice and tax planning services.

The charter of the Audit Committee, a copy of which is attached to this Proxy Statement as Appendix A, requires that the Audit Committee approve in advance all audit and non-audit services to be performed by the Company s independent auditors, subject to the statutory exception for *de minimus* non-audit services. For 2003, all services provided by PricewaterhouseCoopers LLP were pre-approved by the Audit Committee pursuant to the pre-approval policy.

Board Recommendation and Required Vote

The Board of Directors and the Audit Committee recommend a vote for the selection of PricewaterhouseCoopers LLP as independent auditors, and proxies received in the accompanying form will be so voted, unless a contrary specification is made. It is expected that one or more representatives of PricewaterhouseCoopers LLP will be present at the Annual Meeting with the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions. See Election of Directors for information concerning the Audit Committee of the Board of Directors.

Approval of this proposal requires the affirmative vote of a majority of the votes cast on the proposal at the Annual Meeting by the holders of Common Stock voting in person or by proxy. Under the Pennsylvania Business Corporation Law, an abstention is not a vote cast and will not be counted in determining the number of votes required for approval, though it will be counted in determining the presence of a quorum. In the event the proposal is not approved, the Board will treat this as a recommendation to consider other auditors for 2005.

OTHER MATTERS

The Board of Directors does not know of any matters, other than those referred to herein, which will be presented for action at the meeting. However, in the event of a vote on any other matter that should properly come before the meeting, it is intended that proxies received in the accompanying form will be voted thereon in accordance with the discretion and judgment of the persons named in the proxies.

ANNUAL REPORT ON FORM 10-K

Upon written request to the undersigned Secretary of the Company (at the address specified on page 1) by any shareholder whose proxy is solicited hereby, the Company will furnish a copy of its 2003 Annual Report on Form 10-K to the Securities and Exchange Commission, together with financial statements and schedules thereto, without charge to the shareholder requesting same.

2005 SHAREHOLDER PROPOSALS

The Company s bylaws require that any shareholder intending to present a proposal for action at an Annual Meeting must give written notice of the proposal, containing specified information, so that it is received by the Company not later than the notice deadline under the bylaw. This notice deadline will generally be 120 days prior to the anniversary date of the Company s Proxy Statement for the previous year s Annual Meeting, or November 25, 2004 for the Company s Annual Meeting in 2005.

The bylaw described above does not affect the right of a shareholder to request inclusion of a shareholder proposal in the Company s Proxy Statement pursuant to Securities and Exchange Commission Rule 14a-8 or to present for action at an Annual Meeting any proposal so included. Rule 14a-8 requires that written notice of a shareholder proposal requested to be included in the Company s proxy materials pursuant to the Rule must also generally be received by the Company not later than 120 days prior to the anniversary date of the Company s Proxy Statement for the previous year s Annual Meeting. For the Company s Annual Meeting in 2005, this deadline would also be November 25, 2004.

The notices of shareholder proposals described under this caption must be given to the Secretary of the Company at the address set forth on page 1. A copy of the bylaw provision described above will be furnished to any shareholder upon written request to the Secretary at the same address.

EXPENSES OF SOLICITATION

All expenses incident to the solicitation of proxies by the Board of Directors will be paid by the Company. The Company will, upon request, reimburse brokerage houses and other custodians, nominees and fiduciaries for reasonable out-of-pocket expenses incurred in forwarding copies of solicitation material to beneficial owners of Common Stock held in the names of such persons. In addition to solicitation by mail, in a limited number of instances, regular employees of the Company may solicit proxies in person or by telephone. Employees will receive no additional compensation for any such solicitation.

By Order of the Board of Directors,

DOUGLAS K. MCCLAINE

Secretary

Appendix A

Mine Safety Appliances Company

Audit Committee Charter

(Adopted March 10, 2004 to become effective at the 2004 Annual Meeting)

Purpose and Scope

The Audit Committee of the Board of Directors (the Committee) of Mine Safety Appliances Company (the Company) shall assist the Board of Directors (the Board) in fulfilling its oversight responsibilities relating to:

(a) The integrity of the Company s financial statements and financial reporting process;

(b) The integrity of the Company s systems of internal accounting and financial controls;

(c) The integrity and performance of the Company s annual independent audit of financial statements;

(d) The engagement of independent auditors and the evaluation of the independent auditors qualifications, independence and performance;

(e) The Company s compliance with applicable legal and regulatory requirements, including the Company s financial disclosure controls and procedures; and,

(f) The fulfillment of such other duties as deemed necessary by the Board.

The Committee is responsible to the Company s shareholders and the investment community to assure complete, fair and accurate corporate accounting and external reporting and shall maintain free and open means of communication between the Board, the Company s independent auditors, financial management and internal auditors.

Composition and Meetings

(a) The Committee shall be comprised of a minimum of three members of the Board as appointed annually by the Board and shall be, in the business judgment of the Board, independent and qualified under standards established by applicable law and the rules of the Company s listing exchange and shall serve until their successors shall be duly elected and qualified or until their earlier resignation or removal.

(b) Each member of the Committee shall be free from any relationship that, in the opinion of the Board, would interfere with the exercise of his or her independent judgment as a member of the Committee.

(c) The chairperson of the Committee shall be elected by the Board.

(d) At least one member of the Committee will be a financial expert as defined by law and the applicable rules of the Company s listing exchange. Each member shall be generally knowledgeable in financial, accounting and audit functions and be able to read and understand fundamental financial statements.

(e) No member of the Committee shall be a current employee of the Company or any of its affiliates during the current year or any of the preceding three years.

(f) The Committee is expected to meet at least four times each year, with authority to convene additional meetings, as necessary. All Committee members are expected to attend each meeting, in person or via teleconference.

(g) The Committee may invite members of management, auditors, or others to attend meetings and provide pertinent information, as necessary. Meeting agendas will be prepared and provided in advance to members, along with appropriate briefing materials. Minutes of each meeting will be prepared by the Secretary of the Board.

Quorum

A majority of the total number of Committee members shall constitute a quorum for the transaction of business at any meeting. All matters shall be decided by the affirmative vote of a majority of members attending in person or via teleconference.

Authority and Responsibilities

The Committee has authority to conduct or authorize investigations into any matters within the scope of its responsibility. The Committee shall have full authority:

(a) To investigate any matter related to its responsibilities that is brought to its attention while being given full access to all books, records, facilities and employees of the Company;

(b) To retain outside law, accounting or other consultants to advise the Committee; and,

(c) To meet with any of the Company s officers, employees, outside counsel, independent auditors or other consultants.

The following shall be the principal responsibilities of the Committee:

(a) Recommendation and Engagement of Independent Auditors. The Committee shall review and evaluate the professional qualifications, effectiveness and independence of the independent auditors, and shall recommend annually to the Board the firm of independent auditors to be nominated for election by the shareholders to audit the financial statements of the Company.

(b) Independent Auditor Oversight and Notification. The Committee shall appoint, replace, compensate and oversee the work of the independent auditors for the purpose of preparing or issuing an audit report or related work. The Committee shall require that the independent auditors advise the Committee and the Company s CFO of any significant matters identified during the performance of the audit or related services at any time, and that such notification is to be made prior to the related press release or, if not practicable, prior to filing Forms 10-Q and 10-K.

(c) Pre-Approval of Audit and Non-Audit Fees and Services. The Committee shall review the scope and fees for the independent audit proposed for the coming year and approve in advance all audit and non-audit services to be performed by the independent auditors. The foregoing approval of non-audit services is subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Securities Exchange Act of 1934. The Committee shall also approve the final fees and expenses of the independent auditors for audit services and non-audit services performed by the independent auditors for the prior year.

(d) Determination of Independence of Independent Auditors. The Committee shall annually review the independence letter issued by the independent auditors, actively engage in a dialogue with the independent auditors with respect to any relationships disclosed in that letter and report to the Board of Directors any appropriate action necessary to maintain the auditors continuing independence.

(e) Determination as to Performance of Independent Auditors. The Committee shall annually evaluate the performance of the independent auditors as well as the justification for the fees and expense for conducting audit services.

(f) Internal Auditor Oversight and Notification. The Committee shall review and evaluate the professional qualifications and effectiveness of the internal auditors. The Committee shall require that the internal auditors advise the Committee and the Company s CFO of any significant audit matters identified during the performance of their work and/or emanating from other sources.

(g) Meetings with Independent Auditors, Internal Auditors, and Management. The Committee shall meet separately and periodically with the independent auditors, internal auditors, and financial management with respect to the status and results of their activities.

(h) Review Independent Auditors Letter of Recommendations. The Committee shall review the independent auditor s annual Letter of Recommendation to management and determine whether management is appropriately addressing any issues raised. The Committee shall address all recommendations with financial management and monitor corrective actions being taken, if any.

(i) Review and Approve Internal Control Reports. The Committee shall (1) annually review management s determination of the adequacy of the Company s internal control structure, (2) review any significant areas of risk or exposure and steps taken to minimize such risks or exposures, and (3) approve a report of the Company s assessment of the effectiveness of such structure and procedures to be included in the Company s Annual Report.

(j) Review of Disclosure Controls and Procedures. The Committee shall review with the Chief Executive Officer, the Chief Financial Officer and the General Counsel, the Company s report on disclosure controls and procedures and shall review periodically, management s conclusions about the efficacy of such disclosure controls and procedures.

(k) Monitoring of Whistle blowing Procedures. The Committee shall monitor the Company s procedures for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting controls, auditing matters, or fraud, and (ii) the confidential, anonymous submission by employees of the Company of concerns regarding questionable accounting, auditing matters, or fraud.

(l) Review of Information Technology Contingency Plans. The Committee shall review contingency plans in the event of a failure of information technology systems.

(m) Review of Legal and Regulatory Compliance. The Committee shall periodically review with management, including the General Counsel and the independent auditors any correspondence with, or other action by, regulators or government agencies and any employee complaints or published reports that raise concerns regarding legal or regulatory agency compliance, the Company s financial statements, accounting or auditing matters or compliance with the Company s Business Ethics Policy as it relates to financial matters.

(n) Review of Annual and Quarterly SEC Filings. The Committee shall review, discuss with management and the independent auditors, and approve the annual and quarterly financial statements, the annual report to shareholders, proxy, and 10-K annual report before they are finalized and released.

(o) Review of Earnings Releases and Releases of Significant Information. The Committee shall review earnings press releases, as well as releases of other significant information and earnings guidance provided to analysts and rating agencies before they are finalized and released.

(p) Preparation of Report for Proxy Statement. The Committee shall review and approve the Audit Committee Report that the Securities and Exchange Commission rules require to be included in the Company s annual proxy statement.

(q) Performance Evaluation. The Committee shall complete an annual performance evaluation of this Committee and its members consistent with the responsibilities set forth in this charter.

(r) Delegation. The Committee may delegate any of its responsibilities to a subcommittee comprised of one or more members of the Committee, including the authority to grant pre-approvals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant pre-approvals shall be presented to the full Committee at its next scheduled meeting.

(s) Other Delegated Responsibilities. The Committee shall also carry out such other duties that may be delegated to it by the Board of Directors from time to time.

(t) Proficiency. The Committee shall remain reasonably proficient with changes to significant accounting and reporting issues, including professional, legal and regulatory pronouncements, and understand their impact on the Company s financial statements.

(u) Review of Charter. The Committee shall reassess and report to the Board on the adequacy of this charter on an annual basis.

MINE SAFETY APPLIANCES COMPANY

Annual Meeting of Shareholders

Thursday, April 29, 2004

9:00 a.m.

121 Gamma Drive

RIDC Industrial Park

Pittsburgh, PA 15238

Mine Safety Appliances Company

This proxy is solicited on behalf of the Board of Directors.

Proxy Mine Safety Appliances Company 2004 Annual Meeting of Shareholders

The undersigned hereby appoints JOHN T. RYAN III, WILLIAM M. LAMBERT and DOUGLAS K. MCCLAINE, or any of them, as proxies, with power of substitution, to vote all shares of MINE SAFETY APPLIANCES COMPANY which the undersigned is entitled to vote at the 2004 Annual Meeting of Shareholders and any adjournment thereof:

This proxy will be voted as directed, or, if no direction is given, FOR items 1, 1A and 2 below. A vote FOR item 1 or 1A includes discretionary authority to vote for a substitute if the nominee listed becomes unable or unwilling to serve. The proxies named are authorized to vote in their discretion upon such other matters as may properly come before the meeting or any adjournment thereof.

The undersigned hereby revokes all previous proxies for such Annual Meeting, acknowledges receipt of the Notice of Annual Meeting and Proxy Statement, and ratifies all that said proxies may do by virtue hereof.

PLEASE MARK, DATE, EXECUTE AND RETURN THIS PROXY PROMPTLY IN THE ENCLOSED ENVELOPE.

ò *Please detach here* ò

The Board of Directors Recommends a Vote FOR Items 1, 1A and 2 Below:

1. Election of three Directors for a term expiring in 2007. Nominees:

01 James A. Cederna 02 John T. Ryan III 03 John C. Unkovic

¨ Vote FOR all nominees (except as specified below)

¨ Vote WITHHELD from all nominees

(Instructions: To withhold authority to vote for any nominee, write the number(s) of the nominee(s) in the box provided to the right.)

1A. Election of one Director for a term expiring in 2005. Nominee:

04Diane M. Pearse

¨ Vote FOR nominee

¨ Vote WITHHELD from nominee

2. Selection of PricewaterhouseCoopers LLP as independent auditors.

¨ For ¨ Against ¨ Abstain

Address Change? Mark Box

Indicate changes below: ¨

Date ______________________________, 2004

Signature (s) in Box

Please sign exactly as your name appears hereon. FOR JOINT ACCOUNTS, EACH JOINT OWNER SHOULD SIGN. When signing as attorney, executor, administrator, trustee, etc., please give your full title as such. If a corporation, please sign full corporate name by President or other authorized officer and give full title. If a partnership, please sign in partnership name by authorized person and give full title.

Acquiring Fund may pay

amounts in respect of such UNII Distributions on behalf of the Target Fund to the Target Fund Shareholders entitled to receive such UNII Distributions after the Closing Date as an agent out of cash or other short-term liquid assets maturing prior to the payment date of the UNII Distributions acquired from the Target Fund in the Reorganization, segregated for this purpose and maintained in an amount at least equal to the remaining payment obligations in respect of the UNII Distributions.

(l) That the liquidity provider for the Acquiring Fund VRDP Shares shall have consented to this Agreement and the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization.

(m) That the liquidity provider, remarketing agent, tender and paying agent and the rating agencies for the Acquiring Fund VRDP Shares shall have consented to any amendments to the Articles Supplementary, the notice of special rate period for the special rate period in effect for the Acquiring Fund VRDP Shares as of the Closing Date, the share certificate of the Acquiring Fund VRDP Shares and such other agreements, instruments or documents relating to the Acquiring Fund VRDP Shares that are necessary to reflect the issuance of additional Acquiring Fund VRDP Shares in connection with the Reorganization, but only to the extent such consent is required under the Related Documents (as defined in the Articles Supplementary).

[(n) That the VMTP Refinancing shall have been consummated prior to the Closing Date.][20]

10. TERMINATION, POSTPONEMENT AND WAIVERS.

(a) Notwithstanding anything contained in this Agreement to the contrary, this Agreement may be terminated and the Reorganization abandoned at any time (whether before or after adoption thereof by the shareholders of the Target Fund and the Acquiring Fund) prior to the Closing Date, or the Closing Date may be postponed, (i) by mutual consent of the Boards of the Acquiring Fund and the Target Fund; (ii) by the Board of the Target Fund if any condition of the Target Fund s obligations set forth in Section 8 of this Agreement has not been fulfilled or waived by such Board; and (iii) by the Board the Acquiring Fund if any condition of the Acquiring Fund s obligations set forth in Section 9 of this Agreement has not been fulfilled or waived by such Board.

(b) If the transactions contemplated by this Agreement have not been consummated by December 31, 2019, this Agreement automatically shall terminate on that date, unless a later date is mutually agreed to by the Boards of the Acquiring Fund and the Target Fund.

(c) In the event of termination of this Agreement pursuant to the provisions hereof, the same shall become void and have no further effect, and there shall not be any liability on the part of any Fund or its respective directors, trustees, officers, agents or shareholders in respect of this Agreement other than with respect to Section 11 and payment by each Fund of its respective expenses incurred in connection with the Reorganization.

(d) At any time prior to the Closing Date, any of the terms or conditions of this Agreement may be waived by the Board of the Acquiring Fund or the Target Fund (whichever is entitled to the benefit thereof), if, in the judgment of such Board after consultation with its counsel, such action or waiver will not have a material adverse effect on the benefits intended under this Agreement to the shareholders of their respective Fund, on behalf of which such action is taken.

(e) The respective representations and warranties contained in Sections 1 and 2 of this Agreement shall expire with, and be terminated by, the consummation of the Reorganization, and neither the Funds, nor any of their respective officers, directors, trustees, agents or shareholders shall have any liability with respect to such representations or warranties after the Closing Date. This provision shall not protect any officer, director, trustee, agent or shareholder of either of the Funds against any liability to the entity for which that officer, director, trustee, agent or shareholder so acts or to its shareholders, to which that officer, director, trustee, agent or shareholder otherwise would be subject by reason of willful misfeasance, bad faith, gross negligence, or reckless disregard of his or her duties in the conduct of such office.

[20] Applicable to BNJ.

Table of Contents

(f) If any order or orders of the SEC with respect to this Agreement shall be issued prior to the Closing Date and shall impose any terms or conditions which are determined by action of the Boards of the Acquiring Fund and the Target Fund to be acceptable, such terms and conditions shall be binding as if a part of this Agreement without further vote or approval of the Target Fund Shareholders and the Acquiring Fund Shareholders unless such terms and conditions shall result in a change in the method of computing the number of Acquiring Fund Shares to be issued to the Target Fund Shareholders, in which event, unless such terms and conditions shall have been included in the proxy solicitation materials furnished to the Target Fund Shareholders prior to the meeting at which the Reorganization shall have been approved, this Agreement shall not be consummated and shall terminate unless the Target Fund promptly shall call a special meeting of the Target Fund Shareholders at which such conditions so imposed shall be submitted for approval.

11. INDEMNIFICATION.

(a) Each party (an Indemnitor) shall indemnify and hold the other and its officers, directors, trustees, agents and persons controlled by or controlling any of them (each an Indemnified Party) harmless from and against any and all losses, damages, liabilities, claims, demands, judgments, settlements, deficiencies, taxes, assessments, charges, costs and expenses of any nature whatsoever (including reasonable attorneys fees) including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees reasonably incurred by such Indemnified Party in connection with the defense or disposition of any claim, action, suit or other proceeding, whether civil or criminal, before any court or administrative or investigative body in which such Indemnified Party may be or may have been involved as a party or otherwise or with which such Indemnified Party may be or may have been threatened (collectively, the Losses) arising out of or related to any claim of a breach of any representation, warranty or covenant made herein by the Indemnitor; provided, however, that no Indemnified Party shall be indemnified hereunder against any Losses arising directly from such Indemnified Party s (i) willful misfeasance, (ii) bad faith, (iii) gross negligence or (iv) reckless disregard of the duties involved in the conduct of such Indemnified Party s position.

(b) The Indemnified Party shall use its best efforts to minimize any liabilities, damages, deficiencies, claims, judgments, assessments, costs and expenses in respect of which indemnity may be sought hereunder. The Indemnified Party shall give written notice to Indemnitor within the earlier of ten (10) days of receipt of written notice to the Indemnified Party or thirty (30) days from discovery by the Indemnified Party of any matters which may give rise to a claim for indemnification or reimbursement under this Agreement. The failure to give such notice shall not affect the right of the Indemnified Party to indemnity hereunder unless such failure has materially and adversely affected the rights of the Indemnitor. At any time after ten (10) days from the giving of such notice, the Indemnified Party may, at its option, resist, settle or otherwise compromise, or pay such claim unless it shall have received notice from the Indemnitor that the Indemnitor intends, at the Indemnitor s sole cost and expense, to assume the defense of any such matter, in which case the Indemnified Party shall have the right, at no cost or expense to the Indemnitor, to participate in such defense. If the Indemnitor does not assume the defense of such matter, and in any event until the Indemnitor states in writing that it will assume the defense, the Indemnitor shall pay all costs of the Indemnified Party arising out of the defense until the defense is assumed; provided, however, that the Indemnified Party shall consult with the Indemnitor and obtain indemnitor s prior written consent to any payment or settlement of any such claim. The Indemnitor shall keep the Indemnified Party fully apprised at all times as to the status of the defense. If the Indemnitor does not assume the defense, the Indemnified Party shall keep the Indemnitor apprised at all times as to the status of the defense. Following indemnification as provided for hereunder, the Indemnitor shall be subrogated to all rights of the Indemnified Party with respect to all third parties, firms or corporations relating to the matter for which indemnification has been made.

12. OTHER MATTERS.

(a) All covenants, agreements, representations and warranties made under this Agreement and any certificates delivered pursuant to this Agreement shall be deemed to have been material and relied upon by each of the parties, notwithstanding any investigation made by them or on their behalf.

Table of Contents

(b) All notices hereunder shall be sufficiently given for all purposes hereunder if in writing and delivered personally or sent by registered mail or certified mail, postage prepaid. Notice to the Target Fund shall be addressed to [ ] c/o BlackRock Advisors, LLC, 40 East 52nd Street, New York, New York 10022, Attention: [ ], [ ] of the Target Fund or at such other address as the Target Fund may designate by written notice to the Acquiring Fund. Notice to the Acquiring Fund shall be addressed to BlackRock MuniYield New Jersey Fund, Inc. c/o BlackRock Advisors, LLC, 40 East 52nd Street New York, New York 10022, Attention: [ ], [ ] of the Acquiring Fund, or at such other address and to the attention of such other person as the Acquiring Fund may designate by written notice to the Target Fund. Any notice shall be deemed to have been served or given as of the date such notice is delivered personally or mailed.

(c) This Agreement supersedes all previous correspondence and oral communications between the Funds regarding the Reorganization, constitutes the only understanding with respect to the Reorganization, may not be changed except by a letter of agreement signed by each Fund and shall be governed by and construed in accordance with the laws of the State of Delaware applicable to agreements made and to be performed in said state.

(d) This Agreement may be amended or modified by the parties hereto prior to the Closing Date, by action taken or authorized by their respective Boards at any time before or after adoption of this Agreement and approval of the Reorganization by the Target Fund Shareholders or the Acquiring Fund Shareholders, but, after any such adoption and approval, no amendment or modification shall be made which by law requires further approval by shareholders without such further approval. This Agreement may not be amended or modified except by an instrument in writing signed on behalf of each of the Funds.

(e) This Agreement is not intended to confer upon any person other than the parties hereto (or their respective successors and assigns) any rights, remedies, obligations or liabilities hereunder. If any provision of this Agreement shall be held or made invalid by statute rule, regulation, decision of a tribunal or otherwise, the remainder of this Agreement shall not be affected thereby and, to such extent, the provisions of this Agreement shall be deemed severable provided that this Agreement shall be deemed modified to give effect to the fullest extent permitted under applicable law to the intentions of the party as reflected by this Agreement prior to the invalidity of such provision.

(f) It is expressly agreed that the obligations of the Funds hereunder shall not be binding upon any of their respective directors, trustees, shareholders, nominees, officers, agents, or employees personally, but shall bind only the property of the respective Fund. The execution and delivery of this Agreement has been authorized by the Boards of the Acquiring Fund and the Target Fund and signed by an authorized officer of each of the Acquiring Fund and the Target Fund, acting as such, and neither such authorization by such Board nor such execution and delivery by such officer shall be deemed to have been made by any of them individually or to impose any liability on any of them personally, but shall bind only the trust property of each Fund.

(g) This Agreement may be executed in any number of counterparts, each of which, when executed and delivered, shall be deemed to be an original but all such counterparts together shall constitute but one instrument.

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Table of Contents

IN WITNESS WHEREOF, the parties have hereunto caused this Agreement to be executed and delivered by their duly authorized officers as of the day and year first written above.

BLACKROCK MUNIYIELD NEW JERSEY FUND, INC.

By:
Name:
Title:

[TARGET FUND]

By:
Name:
Title:

Table of Contents

APPENDIX B

FACTORS AFFECTING MUNICIPAL SECURITIES IN NEW JERSEY

The following information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal bonds and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal bonds held by BlackRock MuniYield New Jersey Fund, Inc. (the Fund) are subject. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal bonds, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal bonds acquired by the Fund to pay interest on or principal of the municipal securities. This information has not been independently verified.

Special Considerations Relating to New Jersey Municipal Obligations. The Fund will have considerable investments in New Jersey municipal obligations. Accordingly, the Fund is susceptible to certain factors which could adversely affect issuers of New Jersey municipal obligations. The ability of issuers to pay interest on, and repay principal of, New Jersey municipal obligations may be affected by: (1) amendments to the Constitution of the State of New Jersey (State) and other statutes that limit the taxing and spending authority of State government entities; (2) the general financial and economic profile as well as the political climate of the State, its public authorities and political subdivisions; and (3) a change in State laws and regulations or subsequent court decisions that may affect, directly or indirectly, New Jersey municipal obligations. The Fund s yield and share price are sensitive to these factors as one or more of such factors could undermine New Jersey issuers efforts to borrow, inhibit secondary market liquidity and erode credit ratings. Furthermore, it should be noted that the creditworthiness of obligations issued by local New Jersey issuers may be unrelated to the creditworthiness of obligations issued by the State and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

Summarized below are important financial concerns relating to the Fund s investments in New Jersey municipal obligations. This section is not intended to be an entirely comprehensive description of all risks involved in investing in New Jersey municipal obligations. The information in this section is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State. It should be noted that the information recorded here is based on the economic and budget data and forecasts found in certain publications issued by the State between March 23, 2016 and September 15, 2017. The accuracy and completeness of the information in those publications have not been independently verified. Since the time that certain of those resources were published, there have been (and may still be) significant changes in circumstances altering the economic and budget predictions found in those publications and presented here.

It is also important to note that each dollar amount referenced in this section has been truncated to one digit after the decimal, rounded up or down to the appropriate dollar denomination. Because such dollar amounts generally reference large sums of money (*e.g.*, millions or billions of dollars), the truncation and rounding of such dollar amounts may significantly differ from the untruncated and unrounded dollar amounts.

State Demographics. The State is the fifth smallest state in land area, the eleventh largest in population and the most densely populated of all the states. As of June 30, 2016, the State s population was estimated to be 8.9 million in 2016. The State s economic base is diversified, consisting of a variety of manufacturing, construction and service industries, supplemented by rural areas with selective commercial agriculture. New Jersey has the Atlantic sea shore to its east and lakes and mountains in the north and northwest, which provide recreation for residents as well as out-of-state visitors. Since 1978, casino gambling in Atlantic City has been an important State tourist attraction.

[Table of Contents](#)

State Economy. The discussion that follows is primarily based on information published by the State Department of the Treasury in the 2016 Financial Report (as defined herein). All predictions and past performance information contained in this subsection were made on or before that time even though they may be stated in the present tense and may no longer be accurate.

The unemployment rate stood at 4.2% at the end of July 2017, which is the lowest State unemployment rate since May 2007. The unemployment rate was 4.7% at the end of December 2016. Real gross state product grew by 1.2% in 2016, which is in line with the average rate of growth over the previous five years.

Personal income, which is income from all sources including earnings, assets, and transfer income, grew by 3.2% in 2016. Personal income has increased for sixteen consecutive quarters and at June 30, 2016 was at $563.6 billion.

The State gained 9,800 jobs in July for a year-to-date total increase of 28,600 jobs. The State gained 58,900 jobs in 2016, the most in a year since 2000. The growth in payroll employment over the first half of 2017 has been led by the leisure and hospitality services (12,500 jobs), construction (7,600 jobs), and manufacturing (4,300 jobs) sectors. Payroll employment declined in the trade, transportation, & utilities sector (-4,500 jobs) and the information sector (-700 jobs).

In 2016, the number of New Jersey s housing sector residential building permits remained above 25,000 for the third year in a row. Motor vehicle sales in 2016 for new cars exceeded 600,000 for the first time since prior to the Great Depression.

State Budget. The State operates on a fiscal year beginning July 1 and ending June 30. Annual budgets are adopted for the General Fund and certain special revenue funds. The Legislature enacts the annual budget through specific departmental appropriations, the sum of which may not exceed estimated resources. The State Constitution requires that the annual State budget be balanced. Pursuant to the State Constitution, no money may be drawn from the State Treasury except for appropriations made by law. In addition, all monies for the support of State government and all other State purposes, as far as can be reasonably ascertained or predicted, must be provided for in one general appropriation law covering the span of a single fiscal year. No general appropriations law or other law appropriating money for any State purpose may be enacted if the amount of money appropriated, together with all other appropriations for that fiscal year, exceeds the total amount of revenue available (current and anticipated) for such fiscal year, as certified by the Governor.

Debt Limitations. The State Constitution provides, in part, that the State Legislature shall not, in any manner, create in any fiscal year a debt or liability of the State, which, together with any previous debts or liabilities, shall exceed at any time one percent of the total appropriations for such year, unless the same shall be authorized by a law for some single object or work distinctly specified therein. No such law shall take effect until submitted to the people at a general election and approved by a majority of the legally qualified voters voting thereon; provided, however, no such voter approval is required for any such law authorizing the creation of a debt for a refinancing of all or any portion of the outstanding debts or liabilities of the State, so long as such refinancing produces a debt service savings. Furthermore, any funds raised under these authorizations must be applied only to the specific object stated therein. The State Constitution provides as to any law authorizing such debt: Regardless of any limitation relating to taxation in this Constitution, such law shall provide the ways and means, exclusive of loans, to pay the interest of such debt or liability as it falls due, and also to pay and discharge the principal thereof within thirty-five years from the time it is contracted; and the law shall not be repealed until such debt or liability and the interest thereon are fully paid and discharged. This constitutional provision does not apply to the creation of debts or liabilities for purposes of war, or to repel invasion, or to suppress insurrection or to meet emergencies caused by disaster or act of God (Article VIII, Sec. 2, para. 3) (the Debt Limitation Clause).

The Debt Limitation Clause was amended by voters on November 4, 2008. The amendment provides that, beginning after the effective date of the amendment, the State Legislature is prohibited from enacting any law

B-2

Table of Contents

that creates or authorizes the creation of a debt or liability of an autonomous State corporate entity, which debt or liability has a pledge of an annual appropriation as the means to pay the principal of and interest on such debt or liability, unless a law authorizing the creation of that debt or liability for some single object or work distinctly specified therein is submitted to the people and approved by a majority of the legally qualified voters of the State voting thereon at a general election. The constitutional amendment does not require voter approval for any such law providing the means to pay the principal of and interest on such debt or liability subject to appropriations of an independent non-State source of revenue paid by third persons for the use of the single object or work thereof, or from a source of State revenue otherwise required to be appropriated pursuant to another provision of the State Constitution. Furthermore, voter approval is not needed for any law providing for the refinancing of all or a portion of any outstanding debts or liabilities of the State or of an autonomous State corporate entity provided that such law requires that the refinancing produces debt service savings.

State Funds. The State s financial accounting is organized by funds which are accounting entities that segregate financial resources according to the purposes for which they may be used. Individual funds are grouped into one of the following categories General State Funds, Special Revenue, Capital Projects, Proprietary and Private Purpose Trust Funds. .

General State Funds. These funds include the General Fund, Property Tax Relief Fund, Casino Revenue Fund, Casino Control Fund and Gubernatorial Elections Fund.

The General Fund. This fund is the State s chief operating fund and is the fund into which all State revenues, not otherwise restricted by State statute, are deposited and from which appropriations are made. The largest part of the total financial operations of the State is accounted for in the General Fund. Revenues received from most taxes, most federal revenues and certain miscellaneous revenue items are recorded in this fund. The Appropriations Act, annually enacted by the Legislature, provides the basic framework for the operations of the General Fund.

The Property Tax Relief Fund. This fund accounts for revenues from the New Jersey Gross Income Tax and revenues derived from a tax rate of 0.5% imposed under the Sales and Use Tax both of which are constitutionally dedicated toward property tax relief and reform. All receipts from taxes levied on personal income of individuals, estates and trusts must be appropriated exclusively for the purpose of reducing or offsetting property taxes. Annual appropriations are made from the Property Tax Relief Fund, pursuant to formulas established by the Legislature, to counties, municipalities and school districts. During fiscal year 2016, $14.0 billion of property tax relief expenditures were made. The Property Tax Relief Fund s fiscal year 2016 ending fund balance was $18.3 million.

The Casino Revenue Fund. This fund consists of taxes imposed on the State s casinos and other related activities including internet gambling. Gross revenue refers to the total of all sums actually received by a licensee from gaming operations, less the total sums paid out as winnings to patrons. Appropriations from this fund must be used for reductions in property taxes, utility charges and other specified expenses of eligible senior and disabled citizens.

The Casino Control Fund. This fund consists of fees collected from the issuance and annual renewal of casino licenses, work permit fees and other license fees. Appropriations are made to fund the operations of the Casino Control Commission and the Division of Gaming Enforcement.

The Gubernatorial Elections Fund. This fund is used to account for receipts from the one dollar designations on State Gross Income Tax returns. When indicated by the taxpayer on a State gross income tax return, one dollar of the tax is taken from the individual s gross income tax liability (Property Tax Relief Fund) and credited to the Gubernatorial Elections Fund. Such funds are available for appropriations pursuant to the New Jersey Campaign Contributions and Expenditures Reporting Act, as amended.

Special Revenue Funds. These funds account for resources legally restricted to expenditure for specific purposes. While the Property Tax Relief, Casino Revenue, Casino Control and Gubernatorial Elections Funds fall into this category, they are included under General State Funds as they make up an integral portion of the State s annual budget.

Capital Projects Funds. These funds are used to account for financial resources, usually general obligation bonds, to be used for the acquisition or construction of major capital facilities for the State. The Capital Projects Funds includes the State Transportation Fund which is used to account for financial resources for State transportation projects. Other projects funded by these funds may include mental health, educational and correctional facilities and public transportation projects.

Proprietary Funds. These funds are used to account for any State activity that is operated similar to a private business for which a fee is charged to external users for goods and services. Activities are required to be reported as proprietary funds if laws or regulations require that the activity s cost of providing services be recovered with fees and charges. Because these funds charge fees to external users for goods and services, they are known as enterprise funds. Two such funds are the State Lottery Fund and the Unemployment Compensation Fund.

State Lottery Fund. Monies derived from the sale of State lottery tickets are deposited into this fund. Disbursements are authorized for the payment of prizes to holders of winning lottery tickets and for the administrative expenses of the Division of State Lottery. Available fund balances are transferred to the General Fund in support of the amounts annually appropriated for State institutions and for education. The Lottery is a major source of revenue for State education and institutions. In Fiscal Year 2016, gross revenues totaled $3.3 billion of which $2.0 billion was returned in prizes; $987.0 million went to State education and institutions; $245.5 million was paid to sales agents and ticket vendors; and $54.4 million covered lottery operational and promotional expenses. As of June 30, 2016, the State Lottery, since its inception, has generated over $67.3 billion in gross revenues; $36.7 billion in prizes; and contributions of $25.0 billion to the State.

Unemployment Compensation Fund. This fund accounts for payments made by employees and employers for unemployment compensation, amounts credited or advanced by the U.S. Government and monies received from other sources. After consideration is given to any claim made for refund or overpayment to the fund, the Division of Employment Security transfers the remainder to the U.S. Treasurer for credit to this fund. Under State law, the rates for employers are subject to automatic annual adjustment, as necessary, to maintain the Fund s sufficiency. The Fund operates independently and its obligations are not payable from the General Fund. To provide for sufficient cash flow to fund unemployment claims, the State can make a request to the U.S. Treasurer for advances on an as needed basis. For the year ended June 30, 2016, the fund had a net position increase of $762.2 million of available resources which exceeded the need to pay claims.

Private Purpose Trust Funds. These funds account for all trust fund arrangements for which principal and income benefit individuals, private organizations or other governments.

Fiscal Year 2016 Summary. The State Department of the Treasury s Office of Management and Budget (OMB) has released the audited Comprehensive Annual Financial Report for the fiscal year ended June 30, 2016 (2016 Financial Report). The 2016 Financial Report presents the audited financial position and operating results of the State under generally accepted accounting principles (GAAP) applicable to state and local governments as established by the Governmental Accounting Standards Board (GASB).

For fiscal year 2016, State revenues, including transfers, totaled $58.9 billion or a decrease of $0.9 billion when compared to the prior fiscal year. This decrease in total revenues is primarily attributable to a decrease in interest earnings and in general taxes, primarily the State s Corporation Business Tax.

Table of Contents

General taxes totaled $30.5 billion and accounted for 51.7% of total State revenues for fiscal year 2016. The State s Gross Income Tax totaled $13.4 billion; the Sales and Use Tax totaled $9.2 billion; and the Corporation Business Tax totaled $2.3 billion. The State s three major taxes comprised 81.7% of the total general taxes that were collected during fiscal year 2016. The State s general taxes decreased by $307.8 million compared to fiscal year 2015.

Fiscal year 2016 expenses totaled $66.0 billion, for an increase of $0.9 billion in comparison to the prior fiscal year. State spending increased by $769.4 million in government direction, management, and control mainly due to the increase in the pension expense and $725.7 million in educational, cultural, and intellectual development. Offsetting the aforementioned increases were decreases in transportation programs, $308.5 million, and in economic planning, development and security, $242.8 million.

According to the 2016 Financial Report, the General Fund s 2016 fiscal year end balance totaled $3.9 billion, of which $462.8 million represented unassigned fund balance. During fiscal year 2016, the State s total governmental fund balance increased by $0.8 billion.

The Surplus Revenue Fund is an account within the State s General Fund that is used as a rainy day fund. Surplus revenue is defined as an amount equivalent to 50% of the excess between the amount certified by the Governor at the time of the approval of the annual budget and the amount of General Fund revenue reported from the annual financial report of the General Fund for that fiscal year. As of June 30, 2013, the State s Surplus Revenue Fund had a balance of zero.

Total expenditures were $5.4 billion lower than original appropriations as set forth in the annual Appropriations Act plus supplemental appropriations enacted during the fiscal year. A major cause for under-spending resulted from the overestimate of federal funds. This practice allows the State to receive the maximum federal dollars that become available. During fiscal year 2016, the State s appropriation of federal funds and other grants exceeded expenditures by $2.5 billion; these excess appropriations are available for use in future years. From a fiscal year 2016 program perspective, under-spending transpired in community development and environmental management ($721.1 million); physical and mental health ($2.4 billion); public safety and criminal justice ($636.0 million); economic planning, development, and security ($743.4 million); transportation programs ($108.5 million); special government services ($66.2 million); government direction, management, and control ($438.6 million); and in educational, cultural, and intellectual development ($311.5 million).

On a budgetary basis, general revenues of $34.5 billion were $5.5 billion lower than the final budget. The negative variance was primarily the result of unearned federal and other grant revenues of $2.5 billion, declines of $2.3 billion in other revenues. Federal and other grant revenues are not earned unless there has been a grant award and eligible grant expenses incurred. To the extent that federal and grant appropriations are made in anticipation of grant awards and the incurrence of grant expenditures, grant revenues are budgeted.

State Indebtedness. As of June 30, 2016, New Jersey s outstanding long-term obligations for governmental activities totaled $171.6 billion, an $18.1 billion increase over the prior fiscal year. Of the $18.1 billion increase, $18.6 billion is attributable to increases in the Net Pension Liability and Net OPEB Obligation offset by a $0.5 billion reduction in bonded debt. Long-term bonded debt obligations totaled $42.7 billion, while other long-term obligations totaled $128.9 billion. In addition, the State has $4.0 billion of legislatively authorized bonding capacity that has not yet been issued. As of June 30, 2016, the legislatively authorized but unissued debt decreased by $1.1 billion.

General Obligation Bonds. The State is empowered by voters to authorize, issue, and incur debt subject to certain constitutional restrictions. General obligation bond acts are both legislatively and voter-approved and are backed by the State s full faith and credit. As of June 30, 2016, the State had $2.0 billion of State general obligation bonds outstanding with another $768.2 million of bonding authorization remaining from various State general obligation bond acts. The amount provided by the State s General Fund for debt service payments for Fiscal Year 2016 was $478.4 million.

Table of Contents

The State has refunded various outstanding general obligation bonds. Refunding bond proceeds are used to purchase and deposit United States Treasury Obligations State and Local Government Series or open market U.S. Treasury Securities into a separate irrevocable trust fund held by a trustee. The investments and the fixed earnings that accrue are sufficient to fully service the defeased debt until it is called or matures. For financial reporting purposes, the refunded debt is considered defeased at the time the refunding bonds have been issued. Therefore, the refunded debt is removed as a liability from the State s long-term obligations. During the fiscal year, $131.5 million of general obligation refunding bonds were issued. As a result, $139.2 of general obligation refunding bonds have been refunded and are now considered defeased. Total debt service payments over the next seven (7) years were reduced by $8 million and generated net present value savings of $8.1 million. As of June 30, 2016, the amount of defeased general obligation debt outstanding, but removed from the State s long-term obligations, amounted to $288.1 million.

Revenue Bonds. This debt classification represents bond issuances whose segment of debt service is derived solely from legally restricted revenues. Revenue bonds include debt issued by the New Jersey Building Authority (NJBA), the Garden State Preservation Trust (GSPT), and the New Jersey Transportation Trust Fund Authority (TTFA). During Fiscal Year 2016, the TTFA issued $26.8 million of bonds used to fund transportation system improvements. The NJBA issued $97.6 million of refunding bonds used to defease $101.9 million of existing debt. As a result, the refunded bonds liability has been removed from the State s long-term obligations. Total debt service payments over the next 11 years were decreased by $3.6 million which resulted in $3.5 million in present value savings. During Fiscal Year 2016, no GSPT debt was issued. Total authorized but unissued revenue bonds equal $0 as of June 30, 2016.

Installment Obligations. Installment Obligations represent agreements between the State and several authorities which have issued bonds for the purpose of purchasing or constructing facilities to be rented by the State or to provide financing for other State projects. The State agrees to make payments equal to the corresponding authority s debt service, subject to and dependent upon appropriations being made from time to time by the State Legislature. At the conclusion of the term of the installment obligation agreement, title to the various facilities is transferred to the State, except in the case of the School Facilities Construction Program. During Fiscal Year 2016, these authorities issued $2.5 billion of bonds, of which $2.0 billion were refunding bonds, that were issued in order to defease $1.8 billion of existing debt. The liability on these refunded bonds has been removed from the State s long-term obligations. Total debt service payments over the next 11 years were decreased by $27.8 million and resulted in a net present value savings of $12.7 million. The State s installment obligations outstanding as of June 30, 2016 total $18.2 billion. Total authorized but unissued installment obligations equal $3.3 billion as of June 30, 2016.

Certificates of Participation. These obligations represent several lines of credit that were drawn on to finance State equipment needs under the State s master lease program.

Short-Term Debt. The State issues short-term debt instruments in the form of tax and revenue anticipation notes in advance of income tax and corporation business tax collections, depositing the proceeds in the General Fund. These notes are used to provide effective cash management to fund the imbalances that occur between the collection of revenues and the disbursement of appropriations of the General Fund and Property Tax Relief Fund. For Fiscal Year 2013, the State, under a resolution executed by the Treasurer on July 1, 2015, authorized the issuance of $2.6 billion of Tax and Revenue Anticipation Notes (TRAN). On July 1, 2015 the State issued $1.9 billion of TRAN through a private placement. On August 30, 2017, the State Treasurer adopted a resolution authorizing the issuance of TRANs for Fiscal Year 2018. Pursuant thereto, on August 30, 2017, the State Treasurer entered into a Note Purchase Contract with RBC Capital Markets, LLC (RBC Capital) under which RBC Capital agrees to purchase TRANs in one or more series in the maximum amount of $2,000,000,000. Pursuant to such Note Purchase Contract, the State issued its Series Fiscal 2018A TRANs to RBC Capital on August 31, 2017 in the amount of $900,000,000. The Series Fiscal 2018A TRANs will mature on June 28, 2018.

Table of Contents

Tobacco Settlement Financing Corporation, Inc. In November 1998, the State entered into a master settlement agreement (the MSA) with participating cigarette manufacturers, forty-six states, and six other U.S. jurisdictions in the settlement of certain smoking-related litigation. During fiscal year 2003, the State sold to the newly established Tobacco Settlement Financing Corporation, Inc. (TSFC) the State s right, title and beneficial ownership interest in the State s right to receive tobacco settlement payments under the MSA and decree of final judgment. In return, TSFC issued $3.5 billion of bonds to pay for the tobacco settlement rights. Proceeds were used to fund General Fund expenditures during fiscal year 2003 and fiscal year 2004. During fiscal year 2007, $4.7 billion of refunding bonds were issued, of which $1.1 billion were capital appreciation bonds. The State retains 23.74% of the tobacco settlement receipts.

During fiscal year 2003, the TSFC was presented as a discreet component unit of the State. Since then, the State adopted GASB Technical Bulletin No. 2004-1, *Tobacco Settlement Recognition and Financial Reporting Issues*. As a result, the TSFC is required to be shown as a blended component unit of the State. Bonds issued by the TSFC are the sole obligation of the TSFC. The State is not liable for any debt issued by the TSFC nor is the debt dependent on any dedicated stream of revenue generated by the State.

On March 7, 2014, the Tobacco Settlement Financing Corporation executed a Series 2007-1B Pledge Agreement relating to the Corporation s Tobacco Settlement Asset-Backed Bonds, Series 2007-1B First Subordinate Capital Appreciation Bonds and a Series 2007-1C Pledge Agreement relating to the Corporation s Tobacco Settlement Asset-Backed Bonds, Series 2007-1C Second Subordinate Capital Appreciation Bonds. Pursuant to the Pledge Agreements, the Corporation will pledge 15.99% of the tobacco settlement receipts (TSRs) received on and after July 1, 2016 to the optional redemption of the Series 2007-1B Bonds and 7.75% of the TSRs received on and after July 1, 2016 to the optional redemption of the 2007-1C Bonds. All 2007 unpledged TSRs received prior to July 1, 2016 will continue to be paid to the State. The Additional Pledged TSRs are not currently pledged to the Corporation s outstanding bonds and are paid to the State. In consideration of the Pledge Agreements, certain holders of the Series 2007-1B Bonds and the Series 2007-1C Bonds paid the Corporation a bond enhancement premium of $96.5 million in 2014, which the Corporation remitted $91.6 million to the State and the remaining $4.9 million was paid to various professionals as a transaction fee.

State Pension and Other Postemployment Benefits (OPEB) Obligations. The State resumed making contributions to the pension plans on a phased-in basis over a seven year period beginning in Fiscal Year 2012. Previously, the State had not fully funded its various pension plans for several years, and its post-retirement medical program is funded on a pay-as-you-go basis. This continued underfunding on an actuarial basis has led to the State s current net pension obligation of $93.2 billion and a net OPEB obligation of $32.3 billion based on the current actuarial valuations which are as of June 30, 2016.

Ratings. The State s various outstanding general obligation bonds were rated A with a negative outlook by Fitch Ratings (Fitch) as of September 5, 2014, A3 by Moody s Investors Service, Inc. (Moody s) as of March 27, 2017, and A- by Standard & Poor s Ratings Group, a division of The McGraw-Hill Companies, Inc. (S&P) as of November 14, 2016. Kroll Bond Rating Agency has also assigned an A rating to New Jersey s general obligation debt. Ratings reflect only the respective views of such organizations, and an explanation of the significance of such ratings may be obtained from the rating agency that furnished the rating. There is no assurance that a particular rating will continue for any given period of time or that any such rating will not be revised downward or withdrawn entirely, if in the judgment of the agency originally establishing the rating, circumstances so warrant. Any such downward revision or withdrawal could have an adverse effect on the market prices of the State general obligation bonds.

Litigation. At any given time, there can be various numbers of claims and cases pending against the State, State agencies and employees, seeking recovery of monetary damages that are primarily paid out of the fund created pursuant to the New Jersey Tort Claims Act. At any given time there are also various numbers of claims seeking monetary damages or other relief, which, if granted, would require the expenditure of funds. Additional cases pending or threatened in which the State has the potential for either a significant loss of revenue or a significant unanticipated expenditure can be found in the State s Official Statement concerning the general obligation bonds it issues.

Table of Contents

APPENDIX C

RATINGS OF INVESTMENTS

Standard & Poor s Corporation A brief description of the applicable Standard & Poor s Corporation (S&P) rating symbols and their meanings (as published by S&P) follows:

A Standard & Poor s issue credit rating is a forward-looking opinion about the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (including ratings on medium-term note programs and commercial paper programs). It takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation and takes into account the currency in which the obligation is denominated. The opinion reflects S&P s view of the obligor s capacity and willingness to meet its financial commitments as they come due, and may assess terms, such as collateral security and subordination, which could affect ultimate payment in the event of default.

Issue credit ratings can be either long-term or short-term. Short-term ratings are generally assigned to those obligations considered short-term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature, in addition to the usual long-term rating. Medium-term notes are assigned long-term ratings.

Long-Term Issue Credit Ratings

Issue credit ratings are based, in varying degrees, on S&P Global Ratings analysis of the following considerations:

- The likelihood of payment the capacity and willingness of the obligor to meet its financial commitments on an obligation in accordance with the terms of the obligation;

- The nature and provisions of the financial obligation, and the promise we impute; and

- The protection afforded by, and relative position of, the financial obligation in the event of a bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors rights.

Issue ratings are an assessment of default risk but may incorporate an assessment of relative seniority or ultimate recovery in the event of default. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation may apply when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.)

AAA	An obligation rated AAA has the highest rating assigned by S&P Global Ratings. The obligor s capacity to meet its financial commitments on the obligation is extremely strong.
AA	An obligation rated AA differs from the highest-rated obligations only to a small degree. The obligor s capacity to meet its financial commitments on the obligation is very strong.
A	An obligation rated A is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor s capacity to meet its financial commitments on the obligation is still strong.

BBB	An obligation rated BBB exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor s capacity to meet its financial commitments on the obligation.
BB, B, CCC, CC, and C	Obligations rated BB , B , CCC , CC , and C are regarded as having significant speculative characteristics. BB indicates the least degree of speculation and C the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
BB	An obligation rated BB is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor s inadequate capacity to meet its financial commitments on the obligation.
B	An obligation rated B is more vulnerable to nonpayment than obligations rated BB , but the obligor currently has the capacity to meet its financial commitments on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor s capacity or willingness to meet its financial commitments on the obligation.
CCC	An obligation rated CCC is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitments on the obligation.
CC	An obligation rated CC is currently highly vulnerable to nonpayment. The CC rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
C	An obligation rated CC is currently highly vulnerable to nonpayment. The CC rating is used when a default has not yet occurred but S&P Global Ratings expects default to be a virtual certainty, regardless of the anticipated time to default.
D	An obligation rated D is in default or in breach of an imputed promise. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within five business days in the absence of a stated grace period or within the earlier of the stated grace period or 30 calendar days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation s rating is lowered to D if it is subject to a distressed exchange offer.
NR	This indicates that no rating has been requested or that there is insufficient information on which to base a rating, or that S&P does not rate a particular obligation as a matter of policy.

The ratings from AA to CCC may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.

Table of Contents

Short-Term Issue Credit Ratings

A-1	A short-term obligation rated A-1 is rated in the highest category by S&P Global Ratings. The obligor s capacity to meet its financial commitments on the obligation is strong. Within this category, certain obligations are designated with a plus sign (+). This indicates that the obligor s capacity to meet its financial commitments on these obligations is extremely strong.
A-2	A short-term obligation rated A-2 is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories. However, the obligor s capacity to meet its financial commitments on the obligation is satisfactory.
A-3	A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to weaken an obligor s capacity to meet its financial commitments on the obligation.
B	A short-term obligation rated B is regarded as vulnerable and has significant speculative characteristics. The obligor currently has the capacity to meet its financial commitments; however, it faces major ongoing uncertainties that could lead to the obligor s inadequate capacity to meet its financial commitments.
C	A short-term obligation rated C is currently vulnerable to nonpayment and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitments on the obligation.
D	A short-term obligation rated D is in default or in breach of an imputed promise. For non-hybrid capital instruments, the D rating category is used when payments on an obligation are not made on the date due, unless S&P Global Ratings believes that such payments will be made within any stated grace period. However, any stated grace period longer than five business days will be treated as five business days. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions. An obligation s rating is lowered to D if it is subject to a distressed exchange offer.

Active Qualifiers (Currently applied and/or outstanding)

L	Ratings qualified with L apply only to amounts invested up to federal deposit insurance limits.
p	This suffix is used for issues in which the credit factors, the terms, or both that determine the likelihood of receipt of payment of principal are different from the credit factors, terms, or both that determine the likelihood of receipt of interest on the obligation. The p suffix indicates that the rating addresses the principal portion of the obligation only and that the interest is not rated.
prelim	Preliminary ratings, with the prelim suffix, may be assigned to obligors or obligations, including financial programs, in the circumstances described below. Assignment of a final rating is conditional on the receipt by S&P Global Ratings of appropriate documentation. S&P Global Ratings reserves the right not to issue a final rating. Moreover, if a final rating is issued, it may differ from the preliminary rating.

Preliminary ratings may be assigned to obligations, most commonly structured and project finance issues, pending receipt of final documentation and legal opinions.

Preliminary ratings may be assigned to obligations that will likely be issued upon the obligor s emergence from bankruptcy or similar reorganization, based on late-stage reorganization plans, documentation, and discussions with the obligor. Preliminary ratings may also be assigned to the obligors. These ratings consider the anticipated general credit quality of the reorganized or post-bankruptcy issuer as well as attributes of the anticipated obligation(s).

Preliminary ratings may be assigned to entities that are being formed or that are in the process of being independently established when, in S&P Global Ratings opinion, documentation is close to final. Preliminary ratings may also be assigned to the obligations of these entities.

Preliminary ratings may be assigned when a previously unrated entity is undergoing a well-formulated restructuring, recapitalization, significant financing, or other transformative event, generally at the point that investor or lender commitments are invited. The preliminary rating may be assigned to the entity and to its proposed obligation(s). These preliminary ratings consider the anticipated general credit quality of the obligor, as well as attributes of the anticipated obligation(s), assuming successful completion of the transformative event. Should the transformative event not occur, S&P Global Ratings would likely withdraw these preliminary ratings.

A preliminary recovery rating may be assigned to an obligation that has a preliminary issue credit rating.

t	This symbol indicates termination structures that are designed to honor their contracts to full maturity or, should certain events occur, to terminate and cash settle all their contracts before their final maturity date.

Municipal Short-Term Note Ratings Definitions

An S&P Global Ratings U.S. municipal note rating reflects S&P Global Ratings opinion about the liquidity factors and market access risks unique to the notes. Notes due in three years or less will likely receive a note rating. Notes with an original maturity of more than three years will most likely receive a long-term debt rating. In determining which type of rating, if any, to assign, S&P Global Ratings analysis will review the following considerations:

Amortization schedule the larger the final maturity relative to other maturities, the more likely it will be treated as a note; and

Source of payment the more dependent the issue is on the market for its refinancing, the more likely it will be treated as a note.

Note rating symbols are as follows:

SP-1	Strong capacity to pay principal and interest. An issue determined to possess a very strong capacity to pay debt service is given a plus (+) designation.
SP-2	Satisfactory capacity to pay principal and interest, with some vulnerability to adverse financial and economic changes over the term of the notes.
SP-3	Speculative capacity to pay principal and interest.

Table of Contents

Moody s Investors Service, Inc. A brief description of the applicable Moody s Investors Service, Inc. (Moody s) rating symbols and their meanings (as published by Moody s) follows:

Long-Term Obligation Ratings

Moody s long-term ratings are opinions of the relative credit risk of financial obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings use Moody s Global Scale and reflect both the likelihood of default and any financial loss suffered in the event of default.

Aaa	Obligations rated Aaa are judged to be of the highest quality, subject to the lowest level of credit risk.
Aa	Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
A	Obligations rated A are judged to be upper-medium grade and are subject to low credit risk.
Baa	Obligations rated Baa are judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics.
Ba	Obligations rated Ba are judged to be speculative and are subject to substantial credit risk.
B	Obligations rated B are considered speculative and are subject to high credit risk.
Caa	Obligations rated Caa are judged to be speculative of poor standing and are subject to very high credit risk.
Ca	Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
C	Obligations rated C are the lowest rated and are typically in default, with little prospect for recovery of principal or interest.

Note: Moody s appends numerical modifiers 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category. Additionally, a (hyb) indicator is appended to all ratings of hybrid securities issued by banks, insurers, finance companies, and securities firms.*

** By their terms, hybrid securities allow for the omission of scheduled dividends, interest, or principal payments, which can potentially result in impairment if such an omission occurs. Hybrid securities may also be subject to contractually allowable write-downs of principal that could result in impairment. Together with the hybrid indicator, the long-term obligation rating assigned to a hybrid security is an expression of the relative credit risk associated with that security.*

Short-Term Obligation Ratings

Moody s short-term ratings are opinions of the ability of issuers to honor short-term financial obligations. Ratings may be assigned to issuers, short-term programs or to individual short-term debt instruments. Such

Table of Contents

obligations generally have an original maturity not exceeding thirteen months, unless explicitly noted. Moody s employs the following designations to indicate the relative repayment ability of rated issuers:

P-1	Issuers (or supporting institutions) rated Prime-1 have a superior ability to repay short-term debt obligations.
P-2	Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay short-term debt obligations.
P-3	Issuers (or supporting institutions) rated Prime-3 have an acceptable ability to repay short-term obligations.
NP	Issuers (or supporting institutions) rated Not Prime do not fall within any of the Prime rating categories.

U.S. Municipal Short-Term Obligation Ratings

While the global short-term prime rating scale is applied to U.S. municipal tax-exempt commercial paper, these programs are typically backed by external letters of credit or liquidity facilities and their short-term prime ratings usually map to the long-term rating of the enhancing bank or financial institution and not to the municipality s rating. Other short-term municipal obligations, which generally have different funding sources for repayment, are rated using two additional short-term rating scales (i.e., the MIG and VMIG scales discussed below).

The Municipal Investment Grade (MIG) scale is used to rate U.S. municipal bond anticipation notes of up to three years maturity. Municipal notes rated on the MIG scale may be secured by either pledged revenues or proceeds of a take-out financing received prior to note maturity. MIG ratings expire at the maturity of the obligation, and the issuer s long-term rating is only one consideration in assigning the MIG rating. MIG ratings are divided into three levels MIG 1 through MIG 3 while speculative grade short-term obligations are designated SG.

MIG1	This designation denotes superior credit quality. Excellent protection is afforded by established cash flows, highly reliable liquidity support, or demonstrated broad-based access to the market for refinancing.
MIG2	This designation denotes strong credit quality. Margins of protection are ample, although not as large as in the preceding group.
MIG3	This designation denotes acceptable credit quality. Liquidity and cash-flow protection may be narrow, and market access for refinancing is likely to be less well-established.
SG	This designation denotes speculative-grade credit quality. Debt instruments in this category may lack sufficient margins of protection.

Table of Contents

Other Ratings Symbols

e	Expected ratings. To address market demand for timely information on particular types of credit ratings, Moody s has licensed to certain third parties the right to generate Expected Ratings. Expected Ratings are designated by an e after the rating code, and are intended to anticipate Moody s forthcoming rating assignments based on reliable information from third party sources (such as the issuer or underwriter associated with the particular securities) or established Moody s rating practices (i.e., medium term notes are typically, but not always, assigned the same rating as the note s program rating). Expected Ratings will exist only until Moody s confirms the Expected Rating, or issues a different rating for the relevant instrument. Moody s encourages market participants to contact Moody s Ratings Desk or visit www.moodys.com if they have questions regarding Expected Ratings, or wish Moody s to confirm an Expected Rating.
(P)	Provisional Ratings. Moody s will often assign a provisional rating to program ratings or to an issuer or an instrument when the assignment of a definitive rating is subject to the fulfilment of contingencies that are highly likely to be completed. Upon fulfillment of these contingencies, such as finalization of documents and issuance of the securities, the provisional notation is removed. A provisional rating is denoted by placing a (P) in front of the rating.
#	Refundeds. I Issues that are secured by escrowed funds held in trust, reinvested in direct, non-callable U.S. government obligations or non-callable obligations unconditionally guaranteed by the U.S. Government or Resolution Funding Corporation are identified with a # (hatch mark) symbol, *e.g.*, #Aaa.
WR	Withdrawn. When Moody s no longer rates an obligation on which it previously maintained a rating, the symbol WR is employed. Please see Moody s Guidelines for the Withdrawal of Ratings, available on www.moodys.com.
NR	Not Rated. NR is assigned to an unrated issuer, obligation and/or program.
NAV	Not Available. An issue that Moody s has not yet rated is denoted by the NAV symbol.
TWR	Terminated Without Rating. The symbol TWR applies primarily to issues that mature or are redeemed without having been rated.

Fitch IBCA, Inc. A brief description of the applicable Fitch IBCA, Inc. (Fitch) ratings symbols and meanings (as published by Fitch) follows:

Rated entities in a number of sectors, including financial and non-financial corporations, sovereigns and insurance companies, are generally assigned Issuer Default Ratings (IDRs). IDRs opine on an entity s relative vulnerability to default on financial obligations. The threshold default risk addressed by the IDR is generally that of the financial obligations whose non-payment would best reflect the uncured failure of that entity. As such, IDRs also address relative vulnerability to bankruptcy, administrative receivership or similar concepts, although the agency recognizes that issuers may also make pre-emptive and therefore voluntary use of such mechanisms.

In aggregate, IDRs provide an ordinal ranking of issuers based on the agency s view of their relative vulnerability to default, rather than a prediction of a specific percentage likelihood of default. For historical information on the default experience of Fitch-rated issuers, please consult the transition and default performance studies available from the Fitch Ratings website.

Table of Contents

Long-Term Credit Ratings Scales

AAA	Highest Credit Quality. AAA ratings denote the lowest expectation of default risk. They are assigned only in cases of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very High Credit Quality. AA ratings denote expectations of very low default risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High Credit Quality. A ratings denote expectations of low default risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
BBB	Good Credit Quality. BBB ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative. BB ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists which supports the servicing of financial commitments.
B	Highly speculative. B ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
CCC	Substantial credit risk. Default is a real possibility
CC	Very high levels of credit risk. Default of some kind appears probable.
C	Exceptionally high levels of credit risk. Default is imminent or inevitable, or the issuer is in standstill. Conditions that are indicative of a C category rating for an issuer include: a. the issuer has entered into a grace or cure period following non-payment of a material financial obligation; b. the issuer has entered into a temporary negotiated waiver or standstill agreement following a payment default on a material financial obligation; or c. Fitch Ratings otherwise believes a condition of RD or D to be imminent or inevitable, including through the formal announcement of a distressed debt exchange.
RD	Restricted default. RD ratings indicate an issuer that in Fitch Ratings opinion has experienced an uncured payment default on a bond, loan or other material financial obligation but which has not entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, and which has not otherwise ceased operating. This would include: a. the selective payment default on a specific class or currency of debt;

Table of Contents

b. the uncured expiry of any applicable grace period, cure period or default forbearance period following a payment default on a bank loan, capital markets security or other material financial obligation;

c. the extension of multiple waivers or forbearance periods upon a payment default on one or more material financial obligations, either in series or in parallel; or

d. execution of a distressed debt exchange on one or more material financial obligations.

D	Default. D ratings indicate an issuer that in Fitch Ratings opinion has entered into bankruptcy filings, administration, receivership, liquidation or other formal winding-up procedure, or which has otherwise ceased business.

Default ratings are not assigned prospectively to entities or their obligations; within this context, non-payment on an instrument that contains a deferral feature or grace period will generally not be considered a default until after the expiration of the deferral or grace period, unless a default is otherwise driven by bankruptcy or other similar circumstance, or by a distressed debt exchange.

Imminent default typically refers to the occasion where a payment default has been intimated by the issuer, and is all but inevitable. This may, for example, be where an issuer has missed a scheduled payment, but (as is typical) has a grace period during which it may cure the payment default. Another alternative would be where an issuer has formally announced a distressed debt exchange, but the date of the exchange still lies several days or weeks in the immediate future.

In all cases, the assignment of a default rating reflects the agency s opinion as to the most appropriate rating category consistent with the rest of its universe of ratings, and may differ from the definition of default under the terms of an issuer s financial obligations or local commercial practice.

Note: The modifiers + or - may be appended to a rating to denote relative status within major rating categories. Such suffixes are not added to the AAA Long-Term IDR category, or to Long-Term IDR categories below B .

Specific limitations relevant to the structured, project and public finance obligation rating scale include:

The ratings do not predict a specific percentage of default likelihood over any given time period.

The ratings do not opine on the market value of any issuer s securities or stock, or the likelihood that this value may change.

The ratings do not opine on the liquidity of the issuer s securities or stock.

The ratings do not opine on the possible loss severity on an obligation should an obligation should an issuer default.

The ratings do not opine on the suitability of an issuer as a counterparty to trade credit.

The ratings do not opine on any quality related to an issuer s business, operational or financial profile other than the agency s opinion on its relative vulnerability to default.

Ratings assigned by Fitch Ratings articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader s convenience. Readers are requested to review the section Understanding Credit Ratings Limitations and Usage for further information on the limitations of the agency s ratings.

C-9

Table of Contents

Short-Term Ratings Assigned to Obligations in Corporate, Public and Structured Finance

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as short term based on market convention. Typically, this means up to 13 months for corporate, sovereign, and structured obligations, and up to 36 months for obligations in U.S. public finance markets.

F1	Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added + to denote any exceptionally strong credit feature.
F2	Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments.
F3	Fair short-term credit quality. The intrinsic capacity for timely payment of financial commitments is adequate.
B	Speculative short-term credit quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.
C	High short-term default risk. Default is a real possibility.
RD	Restricted default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Typically applicable to entity ratings only.
D	Default. Indicates a broad-based default event for an entity, or the default of a short-term obligation.

Specific limitations relevant to the Short-Term Ratings scale include:

- The ratings do not predict a specific percentage of default likelihood over any given time period.
- The ratings do not opine on the market value of any issuer s securities or stock, or the likelihood that this value may change.
- The ratings do not opine on the liquidity of the issuer s securities or stock.
- The ratings do not opine on the possible loss severity on an obligation should an obligation default.
- The ratings do not opine on any quality related to an issuer or transaction s profile other than the agency s opinion on the relative vulnerability to default of the rated issuer or obligation.

Ratings assigned by Fitch Ratings articulate an opinion on discrete and specific areas of risk. The above list is not exhaustive, and is provided for the reader s convenience.

Table of Contents

APPENDIX D

PROXY VOTING POLICIES BLACKROCK U.S. REGISTERED FUNDS

Closed-End Fund Proxy Voting Policy

July 1, 2017

Effective Date: July 1, 2017

Applies to the following types of Funds registered under the 1940 Act:

Open-End Mutual Funds (including money market funds)

Money Market Funds Only

iShares ETFs

Closed-End Funds

Other

The Boards of Trustees/Directors (Directors) of the closed-end funds advised by BlackRock Advisors, LLC (BlackRock) (the Funds) have the responsibility for the oversight of voting proxies relating to portfolio securities of the Funds, and have determined that it is in the best interests of the Funds and their shareholders to delegate that responsibility to BlackRock as part of BlackRock s authority to manage, acquire and dispose of account assets, all as contemplated by the Funds respective investment management agreements.

BlackRock has adopted guidelines and procedures (together and as from time to time amended, the BlackRock Proxy Voting Guidelines) governing proxy voting by accounts managed by BlackRock. BlackRock will cast votes on behalf of each of the Funds on specific proxy issues in respect of securities held by each such Fund in accordance with the BlackRock Proxy Voting Guidelines; provided that in the case of securities held by BlackRock closed-end funds that have or propose to adopt classified boards, BlackRock will typically (a) vote in favor of proposals to adopt classification and against proposals to eliminate classification, and (b) not vote against directors as a result of their adoption of a classified board structure.

BlackRock will report on an annual basis to the Directors on (1) all proxy votes that BlackRock has made on behalf of the Funds in the preceding year together with a representation that all votes were in accordance with the BlackRock Proxy Voting Guidelines (as modified pursuant to the immediately preceding paragraph), and (2) any changes to the BlackRock Proxy Voting Guidelines that have not previously been reported.

Table of Contents

D-2

Table of Contents

Contents

Introduction to BlackRock

BlackRock is the world s preeminent asset management firm and a premier provider of global investment management, risk management and advisory services to institutional and individual clients around the world. BlackRock offers a wide range of investment strategies and product structures to meet clients needs, including individual and institutional separate accounts, mutual funds, closed-end funds, and other pooled investment vehicles and the industry-leading iShares exchange traded funds. Through BlackRock Solutions®, we offer risk management, strategic advisory and enterprise investment system services to a broad base of clients.

Philosophy on corporate governance

BlackRock s corporate governance program is focused on protecting and enhancing the economic value of the companies in which it invests on behalf of clients. We do this through engagement with boards and management of investee companies and, for those clients who have given us authority, through voting at shareholder meetings.

We believe that there are certain fundamental rights attached to share ownership. Companies and their boards should be accountable to shareholders and structured with appropriate checks and balances to ensure that they operate in shareholders interests. Effective voting rights are central to the rights of ownership and there should be one vote for one share. Shareholders should have the right to elect, remove and nominate directors, approve the appointment of the auditor and to amend the corporate charter or by-laws. Shareholders should be able to vote on matters that are material to the protection of their investment including but not limited to changes to the purpose of the business, dilution levels and pre-emptive rights, the distribution of income and the capital structure. In order to exercise these rights effectively, we believe shareholders have the right to sufficient and timely information to be able to take an informed view of the proposals, and of the performance of the company and management.

Our focus is on the board of directors, as the agent of shareholders, which should set the company s strategic aims within a framework of prudent and effective controls which enables risk to be assessed and managed. The board should provide direction and leadership to the management and oversee management s performance. Our starting position is to be supportive of boards in their oversight efforts on our behalf and we would generally expect to support the items of business they put to a vote at shareholder meetings. Votes cast against or withheld from resolutions proposed by the board are a signal that we are concerned that the directors or management have either not acted in the interests of shareholders or have not responded adequately to shareholder concerns regarding strategy or performance.

These principles set out our approach to engaging with companies, provide guidance on our position on corporate governance and outline how our views might be reflected in our voting decisions. Corporate governance practices vary internationally and our expectations in relation to individual companies are based on the legal and regulatory framework of each market. However, as noted above, we do believe that there are some overarching principles of corporate governance that apply globally. We assess voting matters on a case-by-case basis and in light of each company s unique circumstances. We are interested to understand from the company s reporting its approach to corporate governance, particularly where it is different from the usual market practice, and how it benefits shareholders.

Table of Contents

BlackRock also believes that shareholders have responsibilities in relation to monitoring and providing feedback to companies, sometimes known as stewardship. These ownership responsibilities include, in our view, engaging with management or board members on corporate governance matters, voting proxies in the best long-term economic interests of shareholders and engaging with regulatory bodies to ensure a sound policy framework consistent with promoting long-term shareholder value creation. Institutional shareholders also have responsibilities to their clients to have appropriate resources and oversight structures. Our own approach to oversight in relation to our corporate governance activities is set out in the section below titled BlackRock s oversight of its corporate governance activities .

Corporate governance, engagement and voting

We recognize that accepted standards of corporate governance differ between markets but we believe that there are sufficient common threads globally to identify an overarching set of principles. The primary objective of our corporate governance activities is the protection and enhancement of the value of our clients investments in public corporations. Thus, these principles focus on practices and structures that we consider to be supportive of long-term value creation. We discuss below the principles under six key themes. In our regional and market-specific voting guidelines we explain how these principles inform our voting decisions in relation to specific resolutions that may appear on the agenda of a shareholder meeting in the relevant market.

The six key themes are:

u Boards and directors

u Auditors and audit-related issues

u Capital structure, mergers, asset sales and other special transactions

u Remuneration and benefits

u Social, ethical and environmental issues

u General corporate governance matters

At a minimum we would expect companies to observe the accepted corporate governance standard in their domestic market or to explain why doing so is not in the interests of shareholders. Where company reporting and disclosure is inadequate or the approach taken is inconsistent with our view of what is in the best interests of shareholders, we will engage with the company and/or use our vote to encourage a change in practice. In making voting decisions, we take into account research from proxy advisors, other internal and external research, information published by the company or provided through engagement and the views of our equity portfolio managers.

BlackRock views engagement as an important activity; engagement provides BlackRock with the opportunity to improve our understanding of investee companies and their governance structures, so that our voting decisions may be better informed. Engagement also allows us to share our philosophy and approach to investment and corporate governance with companies to enhance their understanding of our objectives. There are a range of approaches we may take in engaging companies depending on the nature of the issue under consideration, the company and the market.

Table of Contents

Boards and directors

The performance of the board is critical to the economic success of the company and to the protection of shareholders interests. Board members serve as agents of shareholders in overseeing the strategic direction and operation of the company. For this reason, BlackRock focuses on directors in many of its engagements and sees the election of directors as one of its most important responsibilities in the proxy voting context.

We expect the board of directors to promote and protect shareholder interests by:

u establishing an appropriate corporate governance structure;

u supporting and overseeing management in setting strategy;

u ensuring the integrity of financial statements;

u making decisions regarding mergers, acquisitions and disposals;

u establishing appropriate executive compensation structures; and

u addressing business issues including social, ethical and environmental issues when they have the potential to materially impact company reputation and performance.

There should be clear definitions of the role of the board, the sub-committees of the board and the senior management such that the responsibilities of each are well understood and accepted. Companies should report publicly the approach taken to governance (including in relation to board structure) and why this approach is in the interest of shareholders. We will engage with the appropriate directors where we have concerns about the performance of the board or the company, the broad strategy of the company or the performance of individual board members. Concerns about directors may include their role on the board of a different company where that board has performed poorly and failed to protect shareholder interests.

BlackRock believes that directors should stand for re-election on a regular basis. We assess directors nominated for election or re-election in the context of the composition of the board as a whole. There should be detailed disclosure of the relevant credentials of the individual directors in order that shareholders can assess the caliber of an individual nominee. We expect there to be a sufficient number of independent directors on the board to ensure the protection of the interests of all shareholders. Common impediments to independence may include but are not limited to:

u current employment at the company or a subsidiary;

- former employment within the past several years as an executive of the company;
- providing substantial professional services to the company and/or members of the company s management;
- having had a substantial business relationship in the past three years;
- having, or representing a shareholder with, a substantial shareholding in the company;
- being an immediate family member of any of the aforementioned; and
- interlocking directorships.

Table of Contents

BlackRock believes that the operation of the board is enhanced when there is a clearly independent, senior non-executive director to lead it. Where the chairman is also the CEO or is otherwise not independent the company should have an independent lead director. The role of this director is to enhance the effectiveness of the independent members of the board through shaping the agenda, ensuring adequate information is provided to the board and encouraging independent participation in board deliberations. The lead independent board director should be available to shareholders if they have concerns that they wish to discuss.

To ensure that the board remains effective, regular reviews of board performance should be carried out and assessments made of gaps in skills or experience amongst the members. BlackRock believes it is beneficial for new directors to be brought onto the board periodically to refresh the group s thinking and to ensure both continuity and adequate succession planning. In identifying potential candidates, boards should take into consideration the diversity of experience and expertise of the current directors and how that might be augmented by incoming directors. We believe that directors are in the best position to assess the optimal size for the board, but we would be concerned if a board seemed too small to have an appropriate balance of directors or too large to be effective.

There are matters for which the board has responsibility that may involve a conflict of interest for executives or for affiliated directors. BlackRock believes that shareholders interests are best served when the independent members of the board form a sub-committee to deal with such matters. In many markets, these sub-committees of the board specialize in audit, director nominations and compensation matters. An ad hoc committee might also be formed to decide on a special transaction, particularly one with a related party.

Auditors and audit-related issues

BlackRock recognizes the critical importance of financial statements which should provide a complete and accurate picture of a company s financial condition. We will hold the members of the audit committee or equivalent responsible for overseeing the management of the audit function. We take particular note of cases involving significant financial restatements or ad hoc notifications of material financial weakness.

The integrity of financial statements depends on the auditor being free of any impediments to being an effective check on management. To that end, we believe it is important that auditors are, and are seen to be, independent. Where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should also have in place a procedure for assuring annually the independence of the auditor.

Capital structure, mergers, asset sales and other special transactions

The capital structure of a company is critical to its owners, the shareholders, as it impacts the value of their investment and the priority of their interest in the company relative to that of other equity or debt investors. Pre-emption rights are a key protection for shareholders against the dilution of their interests.

In assessing mergers, asset sales or other special transactions, BlackRock s primary consideration is the long-term economic interests of shareholders. Boards proposing a transaction need to clearly explain the economic and strategic rationale behind it. We will review a proposed transaction to determine the degree to which it enhances long-term shareholder value. We would prefer that proposed transactions have the unanimous support of the board and have been negotiated at arm s length. We may seek reassurance from the board that executive and/or board members financial interests in a given transaction have not affected their ability to place shareholders interests before their own. Where the transaction involves related parties, we would expect the recommendation to support it to come from the independent directors and would prefer only non-conflicted shareholders to vote on the proposal.

BlackRock believes that shareholders have a right to dispose of company shares in the open market without unnecessary restriction. In our view, corporate mechanisms designed to limit shareholders ability to sell their shares are contrary to basic property rights. Such mechanisms can serve to protect and entrench interests other than those of the shareholders. We believe that shareholders are broadly capable of making decisions in their own best interests. We would expect any so-called shareholder rights plans being proposed by a board to be subject to shareholder approval on introduction and periodically thereafter for continuation.

Remuneration and benefits

BlackRock expects a company s board of directors to put in place a compensation structure that incentivizes and rewards executives appropriately and is aligned with shareholder interests, particularly long-term shareholder returns. We would expect the compensation committee to take into account the specific circumstances of the company and the key individuals the board is trying to incentivize. We encourage companies to ensure that their compensation packages incorporate appropriate and challenging performance conditions consistent with corporate strategy and market practice. We use third party research, in addition to our own analysis, to evaluate existing and proposed compensation structures. We hold members of the compensation committee or equivalent accountable for poor compensation practices or structures.

BlackRock believes that there should be a clear link between variable pay and company performance as reflected in returns to shareholders. We are not supportive of one-off or special bonuses unrelated to company or individual performance. We support incentive plans that pay out rewards earned over multiple and extended time periods. We believe consideration should be given to building claw back provisions into incentive plans such that executives would be required to repay rewards where they were not justified by actual performance. Compensation committees should guard against contractual arrangements that would entitle executives to material compensation for early termination of their contract. Finally, pension contributions should be reasonable in light of market practice.

Outside directors should be compensated in a manner that does not risk compromising their independence or aligning their interests too closely with those of the management, whom they are charged with overseeing.

Social, ethical, and environmental issues

Our fiduciary duty to clients is to protect and enhance their economic interest in the companies in which we invest on their behalf. It is within this context that we undertake our corporate governance activities. We believe that well-managed companies will deal effectively with the social, ethical and environmental (SEE) aspects of their businesses.

BlackRock expects companies to identify and report on the material, business-specific SEE risks and opportunities and to explain how these are managed. This explanation should make clear how the approach taken by the company best serves the interests of shareholders and protects and enhances the long-term economic value of the company. The key performance indicators in relation to SEE matters should also be disclosed and performance against them discussed, along with any peer group benchmarking and verification processes in place. This helps shareholders assess how well management is dealing with the SEE aspects of the business. Any global standards adopted should also be disclosed and discussed in this context.

We may vote against the election of directors where we have concerns that a company might not be dealing with SEE issues appropriately. Sometimes we may reflect such concerns by supporting a shareholder proposal on the issue, where there seems to be either a significant potential threat or realized harm to shareholders interests caused by poor management of SEE matters. In deciding our course of action, we will assess whether the company has already taken sufficient steps to address the concern and whether there is a clear and material economic disadvantage to the company if the issue is not addressed.

More commonly, given that these are often not voting issues, we will engage directly with the board or management. The trigger for engagement on a particular SEE concern is our assessment that there is potential for material economic ramifications for shareholders.

We do not see it as our role to make social, ethical or political judgments on behalf of clients. We expect investee companies to comply, at a minimum, with the laws and regulations of the jurisdictions in which they operate. They should explain how they manage situations where such laws or regulations are contradictory or ambiguous.

General corporate governance matters

BlackRock believes that shareholders have a right to timely and detailed information on the financial performance and viability of the companies in which they invest. In addition, companies should also publish information on the governance structures in place and the rights of shareholders to influence these. The reporting and disclosure provided by companies helps shareholders assess whether the economic interests of shareholders have been protected and the quality of the board s oversight of management. BlackRock believes shareholders should have the right to vote on key corporate governance matters, including on changes to governance mechanisms, to submit proposals to the shareholders meeting and to call special meetings of shareholders.

D-9

BlackRock s oversight of its corporate governance activities

Oversight

BlackRock holds itself to a very high standard in its corporate governance activities, including in relation to executing proxy votes. This function is executed by a team of dedicated BlackRock employees without sales responsibilities (the Corporate Governance Group), and which is considered an investment function. BlackRock maintains three regional oversight committees (Corporate Governance Committees) for the Americas, Europe, the Middle East and Africa (EMEA) and Asia-Pacific, consisting of senior BlackRock investment professionals. All of the regional Corporate Governance Committees report to a Global Corporate Governance Oversight Committee, which is a risk-focused committee composed of senior representatives of the active and index equity investment businesses, the Deputy General Counsel, the Global Executive Committee member to whom the Corporate Governance Group reports and the head of the Corporate Governance Group. The Corporate Governance Committees review and approve amendments to their respective proxy voting guidelines (Guidelines) and grant authority to the Global Head of Corporate Governance (Global Head), a dedicated BlackRock employee without sales responsibilities, to vote in accordance with the Guidelines. The Global Head leads the Corporate Governance Group to carry out engagement, voting and vote operations in a manner consistent with the relevant Corporate Governance Committee s mandate. The Corporate Governance Group engages companies in conjunction with the portfolio managers in discussions of significant governance issues, conducts research on corporate governance issues and participates in industry discussions to keep abreast of the field of corporate governance. The Corporate Governance Group, or vendors overseen by the Corporate Governance Group, also monitor upcoming proxy votes, execute proxy votes and maintain records of votes cast. The Corporate Governance Group may refer complicated or particularly controversial matters or discussions to the appropriate investors and/or regional Corporate Governance Committees for their review, discussion and guidance prior to making a voting decision. BlackRock s Equity Policy Oversight Committee (EPOC) is informed of certain aspects of the work of the Global Corporate Governance Oversight Committee and the Corporate Governance Group.

Vote execution

BlackRock carefully considers proxies submitted to funds and other fiduciary accounts (Funds) for which it has voting authority. BlackRock votes (or refrains from voting) proxies for each Fund for which it has voting authority based on BlackRock s evaluation of the best long-term economic interests of shareholders, in the exercise of its independent business judgment, and without regard to the relationship of the issuer of the proxy (or any dissident shareholder) to the Fund, the Fund s affiliates (if any), BlackRock or BlackRock s affiliates.

When exercising voting rights, BlackRock will normally vote on specific proxy issues in accordance with its Guidelines for the relevant market. The Guidelines are reviewed regularly and are amended consistent with changes in the local market practice, as developments in corporate governance occur, or as otherwise deemed advisable by BlackRock s Corporate Governance Committees. The Corporate Governance Committees may, in the exercise of their business judgment, conclude that the Guidelines do not cover the specific matter upon which a proxy vote is requested or that an exception to the Guidelines would be in the best long-term economic interests of BlackRock s clients.

Table of Contents

In the uncommon circumstance of there being a vote with respect to fixed income securities or the securities of privately held issuers the decision generally will be made by a Fund s portfolio managers and/or the Corporate Governance Group based on their assessment of the particular transactions or other matters at issue.

In certain markets, proxy voting involves logistical issues which can affect BlackRock s ability to vote such proxies, as well as the desirability of voting such proxies. These issues include but are not limited to: (i) untimely notice of shareholder meetings; (ii) restrictions on a foreigner s ability to exercise votes; (iii) requirements to vote proxies in person; (iv) share-blocking (requirements that investors who exercise their voting rights surrender the right to dispose of their holdings for some specified period in proximity to the shareholder meeting); (v) potential difficulties in translating the proxy; and (vi) requirements to provide local agents with unrestricted powers of attorney to facilitate voting instructions. We are not supportive of impediments to the exercise of voting rights such as shareblocking or overly burdensome administrative requirements.

As a consequence, BlackRock votes proxies in these markets only on a best-efforts basis. In addition, the Corporate Governance Committees may determine that it is generally in the best interests of BlackRock clients not to vote proxies of companies in certain countries if the committee determines that the costs (including but not limited to opportunity costs associated with shareblocking constraints) associated with exercising a vote are expected to outweigh the benefit the client would derive by voting on the issuer s proposal.

While it is expected that BlackRock, as a fiduciary, will generally seek to vote proxies over which BlackRock exercises voting authority in a uniform manner for all BlackRock clients, the relevant Corporate Governance Committee, in conjunction with the portfolio manager of an account, may determine that the specific circumstances of such an account require that such account s proxies be voted differently due to such account s investment objective or other factors that differentiate it from other accounts. In addition, BlackRock believes portfolio managers may from time to time legitimately reach differing but equally valid views, as fiduciaries for their funds and the client assets in those Funds, on how best to maximize economic value in respect of a particular investment. Accordingly, portfolio managers retain full discretion to vote the shares in the Funds they manage based on their analysis of the economic impact of a particular ballot item.

Conflicts management

BlackRock maintains policies and procedures that are designed to prevent undue influence on BlackRock s proxy voting activity that might stem from any relationship between the issuer of a proxy (or any dissident shareholder) and BlackRock, BlackRock s affiliates, a Fund or a Fund s affiliates. Some of the steps BlackRock has taken to prevent conflicts include, but are not limited to:

u BlackRock has adopted a proxy voting oversight structure whereby the Corporate Governance Committees oversee the voting decisions and other activities of the Corporate Governance Group, and particularly its activities with respect to voting in the relevant region of each Corporate Governance Committee s jurisdiction.

u The Corporate Governance Committees have adopted Guidelines for each region, which set forth the firm s views with respect to certain corporate governance and other issues that typically arise in the proxy voting context. The

Corporate Governance Committees receive periodic reports regarding the specific votes cast by the Corporate

Governance Group and regular updates on material process issues, procedural changes and other matters of concern to the Corporate Governance Committees.

- u BlackRock s Global Corporate Governance Oversight Committee oversees the Global Head, the Corporate Governance Group and the Corporate Governance Committees. The Global Corporate Governance Oversight Committee conducts a review, at least annually, of the proxy voting process to ensure compliance with BlackRock s risk policies and procedures.

- u BlackRock maintains a reporting structure that separates the Global Head and Corporate Governance Group from employees with sales responsibilities. In addition, BlackRock maintains procedures intended to ensure that all engagements with corporate issuers or dissident shareholders are managed consistently and without regard to BlackRock s relationship with the issuer of the proxy or dissident shareholder. Within the normal course of business, the Global Head or Corporate Governance Group may engage directly with BlackRock clients, and with employees with sales responsibilities, in discussions regarding general corporate governance policy matters, and to otherwise ensure that proxy-related client service levels are met. The Global Head or Corporate Governance Group does not discuss any specific voting matter with a client prior to the disclosure of the vote decision to all applicable clients after the shareholder meeting has taken place, except if the client is acting in the capacity as issuer of the proxy or dissident shareholder and is engaging through the established procedures independent of the client relationship.

- u In certain instances, BlackRock may determine to engage an independent fiduciary to vote proxies as a further safeguard to avoid potential conflicts of interest or as otherwise required by applicable law. The independent fiduciary may either vote such proxies or provide BlackRock with instructions as to how to vote such proxies. In the latter case, BlackRock votes the proxy in accordance with the independent fiduciary s determination. Use of an independent fiduciary has been adopted for voting the proxies related to any company that is affiliated with BlackRock or any company that includes BlackRock employees on its board of directors.

With regard to the relationship between securities lending and proxy voting, BlackRock s approach is driven by our clients economic interests. The evaluation of the economic desirability of recalling loans involves balancing the revenue producing value of loans against the likely economic value of casting votes. Based on our evaluation of this relationship, we believe that generally the likely economic value of casting most votes is less than the securities lending income, either because the votes will not have significant economic consequences or because the outcome of the vote would not be affected by BlackRock recalling loaned securities in order to ensure they are voted. Periodically, BlackRock analyzes the process and benefits of voting proxies for securities on loan, and will consider whether any modification of its proxy voting policies or procedures is necessary in light of future conditions. In addition, BlackRock may in its discretion determine that the value of voting outweighs the cost of recalling shares, and thus recall shares to vote in that instance.

Voting guidelines

The issue-specific voting Guidelines published for each region/country in which we vote are intended to summarize BlackRock s general philosophy and approach to issues that may commonly arise in the proxy voting context in each market where we invest. These Guidelines are not intended to be exhaustive. BlackRock applies the Guidelines on a case-by-case basis, in the context of the individual circumstances of each company and the specific issue under review.

Table of Contents

As such, these Guidelines do not provide a guide to how BlackRock will vote in every instance. Rather, they share our view about corporate governance issues generally, and provide insight into how we typically approach issues that commonly arise on corporate ballots.

Reporting

We report our proxy voting activity directly to clients and publically as required. In addition, we publish for clients a more detailed discussion of our corporate governance activities, including engagement with companies and with other relevant parties.