

CALAMOS CONVERTIBLE & HIGH INCOME FUND

Form 497

June 16, 2010

**CALAMOS CONVERTIBLE AND HIGH INCOME FUND  
STATEMENT OF ADDITIONAL INFORMATION**

Calamos Convertible and High Income Fund (the Fund) is a diversified, closed-end management investment company. This Statement of Additional Information relates to the offering, on an immediate, continuous or delayed basis, of up to \$250,000,000 aggregate initial offering price of common shares, preferred shares and debt securities in one or more offerings. This Statement of Additional Information does not constitute a prospectus, but should be read in conjunction with the prospectus relating thereto dated the date hereof and any related prospectus supplement. This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing any of the Fund's securities, and investors should obtain and read the prospectus and any related prospectus supplement prior to purchasing such securities. A copy of the prospectus and any related prospectus supplement may be obtained without charge by calling 1-800-582-6959. You may also obtain a copy of the prospectus and any related prospectus supplement on the Securities and Exchange Commission's web site (<http://www.sec.gov>). Capitalized terms used but not defined in this Statement of Additional Information have the same meanings ascribed to them in the prospectus and any related prospectus supplement.

**TABLE OF CONTENTS FOR STATEMENT OF ADDITIONAL INFORMATION**

Use of Proceeds	S-1
Investment Objective and Policies	S-1
Investment Restrictions	S-19
Management of the Fund	S-22
Portfolio Transactions	S-33
Net Asset Value	S-34
Repurchase of Common Shares	S-34
Certain Federal Income Tax Matters	S-36
Custodian, Transfer Agent, Dividend Disbursing Agent and Registrar	S-46
Independent Registered Public Accounting Firm	S-46
Additional Information	S-46
Additional Information Concerning the Agreement and Declaration of Trust	S-46
Financial Statements	
Financial Statements and Report of Independent Auditors/Accountants	F-1
Appendix A Summary of Certain Provisions of the Indenture and Form of Supplemental Indenture	A-1
Appendix B Description of Ratings	B-1

This Statement of Additional Information is dated May 14, 2010, as supplemented on June 16, 2010.

### **USE OF PROCEEDS**

The Fund will invest the net proceeds of the offering in accordance with the Fund's investment objective and policies as stated below and in the prospectus. It is presently anticipated that the Fund will invest substantially all of the net proceeds in securities that meet the investment objective and policies within three months after completion of the offering. Pending such investment, the net proceeds may be invested in U.S. government securities and high grade, short-term money market instruments. If necessary, the Fund may also purchase, as temporary investments, securities of other open- or closed-end investment companies that invest primarily in the types of securities in which the Fund may invest directly.

### **INVESTMENT OBJECTIVE AND POLICIES**

The prospectus presents the investment objective and the principal investment strategies and risks of the Fund. This section supplements the disclosure in the Fund's prospectus and provides additional information on the Fund's investment policies or restrictions. Restrictions or policies stated as a maximum percentage of the Fund's assets are only applied immediately after a portfolio investment to which the policy or restriction is applicable (other than the limitations on borrowing). Accordingly, any later increase or decrease resulting from a change in values, managed assets or other circumstances will not be considered in determining whether the investment complies with the Fund's restrictions and policies.

#### **Primary Investments**

Under normal circumstances, the Fund will invest at least 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities. The Fund will provide written notice to shareholders at least 60 days prior to any change to the requirement that it invest at least 80% of its managed assets as described in the sentence above. The portion of the Fund's assets invested in convertible securities and below investment grade (high yield/high risk) non-convertible debt securities will vary from time to time in light of the Fund's investment objective, changes in equity prices and changes in interest rates and other economic and market factors, although, under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities and at least 20% of its managed assets in below investment grade (high yield/high risk) non-convertible debt securities (so long as the combined total equals at least 80% of the Fund's managed assets).

Managed assets means the total assets of the Fund (including any assets attributable to any leverage that may be outstanding) minus the sum of liabilities (other than debt representing financial leverage). For this purpose, the liquidation preference on the preferred shares will not constitute a liability.

#### **Convertible Securities**

Investment in convertible securities forms an important part of the Fund's investment strategies. Under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities. Convertible securities include any corporate debt security or preferred stock that may be converted into underlying shares of common stock. The common stock underlying convertible securities may be issued by a different entity than the issuer of the convertible securities. Convertible securities entitle the holder to receive interest payments paid on corporate debt securities or the dividend preference on a preferred stock until such time as the convertible security matures or is redeemed or until the holder elects to exercise the conversion privilege. As a result of the conversion feature, however, the interest rate or dividend preference on a convertible security is generally less than would be the case if the securities were issued in non-convertible form. The value of convertible securities is influenced by both the yield of non-convertible securities of comparable issuers and by the value of the underlying common stock. The value of a convertible security viewed without regard to its conversion feature (i.e., strictly on the basis of its yield) is sometimes referred to as its investment value. The investment value of the convertible security typically will fluctuate inversely with changes in prevailing interest rates. However, at the same time, the convertible security will be influenced by its conversion value, which is the

market value of the underlying common stock that would be obtained if the convertible security were converted. Conversion value fluctuates directly with the price of the underlying common stock.

If, because of a low price of the common stock, the conversion value is substantially below the investment value of the convertible security, the price of the convertible security is governed principally by its investment value. If the conversion value of a convertible security increases to a point that approximates or exceeds its investment value, the value of the security will be principally influenced by its conversion value. A convertible security will sell at a premium over its conversion value to the extent investors place value on the right to acquire the underlying common stock while holding a fixed income security. Holders of convertible securities have a claim on the assets of the issuer prior to the common stockholders, but may be subordinated to holders of similar non-convertible securities of the same issuer.

### **Synthetic Convertible Securities**

Calamos Advisors, LLC ( Calamos ) may create a synthetic convertible security by combining fixed income securities with the right to acquire equity securities. More flexibility is possible in the assembly of a synthetic convertible security than in the purchase of a convertible security. Although synthetic convertible securities may be selected where the two components are issued by a single issuer, thus making the synthetic convertible security similar to the true convertible security, the character of a synthetic convertible security allows the combination of components representing distinct issuers, when Calamos believes that such a combination would better promote the Fund's investment objective. A synthetic convertible security also is a more flexible investment in that its two components may be purchased separately. For example, the Fund may purchase a warrant for inclusion in a synthetic convertible security but temporarily hold short-term investments while postponing the purchase of a corresponding bond pending development of more favorable market conditions.

A holder of a synthetic convertible security faces the risk of a decline in the price of the security or the level of the index involved in the convertible component, causing a decline in the value of the call option or warrant purchased to create the synthetic convertible security. Should the price of the stock fall below the exercise price and remain there throughout the exercise period, the entire amount paid for the call option or warrant would be lost. Because a synthetic convertible security includes the fixed-income component as well, the holder of a synthetic convertible security also faces the risk that interest rates will rise, causing a decline in the value of the fixed-income instrument.

The Fund may also purchase synthetic convertible securities manufactured by other parties, including convertible structured notes. Convertible structured notes are fixed income debentures linked to equity, and are typically issued by investment banks. Convertible structured notes have the attributes of a convertible security; however, the investment bank that issued the convertible note assumes the credit risk associated with the investment, rather than the issuer of the underlying common stock into which the note is convertible.

The Fund's holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund's policy to invest at least 20% of its managed assets in convertible securities and 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities.

### **High Yield Securities**

Investment in high yield non-convertible debt securities forms an important part of the Fund's investment strategy. Under normal circumstances, the Fund will invest at least 20% of its managed assets in high yield non-convertible debt securities. The high yield securities in which the Fund invests are rated Ba or lower by Moody's or BB or lower by Standard & Poor's or are unrated but determined by Calamos to be of comparable quality. Non-convertible debt securities rated below investment grade are commonly referred to as junk bonds and are considered speculative with respect to the issuer's capacity to pay interest and repay principal.

Below investment grade non-convertible debt securities or comparable unrated securities are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks:

increased price sensitivity to changing interest rates and to a deteriorating economic environment;

greater risk of loss due to default or declining credit quality;

adverse company specific events are more likely to render the issuer unable to make interest and/or principal payments; and

if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed. This negative perception could last for a significant period of time.

Securities rated below investment grade are speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of such securities. A rating of C from Moody's means that the issue so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing. Standard & Poor's assigns a rating of C to issues that are currently highly vulnerable to nonpayment, and the C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on the obligation are being continued (a C rating is also assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying). See Appendix B to this Statement of Additional Information for a description of Moody's and Standard & Poor's ratings.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a high yield issuer to make principal payments and interest payments than an investment grade issuer. The principal amount of high yield securities outstanding has proliferated in the past decade as an increasing number of issuers have used high yield securities for corporate financing. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity. Similarly, down-turns in profitability in specific industries could adversely affect the ability of high yield issuers in that industry to meet their obligations. The market values of lower quality debt securities tend to reflect individual developments of the issuer to a greater extent than do higher quality securities, which react primarily to fluctuations in the general level of interest rates. Factors having an adverse impact on the market value of lower quality securities may have an adverse effect on the Fund's net asset value and the market value of its common shares. In addition, the Fund may incur additional expenses to the extent it is required to seek recovery upon a default in payment of principal or interest on its portfolio holdings. In certain circumstances, the Fund may be required to foreclose on an issuer's assets and take possession of its property or operations. In such circumstances, the Fund would incur additional costs in disposing of such assets and potential liabilities from operating any business acquired.

The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security when necessary to meet its liquidity needs. There are fewer dealers in the market for high yield securities than investment grade obligations. The prices quoted by different dealers may vary

significantly and the spread between the bid and asked price is generally much larger than higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's net asset value.

Because investors generally perceive that there are greater risks associated with lower quality debt securities of the type in which the Fund may invest a portion of its assets, the yields and prices of such securities may tend to fluctuate more than those for higher rated securities. In the lower quality segments of the debt securities market, changes in perceptions of issuers' creditworthiness tend to occur more frequently and in a more pronounced manner than do changes in higher quality segments of the debt securities market, resulting in greater yield and price volatility.

If the Fund invests in high yield securities that are rated C or below, the Fund will incur significant risk in addition to the risks associated with investments in high yield securities and corporate loans. Distressed securities frequently do not produce income while they are outstanding. The Fund may purchase distressed securities that are in default or the issuers of which are in bankruptcy. The Fund may be required to bear certain extraordinary expenses in order to protect and recover its investment.

#### **Distressed Securities**

The Fund may, but currently does not intend to, invest up to 5% of its total assets in distressed securities, including corporate loans, which are the subject of bankruptcy proceedings or otherwise in default as to the repayment of principal and/or payment of interest at the time of acquisition by the Fund or are rated in the lower rating categories (Ca or lower by Moody's or CC or lower by Standard & Poor's) or which are unrated investments considered by Calamos to be of comparable quality. Investment in distressed securities is speculative and involves significant risk. Distressed securities frequently do not produce income while they are outstanding and may require the Fund to bear certain extraordinary expenses in order to protect and recover its investment. Therefore, to the extent the Fund seeks capital appreciation through investment in distressed securities, the Fund's ability to achieve current income for its shareholders may be diminished. The Fund also will be subject to significant uncertainty as to when and in what manner and for what value the obligations evidenced by the distressed securities will eventually be satisfied (e.g., through a liquidation of the obligor's assets, an exchange offer or plan of reorganization involving the distressed securities or a payment of some amount in satisfaction of the obligation). In addition, even if an exchange offer is made or a plan of reorganization is adopted with respect to distressed securities held by the Fund, there can be no assurance that the securities or other assets received by the Fund in connection with such exchange offer or plan of reorganization will not have a lower value or income potential than may have been anticipated when the investment was made. Moreover, any securities received by the Fund upon completion of an exchange offer or plan of reorganization may be restricted as to resale. As a result of the Fund's participation in negotiations with respect to any exchange offer or plan of reorganization with respect to an issuer of distressed securities, the Fund may be restricted from disposing of such securities.

#### **Loans**

The Fund may invest up to 5% of its total assets in loan participations and other direct claims against a borrower. The corporate loans in which the Fund may invest primarily consist of direct obligations of a borrower and may include debtor in possession financings pursuant to Chapter 11 of the U.S. Bankruptcy Code, obligations of a borrower issued in connection with a restructuring pursuant to Chapter 11 of the U.S. Bankruptcy Code, leveraged buy-out loans, leveraged recapitalization loans,

receivables purchase facilities, and privately placed notes. The Fund may invest in a corporate loan at origination as a co-lender or by acquiring in the secondary market participations in, assignments of or novations of a corporate loan. By purchasing a participation, the Fund acquires some or all of the interest of a bank or other lending institution in a loan to a corporate or government borrower. The participations typically will result in the Fund having a contractual relationship only with the lender not the borrower. The Fund will have the right to receive payments of principal, interest and any fees to which it is entitled only from the lender selling the participation and only upon receipt by the lender of the payments from the borrower. Many such loans are secured, although some may be unsecured. Such loans may be in default at the time of purchase. Loans that are fully secured offer the Fund more protection than an unsecured loan in the event of non-payment of scheduled interest or principal. However, there is no assurance that the liquidation of collateral from a secured loan would satisfy the corporate borrower's obligation, or that the collateral can be liquidated. Direct debt instruments may involve a risk of loss in case of default or insolvency of the borrower and may offer less legal protection to the Fund in the event of fraud or misrepresentation. In addition, loan participations involve a risk of insolvency of the lending bank or other financial intermediary. The markets in loans are not regulated by federal securities laws or the Securities and Exchange Commission (SEC).

As in the case of other high yield investments, such corporate loans may be rated in the lower rating categories of the established rating services (Ba or lower by Moody's or BB or lower by Standard & Poor's), or may be unrated investments considered by Calamos to be of comparable quality. As in the case of other high yield investments, such corporate loans can be expected to provide higher yields than lower yielding, higher rated fixed income securities, but may be subject to greater risk of loss of principal and income. There are, however, some significant differences between corporate loans and high yield bonds. Corporate loan obligations are frequently secured by pledges of liens and security interests in the assets of the borrower, and the holders of corporate loans are frequently the beneficiaries of debt service subordination provisions imposed on the borrower's bondholders. These arrangements are designed to give corporate loan investors preferential treatment over high yield investors in the event of a deterioration in the credit quality of the issuer. Even when these arrangements exist, however, there can be no assurance that the borrowers of the corporate loans will repay principal and/or pay interest in full. Corporate loans generally bear interest at rates set at a margin above a generally recognized base lending rate that may fluctuate on a day-to-day basis, in the case of the prime rate of a U.S. bank, or which may be adjusted on set dates, typically 30 days but generally not more than one year, in the case of the London Interbank Offered Rate. Consequently, the value of corporate loans held by the Fund may be expected to fluctuate significantly less than the value of other fixed rate high yield instruments as a result of changes in the interest rate environment. On the other hand, the secondary dealer market for certain corporate loans may not be as well developed as the secondary dealer market for high yield bonds, and therefore presents increased market risk relating to liquidity and pricing concerns.

#### **Foreign Securities**

The Fund may invest up to 25% of its net assets, in securities of foreign issuers. The Fund may invest up to 15% of its managed assets in securities of foreign issuers in emerging markets. A foreign issuer is a foreign government or corporation organized under the laws of a foreign country. For these purposes, foreign securities do not include American Depositary Receipts (ADRs) or securities guaranteed by a United States person, but may include foreign securities in the form of European Depositary Receipts (EDRs), Global Depositary Receipts (GDRs) or other securities representing underlying shares of foreign issuers. Positions in those securities are not necessarily denominated in the same currency as the common stocks into which they may be converted. ADRs are receipts typically issued by an American bank or trust company evidencing ownership of the underlying securities. EDRs are European receipts listed on the Luxembourg Stock Exchange evidencing a similar arrangement. GDRs are U.S. dollar-denominated receipts evidencing ownership of foreign securities. Generally, ADRs, in registered form, are designed for the U.S. securities markets and EDRs and GDRs, in bearer form, are designed for use in

foreign securities markets. The Fund may invest in sponsored or unsponsored ADRs. In the case of an unsponsored ADR, the Fund is likely to bear its proportionate share of the expenses of the depository and it may have greater difficulty in receiving shareholder communications than it would have with a sponsored ADR.

To the extent positions in portfolio securities are denominated in foreign currencies, the Fund's investment performance is affected by the strength or weakness of the U.S. dollar against those currencies. For example, if the dollar falls in value relative to the Japanese yen, the dollar value of a Japanese stock held in the portfolio will rise even though the price of the stock remains unchanged. Conversely, if the dollar rises in value relative to the yen, the dollar value of the Japanese stock will fall. (See discussion of transaction hedging and portfolio hedging below under Currency Exchange Transactions. )

Investors should understand and consider carefully the risks involved in foreign investing. Investing in foreign securities, which are generally denominated in foreign currencies, and utilization of forward foreign currency exchange contracts involve certain considerations comprising both risks and opportunities not typically associated with investing in U.S. securities. These considerations include: fluctuations in exchange rates of foreign currencies; possible imposition of exchange control regulation or currency restrictions that would prevent cash from being brought back to the United States less public information with respect to issuers of securities; less governmental supervision of stock exchanges, securities brokers, and issuers of securities; lack of uniform accounting, auditing and financial reporting standards; lack of uniform settlement periods and trading practices; less liquidity and frequently greater price volatility in foreign markets than in the United States; possible imposition of non-U.S. withholding or other taxes; and sometimes less advantageous legal, operational and financial protections applicable to foreign sub-custodial arrangements.

Although the Fund intends primarily to invest in companies and government securities of countries having stable political environments, there is the possibility of expropriation or confiscatory taxation, seizure or nationalization of foreign bank deposits or other assets, establishment of exchange controls, the adoption of foreign government restrictions, or other adverse political, social or diplomatic developments that could affect investment in these nations.

The Fund expects that substantially all of its investments will be in developed nations. However, the Fund may invest in the securities of issuers located in emerging market countries. The securities markets of emerging countries are substantially smaller, less developed, less liquid and more volatile than the securities markets of the U.S. and other more developed countries. Disclosure and regulatory standards in many respects are less stringent than in the U.S. and other major markets. There also may be a lower level of monitoring and regulation of emerging markets and the activities of investors in such markets, and enforcement of existing regulations has been extremely limited. Economies in individual emerging markets may differ favorably or unfavorably from the U.S. economy in such respects as growth of gross domestic product, rates of inflation, currency depreciation, capital reinvestment, resource self-sufficiency and balance of payments positions. Many emerging market countries have experienced high rates of inflation for many years, which has had and may continue to have very negative effects on the economies and securities markets of those countries.

#### **Currency Exchange Transactions**

Currency exchange transactions may be conducted either on a spot (i.e., cash) basis at the spot rate for purchasing or selling currency prevailing in the foreign exchange market or through forward currency exchange contracts ( forward contracts ). Forward contracts are contractual agreements to purchase or sell a specified currency at a specified future date (or within a specified time period) and price set at the time of the contract. Forward contracts are usually entered into with banks, foreign exchange

dealers and broker-dealers, are not exchange traded, and are usually for less than one year, but may be renewed.

Forward currency exchange transactions may involve currencies of the different countries in which the Fund may invest and serve as hedges against possible variations in the exchange rate between these currencies and the U.S. dollar. Currency exchange transactions are limited to transaction hedging and portfolio hedging involving either specific transactions or portfolio positions, except to the extent described below under Synthetic Foreign Money Market Positions. Transaction hedging is the purchase or sale of forward contracts with respect to specific receivables or payables of the Fund accruing in connection with the purchase and sale of its portfolio securities or the receipt of dividends or interest thereon. Portfolio hedging is the use of forward contracts with respect to portfolio security positions denominated or quoted in a particular foreign currency. Portfolio hedging allows the Fund to limit or reduce its exposure in a foreign currency by entering into a forward contract to sell such foreign currency (or another foreign currency that acts as a proxy for that currency) at a future date for a price payable in U.S. dollars so that the value of the foreign denominated portfolio securities can be approximately matched by a foreign denominated liability. The Fund may not engage in portfolio hedging with respect to the currency of a particular country to an extent greater than the aggregate market value (at the time of making such sale) of the securities held in its portfolio denominated or quoted in that particular currency, except that the Fund may hedge all or part of its foreign currency exposure through the use of a basket of currencies or a proxy currency where such currencies or currency act as an effective proxy for other currencies. In such a case, the Fund may enter into a forward contract where the amount of the foreign currency to be sold exceeds the value of the securities denominated in such currency. The use of this basket hedging technique may be more efficient and economical than entering into separate forward contracts for each currency held in the Fund. The Fund may not engage in speculative currency exchange transactions.

If the Fund enters into a forward contract, the Fund's custodian will segregate liquid assets of the Fund having a value equal to the Fund's commitment under such forward contract. At the maturity of the forward contract to deliver a particular currency, the Fund may either sell the portfolio security related to the contract and make delivery of the currency, or it may retain the security and either acquire the currency on the spot market or terminate its contractual obligation to deliver the currency by purchasing an offsetting contract with the same currency trader obligating it to purchase on the same maturity date the same amount of the currency. It is impossible to forecast with absolute precision the market value of portfolio securities at the expiration of a forward contract. Accordingly, it may be necessary for the Fund to purchase additional currency on the spot market (and bear the expense of such purchase) if the market value of the security is less than the amount of currency the Fund is obligated to deliver and if a decision is made to sell the security and make delivery of the currency. Conversely, it may be necessary to sell on the spot market some of the currency received upon the sale of the portfolio security if its market value exceeds the amount of currency the Fund is obligated to deliver.

If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund will incur a gain or a loss to the extent that there has been movement in forward contract prices. If the Fund engages in an offsetting transaction, it may subsequently enter into a new forward contract to sell the currency. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a currency and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to sell exceeds the price of the currency it has agreed to purchase. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. A default on the contract would deprive the Fund of unrealized profits or force the Fund to cover its commitments for purchase or sale of currency, if any, at the current market price.



Hedging against a decline in the value of a currency does not eliminate fluctuations in the value of a portfolio security traded in that currency or prevent a loss if the value of the security declines. Hedging transactions also preclude the opportunity for gain if the value of the hedged currency should rise. Moreover, it may not be possible for the Fund to hedge against a devaluation that is so generally anticipated that the Fund is not able to contract to sell the currency at a price above the devaluation level it anticipates. The cost to the Fund of engaging in currency exchange transactions varies with such factors as the currency involved, the length of the contract period, and prevailing market conditions.

#### **Synthetic Foreign Money Market Positions**

The Fund may invest in money market instruments denominated in foreign currencies. In addition to, or in lieu of, such direct investment, the Fund may construct a synthetic foreign money market position by (a) purchasing a money market instrument denominated in one currency, generally U.S. dollars, and (b) concurrently entering into a forward contract to deliver a corresponding amount of that currency in exchange for a different currency on a future date and at a specified rate of exchange. For example, a synthetic money market position in Japanese yen could be constructed by purchasing a U.S. dollar money market instrument, and entering concurrently into a forward contract to deliver a corresponding amount of U.S. dollars in exchange for Japanese yen on a specified date and at a specified rate of exchange. Because of the availability of a variety of highly liquid short-term U.S. dollar money market instruments, a synthetic money market position utilizing such U.S. dollar instruments may offer greater liquidity than direct investment in foreign currency and a concurrent construction of a synthetic position in such foreign currency, in terms of both income yield and gain or loss from changes in currency exchange rates, in general should be similar, but would not be identical because the components of the alternative investments would not be identical. The Fund currently does not intend to invest a significant amount of its assets in synthetic foreign money market positions.

#### **Debt Obligations of Non-U.S. Governments**

An investment in debt obligations of non-U.S. governments and their political subdivisions (sovereign debt) involves special risks that are not present in corporate debt obligations. The non-U.S. issuer of the sovereign debt or the non-U.S. governmental authorities that control the repayment of the debt may be unable or unwilling to repay principal or interest when due, and the Fund may have limited recourse in the event of a default. During periods of economic uncertainty, the market prices of sovereign debt may be more volatile than prices of debt obligations of U.S. issuers. In the past, certain non-U.S. countries have encountered difficulties in servicing their debt obligations, withheld payments of principal and interest and declared moratoria on the payment of principal and interest on their sovereign debt.

A sovereign debtor's willingness or ability to repay principal and pay interest in a timely manner may be affected by, among other factors, its cash flow situation, the extent of its foreign currency reserves, the availability of sufficient non-U.S. currency, the relative size of the debt service burden, the sovereign debtor's policy toward its principal international lenders and local political constraints. Sovereign debtors may also be dependent on expected disbursements from non-U.S. governments, multilateral agencies and other entities to reduce principal and interest arrearages on their debt. The failure of a sovereign debtor to implement economic reforms, achieve specified levels of economic performance or repay principal or interest when due may result in the cancellation of third-party commitments to lend funds to the sovereign debtor, which may further impair such debtor's ability or willingness to service its debts.

#### **Eurodollar Instruments And Samurai And Yankee Bonds**

The Fund may invest in Eurodollar instruments and Samurai and Yankee bonds. Eurodollar instruments are bonds of corporate and government issuers that pay interest and principal in U.S. dollars but are issued in markets outside the United States, primarily in Europe. Samurai bonds are yen-

denominated bonds sold in Japan by non-Japanese issuers. Yankee bonds are U.S. dollar-denominated bonds typically issued in the U.S. by non-U.S. governments and their agencies and non-U.S. banks and corporations. The Fund may also invest in Eurodollar Certificates of Deposit ( ECDs ), Eurodollar Time Deposits ( ETDs ) and Yankee Certificates of Deposit ( Yankee CDs ). ECDs are U.S. dollar-denominated certificates of deposit issued by non-U.S. branches of domestic banks; ETDs are U.S. dollar-denominated deposits in a non-U.S. branch of a U.S. bank or in a non-U.S. bank; and Yankee CDs are U.S. dollar-denominated certificates of deposit issued by a U.S. branch of a non-U.S. bank and held in the U.S. These investments involve risks that are different from investments in securities issued by U.S. issuers, including potential unfavorable political and economic developments, non-U.S. withholding or other taxes, seizure of non-U.S. deposits, currency controls, interest limitations or other governmental restrictions which might affect payment of principal or interest.

#### **Lending of Portfolio Securities**

The Fund may lend its portfolio securities to broker-dealers and banks. Any such loan must be continuously secured by collateral in cash or cash equivalents maintained on a current basis in an amount at least equal to the market value of the securities loaned by the Fund. The Fund would continue to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned, and would also receive an additional return that may be in the form of a fixed fee or a percentage of the collateral. The Fund may pay reasonable fees to persons unaffiliated with the Fund for services in arranging these loans. The Fund would have the right to call the loan and obtain the securities loaned at any time on notice of not more than five business days. The Fund would not have the right to vote the securities during the existence of the loan but would call the loan to permit voting of the securities, if, in Calamos judgment, a material event requiring a shareholder vote would otherwise occur before the loan was repaid. In the event of bankruptcy or other default of the borrower, the Fund could experience both delays in liquidating the loan collateral or recovering the loaned securities and losses, including (a) possible decline in the value of the collateral or in the value of the securities loaned during the period while the Fund seeks to enforce its rights thereto, (b) possible subnormal levels of income and lack of access to income during this period, and (c) expenses of enforcing its rights. The Fund may also experience losses as a result of the diminution in value of its cash collateral investments.

#### **Options on Securities, Indexes and Currencies**

The Fund may purchase and sell put options and call options on securities, indexes or foreign currencies. The Fund may purchase agreements, sometimes called cash puts, that may accompany the purchase of a new issue of bonds from a dealer.

A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the writer the obligation to buy, the underlying security, commodity, index, currency or other instrument at the exercise price. For instance, the Fund's purchase of a put option on a security might be designed to protect its holdings in the underlying instrument (or, in some cases, a similar instrument) against a substantial decline in the market value by giving the Fund the right to sell such instrument at the option exercise price. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller the obligation to sell, the underlying instrument at the exercise price. The Fund's purchase of a call option on a security, financial future, index, currency or other instrument might be intended to protect the Fund against an increase in the price of the underlying instrument that it intends to purchase in the future by fixing the price at which it may purchase such instrument.

The Fund is authorized to purchase and sell exchange listed options and over-the-counter options ( OTC options ). Exchange listed options are issued by a regulated intermediary such as the Options Clearing Corporation ( OCC ), which guarantees the performance of the obligations of the parties to such options. The discussion below uses the OCC as an example, but is also applicable to other financial intermediaries.

With certain exceptions, OCC issued and exchange listed options generally settle by physical delivery of the underlying security or currency, although in the future cash settlement may become available. Index options and Eurodollar instruments are cash settled for the net amount, if any, by which the option is in-the-money (i.e., where the value of the underlying instrument exceeds, in the case of a call option, or is less than, in the case of a put option, the exercise price of the option) at the time the option is exercised. Frequently, rather than taking or making delivery of the underlying instrument through the process of exercising the option, listed options are closed by entering into offsetting purchase or sale transactions that do not result in ownership of the new option.

OTC options are purchased from or sold to securities dealers, financial institutions or other parties ( Counterparties ) through direct bilateral agreement with the Counterparty. In contrast to exchange listed options, which generally have standardized terms and performance mechanics, all the terms of an OTC option, including such terms as method of settlement, term, exercise price, premium, guarantees and security, are set by negotiation of the parties. The Fund may sell OTC options (other than OTC currency options) that are subject to a buy-back provision permitting the Fund to require the Counterparty to sell the option back to the Fund at a formula price within seven days. The Fund expects generally to enter into OTC options that have cash settlement provisions, although it is not required to do so. The staff of the SEC currently takes the position that OTC options purchased by a fund, and portfolio securities covering the amount of a fund's obligation pursuant to an OTC option sold by it (or the amount of assets equal to the formula price for the repurchase of the option, if any, less the amount by which the option is in the money) are illiquid.

The Fund may also purchase and sell options on securities indices and other financial indices, which may include purchasing and selling options on stocks, indices, rates, credit spreads or currencies. Options on securities indices and other financial indices are similar to options on a security or other instrument except that, rather than settling by physical delivery of the underlying instrument, they settle by cash settlement, i.e., an option or an index gives the holder the right to receive, upon exercise of the option, an amount of cash if the closing level of the index upon which the option is based exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option (except if, in the case of an OTC option, physical delivery is specified). This amount of cash is equal to the excess of the closing price of the index over the exercise price of the option, which also may be multiplied by a formula value. The seller of the option is obligated, in return for the premium received, to make delivery of this amount. The gain or loss on an option on an index depends on price movements in the instruments making up the market, market segment, industry or other composite on which the underlying index is based, rather than price movements in individual securities, as is the case with respect to options on securities.

The Fund will write call options and put options only if they are covered. For example, a call option written by the Fund will require the Fund to hold the securities subject to the call (or securities convertible into the needed securities without additional consideration) or to segregate cash or liquid assets sufficient to purchase and deliver the securities if the call is exercised. A call option sold by the Fund on an index will require the Fund to own portfolio securities which correlate with the index or to segregate cash or liquid assets equal to the excess of the index value over the exercise price on a current basis. A put option written by the Fund requires the Fund to segregate cash or liquid assets equal to the exercise price.

OTC options entered into by the Fund and OCC issued and exchange listed index options will generally provide for cash settlement. As a result, when the Fund sells these instruments it will only segregate an amount of cash or liquid assets equal to its accrued net obligations, as there is no requirement for payment or delivery of amounts in excess of the net amount. These amounts will equal 100% of the exercise price in the case of a non cash-settled put, the same as an OCC guaranteed listed option sold by the Fund, or the in-the-money amount plus any sell-back formula amount in the case of a cash-settled put or call. In addition, when the Fund sells a call option on an index at a time when the in-

the-money amount exceeds the exercise price, the Fund will segregate, until the option expires or is closed out, cash or cash equivalents equal in value to such excess. OCC issued and exchange listed options sold by the Fund other than those above generally settle with physical delivery, or with an election of either physical delivery or cash settlement and the Fund will segregate an amount of cash or liquid assets equal to the full value of the option. OTC options settling with physical delivery, or with an election of either physical delivery or cash settlement, will be treated the same as other options settling with physical delivery.

If an option written by the Fund expires, the Fund will generally realize a short-term capital gain equal to the premium received at the time the option was written. If an option purchased by the Fund expires, the Fund realizes a capital loss equal to the premium paid, which will be a short-term or long-term capital loss depending on the Fund's holding period for the option.

Prior to the earlier of exercise or expiration, an option may be closed out by an offsetting purchase or sale of an option of the same series (type, exchange, underlying security or index, exercise price and expiration). There can be no assurance, however, that a closing purchase or sale transaction can be effected when the Fund desires.

The Fund will realize a short-term capital gain from a closing purchase transaction if the cost of the closing option is less than the premium received from writing the option, or, if it is more, the Fund will generally realize a short-term capital loss. If the premium received from a closing sale transaction is more than the premium paid to purchase the option, the Fund will realize a capital gain or, if it is less, the Fund will realize a capital loss, which in each case will be long-term or short-term depending on the Fund's holding period for the option. The principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price of the underlying security or index in relation to the exercise price of the option, the volatility of the underlying security or index, and the time remaining until the expiration date.

A put or call option purchased by the Fund is an asset of the Fund, valued initially at the premium paid for the option. The premium received for an option written by the Fund is recorded as a deferred credit. The value of an option purchased or written is marked-to-market daily and is valued at the closing price on the exchange on which it is traded or, if not traded on an exchange or no closing price is available, at the mean between the last bid and asked prices.

#### **Risks Associated with Options**

There are several risks associated with transactions in options. For example, there are significant differences between the securities markets, the currency markets and the options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. The ability of the Fund to utilize options successfully will depend on Calamos' ability to predict pertinent market investments, which cannot be assured.

The Fund's ability to close out its position as a purchaser or seller of an OCC or exchange listed put or call option is dependent, in part, upon the liquidity of the option market. Among the possible reasons for the absence of a liquid option market on an exchange are: (i) insufficient trading interest in certain options; (ii) restrictions on transactions imposed by an exchange; (iii) trading halts, suspensions or other restrictions imposed with respect to particular classes or series of options or underlying securities including reaching daily price limits; (iv) interruption of the normal operations of the OCC or an exchange; (v) inadequacy of the facilities of an exchange or OCC to handle current trading volume; or (vi) a decision by one or more exchanges to discontinue the trading of options (or a particular class or

series of options), in which event the relevant market for that option on that exchange would cease to exist, although outstanding options on that exchange would generally continue to be exercisable in accordance with their terms. If the Fund were unable to close out an option that it has purchased on a security, it would have to exercise the option in order to realize any profit or the option would expire and become worthless. If the Fund were unable to close out a covered call option that it had written on a security, it would not be able to sell the underlying security until the option expired. As the writer of a covered call option on a security, the Fund foregoes, during the option's life, the opportunity to profit from increases in the market value of the security covering the call option above the sum of the premium and the exercise price of the call. As the writer of a covered call option on a foreign currency, the Fund foregoes, during the option's life, the opportunity to profit from currency appreciation.

The hours of trading for listed options may not coincide with the hours during which the underlying financial instruments are traded. To the extent that the option markets close before the markets for the underlying financial instruments, significant price and rate movements can take place in the underlying markets that cannot be reflected in the option markets.

Unless the parties provide for it, there is no central clearing or guaranty function in an OTC option. As a result, if the Counterparty (as described above under "Options on Securities, Indexes and Currencies") fails to make or take delivery of the security, currency or other instrument underlying an OTC option it has entered into with the Fund or fails to make a cash settlement payment due in accordance with the terms of that option, the Fund will lose any premium it paid for the option as well as any anticipated benefit of the transaction. Accordingly, Calamos must assess the creditworthiness of each such Counterparty or any guarantor or credit enhancement of the Counterparty's credit to determine the likelihood that the terms of the OTC option will be satisfied. The Fund will engage in OTC option transactions only with U.S. government securities dealers recognized by the Federal Reserve Bank of New York as "primary dealers" or broker/dealers, domestic or foreign banks or other financial institutions which have received (or the guarantors of the obligation of which have received) a short-term credit rating of A-1 from Standard & Poor's (S&P) or P-1 from Moody's or an equivalent rating from any nationally recognized statistical rating organization (NRSRO) or, in the case of OTC currency transactions, are determined to be of equivalent credit quality by Calamos.

The Fund may purchase and sell call options on securities indices and currencies. All calls sold by the Fund must be covered. Even though the Fund will receive the option premium to help protect it against loss, a call sold by the Fund exposes the Fund during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require the Fund to hold a security or instrument which it might otherwise have sold. As described more fully in the accompanying prospectus, this results in the potential for net asset value erosion. The Fund may purchase and sell put options on securities indices and currencies. In selling put options, there is a risk that the Fund may be required to buy the underlying security at a disadvantageous price above the market price.

#### **Futures Contracts and Options on Futures Contracts**

The Fund may use interest rate futures contracts, index futures contracts and foreign currency futures contracts. An interest rate, index or foreign currency futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument or the cash value of an index<sup>1</sup> at a specified price and time. A public market exists in futures contracts covering a

<sup>1</sup> A futures contract on an index is an agreement pursuant to which two parties agree to take or make delivery of an amount of cash

equal to the  
difference  
between the  
value of the  
index at the  
close of the

(cont d)

S-12

---

number of indexes (including, but not limited to: the Standard & Poor's 500 Index, the Russell 2000 Index, the Value Line Composite Index, and the New York Stock Exchange ( NYSE ) Composite Index) as well as financial instruments (including, but not limited to: U.S. Treasury bonds, U.S. Treasury notes, Eurodollar certificates of deposit and foreign currencies). Other index and financial instrument futures contracts are available and it is expected that additional futures contracts will be developed and traded.

The Fund may purchase and write call and put futures options. Futures options possess many of the same characteristics as options on securities, indexes and foreign currencies (discussed above). A futures option gives the holder the right, in return for the premium paid, to assume a long position (call) or short position (put) in a futures contract at a specified exercise price at any time during the period of the option. Upon exercise of a call option, the holder acquires a long position in the futures contract and the writer is assigned the opposite short position. In the case of a put option, the opposite is true. The Fund might, for example, use futures contracts to hedge against or gain exposure to fluctuations in the general level of stock prices, anticipated changes in interest rates or currency fluctuations that might adversely affect either the value of the Fund's securities or the price of the securities that the Fund intends to purchase. Although other techniques could be used to reduce or increase the Fund's exposure to stock price, interest rate and currency fluctuations, the Fund may be able to achieve its desired exposure more effectively and perhaps at a lower cost by using futures contracts and futures options.

The Fund will only enter into futures contracts and futures options that are standardized and traded on an exchange, board of trade or similar entity, or quoted on an automated quotation system.

The success of any futures transaction depends on Calamos correctly predicting changes in the level and direction of stock prices, interest rates, currency exchange rates and other factors. Should those predictions be incorrect, the Fund's return might have been better had the transaction not been attempted; however, in the absence of the ability to use futures contracts, Calamos might have taken portfolio actions in anticipation of the same market movements with similar investment results, but, presumably, at greater transaction costs. When a purchase or sale of a futures contract is made by the Fund, the Fund is required to deposit with its custodian (or broker, if legally permitted) a specified amount of cash or U.S. government securities or other securities acceptable to the broker ( initial margin ). The margin required for a futures contract is set by the exchange on which the contract is traded and may be modified during the term of the contract, although the Fund's broker may require margin deposits in excess of the minimum required by the exchange. The initial margin is in the nature of a performance bond or good faith deposit on the futures contract, which is returned to the Fund upon termination of the contract, assuming all contractual obligations have been satisfied. The Fund expects to earn interest income on its initial margin deposits. A futures contract held by the Fund is valued daily at the official settlement price of the exchange on which it is traded. Each day the Fund pays or receives cash, called variation margin, equal to the daily change in value of the futures contract. This process is known as marking-to-market. Variation margin paid or received by the Fund does not represent a borrowing or loan by the Fund but is instead settlement between the Fund and the broker of the amount one would owe the other if the futures contract had expired at the close of the previous day. In computing net asset value, the Fund will mark-to-market its open futures positions.

(cont d)

last trading day  
of the contract  
and the price at  
which the index  
contract was  
originally  
written.  
Although the  
value of a  
securities index

is a function of  
the value of  
certain specified  
securities, no  
physical  
delivery of  
those securities  
is made.

S-13

---



The Fund is also required to deposit and maintain margin with respect to put and call options on futures contracts written by it. Such margin deposits will vary depending on the nature of the underlying futures contract (and the related initial margin requirements), the current market value of the option and other futures positions held by the Fund.

Although some futures contracts call for making or taking delivery of the underlying securities, usually these obligations are closed out prior to delivery by offsetting purchases or sales of matching futures contracts (same exchange, underlying security or index, and delivery month). If an offsetting purchase price is less than the original sale price, the Fund engaging in the transaction realizes a capital gain, or if it is more, the Fund realizes a capital loss. Conversely, if an offsetting sale price is more than the original purchase price, the Fund engaging in the transaction realizes a capital gain, or if it is less, the Fund realizes a capital loss. The transaction costs must also be included in these calculations.

#### **Risks Associated with Futures**

There are several risks associated with the use of futures contracts and futures options. A purchase or sale of a futures contract may result in losses in excess of the amount invested in the futures contract. In trying to increase or reduce market exposure, there can be no guarantee that there will be a correlation between price movements in the futures contract and in the portfolio exposure sought. In addition, there are significant differences between the securities and futures markets that could result in an imperfect correlation between the markets, causing a given transaction not to achieve its objectives. The degree of imperfection of correlation depends on circumstances such as: variations in speculative market demand for futures, futures options and the related securities, including technical influences in futures and futures options trading and differences between the securities markets and the securities underlying the standard contracts available for trading. For example, in the case of index futures contracts, the composition of the index, including the issuers and the weighing of each issue, may differ from the composition of the Fund's portfolio, and, in the case of interest rate futures contracts, the interest rate levels, maturities and creditworthiness of the issues underlying the futures contract may differ from the financial instruments held in the Fund's portfolio. A decision as to whether, when and how to use futures contracts involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected stock price or interest rate trends.

Futures exchanges may limit the amount of fluctuation permitted in certain futures contract prices during a single trading day. The daily limit establishes the maximum amount that the price of a futures contract may vary either up or down from the previous day's settlement price at the end of the current trading session. Once the daily limit has been reached in a futures contract subject to the limit, no more trades may be made on that day at a price beyond that limit. The daily limit governs only price movements during a particular trading day and therefore does not limit potential losses because the limit may work to prevent the liquidation of unfavorable positions. For example, futures prices have occasionally moved to the daily limit for several consecutive trading days with little or no trading, thereby preventing prompt liquidation of positions and subjecting some holders of futures contracts to substantial losses. Stock index futures contracts are not normally subject to such daily price change limitations.

There can be no assurance that a liquid market will exist at a time when the Fund seeks to close out a futures or futures option position. The Fund would be exposed to possible loss on the position during the interval of inability to close, and would continue to be required to meet margin requirements until the position is closed. In addition, many of the contracts discussed above are relatively new instruments without a significant trading history. As a result, there can be no assurance that an active secondary market will develop or continue to exist.

### **Limitations on Options and Futures**

If other options, futures contracts or futures options of types other than those described herein are traded in the future, the Fund may also use those investment vehicles, provided the Board of Trustees determines that their use is consistent with the Fund's investment objective.

When purchasing a futures contract or writing a put option on a futures contract, the Fund must maintain with its custodian (or broker, if legally permitted) cash or cash equivalents (including any margin) equal to the market value of such contract. When writing a call option on a futures contract, the Fund similarly will maintain with its custodian cash or cash equivalents (including any margin) equal to the amount by which such option is in-the-money until the option expires or is closed by the Fund.

The Fund may not maintain open short positions in futures contracts, call options written on futures contracts or call options written on indexes if, in the aggregate, the market value of all such open positions exceeds the current value of the securities in its portfolio, plus or minus unrealized gains and losses on the open positions, adjusted for the historical relative volatility of the relationship between the portfolio and the positions. For this purpose, to the extent the Fund has written call options on specific securities in its portfolio, the value of those securities will be deducted from the current market value of the securities portfolio.

The Fund has claimed an exclusion from registration as a commodity pool under the Commodity Exchange Act (CEA) and, therefore, the Fund and its officers and trustees are not subject to the registration requirements of the CEA. The Fund reserves the right to engage in transactions involving futures and options thereon to the extent allowed by Commodity Futures Trading Commission regulations in effect from time to time and in accordance with the Fund's policies.

### **Warrants**

The Fund may invest in warrants. A warrant is a right to purchase common stock at a specific price (usually at a premium above the market value of the underlying common stock at time of issuance) during a specified period of time. A warrant may have a life ranging from less than a year to twenty years or longer, but a warrant becomes worthless unless it is exercised or sold before expiration. In addition, if the market price of the common stock does not exceed the warrant's exercise price during the life of the warrant, the warrant will expire worthless. Warrants have no voting rights, pay no dividends and have no rights with respect to the assets of the corporation issuing them. The percentage increase or decrease in the value of a warrant may be greater than the percentage increase or decrease in the value of the underlying common stock.

### **Portfolio Turnover**

Although the Fund does not purchase securities with a view to rapid turnover, there are no limitations on the length of time that portfolio securities must be held. Portfolio turnover can occur for a number of reasons, including calls for redemption, general conditions in the securities markets, more favorable investment opportunities in other securities, or other factors relating to the desirability of holding or changing a portfolio investment. The portfolio turnover rates may vary greatly from year to year. A high rate of portfolio turnover in the Fund would result in increased transaction expense. High portfolio turnover may also result in the realization of capital gains or losses and, to the extent net short-term capital gains are realized, any distributions resulting from such gains will be taxed at ordinary income tax rates for federal income tax purposes.

## Short Sales

The Fund may from time to time sell securities short to enhance income and protect against market risk by hedging a portion of the equity risk inherent in the Fund's portfolio. A short sale is effected when Calamos believes that the price of a security will decline, and involves the sale of securities that the Fund does not own, in the hope of purchasing the same securities at a later date at a lower price. There can be no assurance that the Fund will be able to close out a short position (i.e., purchase the same securities) at any particular time or at an acceptable or advantageous price. To make delivery to the buyer, the Fund must borrow the securities from a broker-dealer through which the short sale is executed, and the broker-dealer delivers the securities, on behalf of the Fund, to the buyer. The broker-dealer is entitled to retain the proceeds from the short sale until the Fund delivers to it the securities sold short. In addition, the Fund is required to pay to the broker-dealer the amount of any dividends or interest paid on the securities sold short.

To secure its obligation to deliver to the broker-dealer the securities sold short, the Fund must segregate an amount of cash or liquid securities with its custodian equal to any excess of the current market value of the securities sold short over any cash or liquid securities deposited as collateral with the broker in connection with the short sale (not including the proceeds of the short sale). As a result of that requirement, the Fund will not gain any leverage merely by selling short, except to the extent that it earns interest or other income or gains on the segregated cash or liquid securities while also being subject to the possibility of gain or loss from the securities sold short.

The Fund is said to have a short position in the securities sold until it delivers to the broker-dealer the securities sold, at which time the Fund receives the proceeds of the short sale. The Fund will normally close out a short position by purchasing on the open market and delivering to the broker-dealer an equal amount of the securities sold short.

The Fund will realize a gain if the price of the securities declines between the date of the short sale and the date on which the Fund purchases securities to replace the borrowed securities. On the other hand, a Fund will incur a loss if the price of the securities increases between those dates. The amount of any gain will be decreased and the amount of any loss increased by any premium or interest that the Fund may be required to pay in connection with the short sale. It should be noted that possible losses from short sales differ from those that could arise from a cash investment in a security in that losses from a short sale may be limitless, while the losses from a cash investment in a security cannot exceed the total amount of the investment in the security.

There is also a risk that securities borrowed by the Fund and delivered to the buyer of the securities sold short will need to be returned to the broker-dealer on short notice. If the request for the return of securities occurs at a time when other short sellers of the security are receiving similar requests, a short squeeze can occur, meaning that the Fund might be compelled, at the most disadvantageous time, to replace the borrowed securities with securities purchased on the open market, possibly at prices significantly in excess of the proceeds received earlier.

Rule 10a-1 under the Securities Exchange Act of 1934 provides that exchange-traded securities can be sold short only at a price that is higher than the last trade or the same as the last trade price if that price is higher than the price of the previous reported trade. The requirements of Rule 10a-1 can delay, or in some cases prevent, execution of short sales, resulting in opportunity costs and increased exposure to market action.

The Fund may also make short sales against the box, meaning that at all times when a short position is open the Fund owns an equal amount of such securities or securities convertible into or exchangeable, without payment of further consideration, for securities of the same issue as, and in an amount equal to, the securities sold short. Short sales against the box result in a constructive sale and require the Fund to recognize any taxable gain unless an exception to the constructive sale rule applies.

The Fund will not make a short sale of securities (other than a short sale against the box), if more than 20% of its net assets would be deposited with brokers as collateral or allocated to segregated accounts in connection with all outstanding short sales (other than short sales against the box).

In addition to enabling the Fund to hedge against market risk, short sales may afford the Fund an opportunity to earn additional current income to the extent it is able to enter into arrangements with broker-dealers through which the short sales are executed to receive income with respect to the proceeds of the short sales during the period the Fund's short positions remain open. The Fund believes that some broker-dealers may be willing to enter into such arrangements, but there is no assurance that they will be able to enter into such arrangements to the desired degree.

### **Interest Rate Transactions**

In order to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund, if market conditions are deemed favorable, may enter into interest rate swap or cap transactions. Interest rate swaps involve the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty agreeing to pay the Fund a payment at a variable rate that is expected to approximate the rate on any variable rate payment obligation on the Fund's leverage. The payment obligations would be based on the notional amount of the swap. The Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on common share net earnings as a result of leverage.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the Fund's use of interest rate swaps or caps could enhance or harm the overall performance on the common shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the common shares. In addition, if short-term interest rates are lower than the Fund's fixed rate of payment on the interest rate swap, the swap will reduce common share net earnings. If, on the other hand, short-term interest rates are higher than the fixed rate of payment on the interest rate swap, the swap will enhance common share net earnings. Buying interest rate caps could enhance the performance of the common shares by providing a maximum leverage expense. Buying interest rate caps could also decrease the net earnings of the common shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay had it not entered into the cap agreement. The Fund has no current intention of selling an interest rate swap or cap.

Interest rate swaps and caps do not involve the delivery of securities or other underlying assets or principal. Accordingly, the risk of loss with respect to interest rate swaps is limited to the net amount of interest payments that the Fund is contractually obligated to make. If the counterparty defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset the dividend or interest payments on the Fund's leverage. Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the common shares.

Although this will not guarantee that the counterparty does not default, the Fund will not enter into an interest rate swap or cap transaction with any counter-party that Calamos believes does not have the financial resources to honor its obligation under the interest rate swap or cap transaction. Further, Calamos will continually monitor the financial stability of a counterparty to an interest rate swap or cap transaction in an effort to proactively protect the Fund's investments.

In addition, at the time the interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the performance of the Fund's common shares.

The Fund may choose or be required to redeem some or all of the preferred shares or prepay any borrowings. Such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Such early termination of a swap could result in termination payment by or to the Fund. An early termination of a cap could result in a termination payment to the Fund.

### **When Issued and Delayed Delivery Securities and Reverse Repurchase Agreements**

The Fund may purchase securities on a when issued or delayed delivery basis. Although the payment and interest terms of these securities are established at the time the Fund enters into the commitment, the securities may be delivered and paid for a month or more after the date of purchase, when their value may have changed. The Fund makes such commitments only with the intention of actually acquiring the securities, but may sell the securities before settlement date if Calamos deems it advisable for investment reasons. The Fund may utilize spot and forward foreign currency exchange transactions to reduce the risk inherent in fluctuations in the exchange rate between one currency and another when securities are purchased or sold on a when issued or delayed delivery basis.

The Fund may enter into reverse repurchase agreements with banks and securities dealers. A reverse repurchase agreement is a repurchase agreement in which the Fund is the seller of, rather than the investor in, securities and agrees to repurchase them at an agreed upon time and price. Use of a reverse repurchase agreement may be preferable to a regular sale and later repurchase of securities because it avoids certain market risks and transaction costs.

At the time when the Fund enters into a binding obligation to purchase securities on a when-issued basis or enters into a reverse repurchase agreement, liquid securities (cash, U.S. Government securities or other high grade debt obligations) of the Fund having a value at least as great as the purchase price of the securities to be purchased will be segregated on the books of the Fund and held by the custodian throughout the period of the obligation. The use of these investment strategies may increase net asset value fluctuation.

### **Illiquid Securities**

The Fund may invest up to 15% of its managed assets in securities that, at the time of investment, are illiquid (determined using the SEC's standard applicable to investment companies, i.e., securities that cannot be disposed of within 7 days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may invest without limitation in securities that have not been registered for public sale, but that are eligible for purchase and sale by certain qualified institutional buyers. Calamos, under the supervision of the Board of Trustees, will determine whether securities purchased under Rule 144A are illiquid (that is, not readily marketable) and thus subject to the Fund's limit on investing no more than 15% of its managed assets in illiquid securities. Investments in Rule 144A Securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these Rule 144A Securities. Illiquid securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The market price of illiquid securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Fund pays for or recovers upon the sale of illiquid securities. Illiquid securities are also more difficult to value and Calamos' judgment may play a greater role in the valuation process. Investment of the Fund's assets in illiquid securities may restrict the Fund's ability to take advantage of market opportunities. The risks associated with illiquid securities may be particularly acute in situations in which the Fund's operations require cash and could result in the Fund borrowing to meet its short-term needs or incurring losses on the sale of illiquid securities.

The Fund may invest in bonds, corporate loans, convertible securities, preferred stocks and other securities that lack a secondary trading market or are otherwise considered illiquid. Liquidity of a security relates to the ability to easily dispose of the security and the price to be obtained upon disposition of the security, which may be less than would be obtained for a comparable more liquid security. Such investments may affect the Fund's ability to realize the net asset value in the event of a voluntary or involuntary liquidation of its assets.

#### **Temporary Defensive Investments**

The Fund may make temporary investments without limitation when Calamos determines that a defensive position is warranted. Such investments may be in money market instruments, consisting of obligations of, or guaranteed as to principal and interest by, the U.S. Government or its agencies or instrumentalities; certificates of deposit, bankers acceptances and other obligations of domestic banks having total assets of at least \$500 million and that are regulated by the U.S. Government, its agencies or instrumentalities; commercial paper rated in the highest category by a recognized rating agency; and repurchase agreements. If the Fund temporarily use a different investment strategy for defensive purposes, different factors could affect the Fund's performance, and the Fund may not achieve its investment objective.

#### **Repurchase Agreements**

As part of its strategy for the temporary investment of cash, the Fund may enter into repurchase agreements with member banks of the Federal Reserve System or primary dealers (as designated by the Federal Reserve Bank of New York) in such securities. A repurchase agreement arises when the Fund purchases a security and simultaneously agrees to resell it to the vendor at an agreed upon future date. The resale price is greater than the purchase price, reflecting an agreed upon market rate of return that is effective for the period of time the Fund holds the security and that is not related to the coupon rate on the purchased security. Such agreements generally have maturities of no more than seven days and could be used to permit the Fund to earn interest on assets awaiting long-term investment. The Fund requires continuous maintenance by the custodian for the Fund's account in the Federal Reserve/Treasury Book Entry System of collateral in an amount equal to, or in excess of, the market value of the securities that are the subject of a repurchase agreement. Repurchase agreements maturing in more than seven days are considered illiquid securities. In the event of a bankruptcy or other default of a seller of a repurchase agreement, the Fund could experience both delays in liquidating the underlying security and losses, including: (a) possible decline in the value of the underlying security during the period while the Fund seeks to enforce its rights thereto; (b) possible subnormal levels of income and lack of access to income during this period; and (c) expenses of enforcing its rights.

#### **Preferred Shares**

The Fund may invest in preferred shares. The preferred shares that the Fund will invest in will typically be convertible securities. Preferred shares are equity securities, but they have many characteristics of fixed income securities, such as a fixed dividend payment rate and/or a liquidity preference over the issuer's common shares.

#### **Real Estate Investment Funds ( REITs ) and Associated Risk Factors**

REITs are pooled investment vehicles which invest primarily in income producing real estate or real estate related loans or interests. REITs are generally classified as equity REITs, mortgage REITs or a combination of equity and mortgage REITs. Equity REITs invest the majority of their assets directly in real property and derive income primarily from the collection of rents. Equity REITs can also realize capital gains by selling properties that have appreciated in value. Mortgage REITs invest the majority of their assets in real estate mortgages and derive income from the collection of interest payments. REITs are not taxed on income and gains distributed to shareholders provided they comply with the applicable

requirements of the Code. The Fund will indirectly bear its proportionate share of any management and other expenses paid by REITs in which it invests in addition to the expenses paid by the Fund. Debt securities issued by REITs are, for the most part, general and unsecured obligations and are subject to risks associated with REITs.

Investing in REITs involves certain unique risks in addition to those risks associated with investing in the real estate industry in general. An equity REIT may be affected by changes in the value of the underlying properties owned by the REIT. A mortgage REIT may be affected by changes in interest rates and the ability of the issuers of its portfolio mortgages to repay their obligations. REITs are dependent upon the skills of their managers and are not diversified. REITs are generally dependent upon maintaining cash flows to repay borrowings and to make distributions to shareholders and are subject to the risk of default by lessees or borrowers. REITs whose underlying assets are concentrated in properties used by a particular industry, such as health care, are also subject to risks associated with such industry.

REITs (especially mortgage REITs) are also subject to interest rate risks. When interest rates decline, the value of a REIT's investment in fixed rate obligations can be expected to rise. Conversely, when interest rates rise, the value of a REIT's investment in fixed rate obligations can be expected to decline. If the REIT invests in adjustable rate mortgage loans the interest rates on which are reset periodically, yields on a REIT's investments in such loans will gradually align themselves to reflect changes in market interest rates. This causes the value of such investments to fluctuate less dramatically in response to interest rate fluctuations than would investments in fixed rate obligations.

REITs may have limited financial resources, may trade less frequently and in a limited volume and may be subject to more abrupt or erratic price movements than larger company securities. Historically REITs have been more volatile in price than the larger capitalization stocks included in Standard & Poor's 500 Stock Index.

#### **Other Investment Companies**

The Fund may invest in the securities of other investment companies to the extent that such investments are consistent with the Fund's investment objective and policies and permissible under the Investment Company Act of 1940, as amended (the 1940 Act). Under the 1940 Act, the Fund may not acquire the securities of other domestic or non-U.S. investment companies if, as a result, (i) more than 10% of the Fund's total assets would be invested in securities of other investment companies, (ii) such purchase would result in more than 3% of the total outstanding voting securities of any one investment company being held by the Fund, or (iii) more than 5% of the Fund's total assets would be invested in any one investment company. These limitations do not apply to the purchase of shares of money market funds or any investment company in connection with a merger, consolidation, reorganization or acquisition of substantially all the assets of another investment company.

The Fund, as a holder of the securities of other investment companies, will bear its pro rata portion of the other investment companies' expenses, including advisory fees. These expenses are in addition to the direct expenses of the Fund's own operations.

#### **INVESTMENT RESTRICTIONS**

The following are the Fund's fundamental investment restrictions. These restrictions may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the 1940 Act means the lesser of (i) 67% of the common shares represented at a meeting at which more than 50% of the outstanding common shares are represented or (ii) more than 50% of the outstanding common shares). As long as preferred shares are outstanding, the

investment restrictions could not be changed without the approval of a majority of the outstanding common and preferred shares, voting together as a class, and the approval of a majority of the outstanding preferred shares, voting separately by class.

The Fund may not:

- (1) Issue senior securities, except as permitted by the 1940 Act and the rules and interpretive positions of the SEC thereunder.
- (2) Borrow money, except as permitted by the 1940 Act and the rules and interpretive positions of the SEC thereunder.
- (3) Invest in real estate, except that the Fund may invest in securities of issuers that invest in real estate or interests therein, securities that are secured by real estate or interests therein, securities of real estate investment funds and mortgage-backed securities.
- (4) Make loans, except by the purchase of debt obligations, by entering into repurchase agreements or through the lending of portfolio securities and as otherwise permitted by the 1940 Act and the rules and interpretive positions of the SEC thereunder.
- (5) Invest in physical commodities or contracts relating to physical commodities.
- (6) Act as an underwriter, except as it may be deemed to be an underwriter in a sale of securities held in its portfolio.
- (7) Make any investment inconsistent with the Fund's classification as a diversified investment company under the 1940 Act and the rules and interpretive positions of the SEC thereunder.
- (8) Concentrate its investments in securities of companies in any particular industry as defined in the 1940 Act and the rules and interpretive positions of the SEC thereunder.

All other investment policies of the Fund are considered non-fundamental and may be changed by the Board of Trustees without prior approval of the Fund's outstanding voting shares.

Currently under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the net asset value of the Fund's portfolio is at least 200% of the liquidation value of the outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the value of the Fund's total assets). In addition, currently under the 1940 Act, the Fund is not permitted to declare any cash dividend or other distribution on its common shares unless, at the time of such declaration, the net asset value of the Fund's portfolio (determined after deducting the amount of such dividend or distribution) is at least 200% of such liquidation value plus any senior securities representing indebtedness. Currently under the 1940 Act, the Fund is not permitted to incur indebtedness unless immediately after such borrowing the Fund has asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness (i.e., such indebtedness may not exceed 33 1/3% of the value of the Fund's total assets). Additionally, currently under the 1940 Act, the Fund may not declare any dividend or other distribution upon any class of its shares, or purchase any such shares, unless the aggregate indebtedness of the Fund has, at the time of the declaration of any such dividend or distribution



or at the time of any such purchase, an asset coverage of at least 300% after deducting the amount of such dividend, distribution, or purchase price, as the case may be.

Currently under the 1940 Act, the Fund is not permitted to lend money or property to any person, directly or indirectly, if such person controls or is under common control with the Fund, except for a loan from the Fund to a company which owns all of the outstanding securities of the Fund, except directors' qualifying shares.

Currently, under interpretive positions of the SEC, the Fund may not have on loan at any time securities representing more than one third of its total assets.

Currently under the 1940 Act, a senior security does not include any promissory note or evidence of indebtedness where such loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the issuer at the time the loan is made. A loan is presumed to be for temporary purposes if it is repaid within sixty days and is not extended or renewed.

Currently, the Fund would be deemed to concentrate in a particular industry if it invested 25% or more of its total assets in that industry.

Currently under the 1940 Act, a diversified company means a management company which meets the following requirements: at least 75% of the value of its total assets is represented by cash and cash items (including receivables), government securities, securities of other investment companies, and other securities for the purposes of this calculation limited in respect of any one issuer to an amount not greater in value than 5% of the value of the total assets of such management company and not more than 10% of the outstanding voting securities of such issuer.

Under the 1940 Act, the Fund may invest up to 10% of its total assets in the aggregate in shares of other investment companies and up to 5% of its total assets in any one investment company, provided the investment does not represent more than 3% of the voting stock of the acquired investment company at the time such shares are purchased. These limitations, however, do not apply to the purchase of shares of money market funds. As a shareholder in any investment company, the Fund will bear its ratable share of that investment company's expenses, and would remain subject to payment of the Fund's advisory fees and other expenses with respect to assets so invested. Holders of common shares would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies. In addition, the securities of other investment companies may also be leveraged and will therefore be subject to the same leverage risks described herein and in the prospectus. As described in the prospectus in the section entitled Risks, the net asset value and market value of leveraged shares will be more volatile and the yield to shareholders will tend to fluctuate more than the yield generated by unleveraged shares.

In addition, to comply with federal income tax requirements for qualification as a regulated investment company, the Fund's investments will be limited by both an income and an asset test. See Certain Federal Income Tax Matters.

As a non-fundamental policy, the Fund may not issue preferred shares, borrow money or issue debt securities in an aggregate amount exceeding 38% of the Fund's total assets.

The Fund presently has outstanding borrowings pursuant to a Committed Facility Agreement. See the prospectus (under the caption Recent Developments) for more information about the Fund's present activities related to the issuance of senior securities and the borrowing of money.

**MANAGEMENT OF THE FUND****Trustees and Officers**

The Fund's Board of Trustees provides broad oversight over the Fund's affairs. The officers of the Fund are responsible for the Fund's operations. The Fund's Trustees and officers are listed below, together with their age at January 31, 2010, positions held with the Fund, term of office and length of service and principal occupations during the past five years. Asterisks indicates those Trustees who are interested persons of the Fund within the meaning of the 1940 Act, and they are referred to as Interested Trustees. Trustees who are not interested persons of the Fund are referred to as Independent Trustees. Each of the Trustees serves as a Trustee of other investment companies (19 U. S. registered investment portfolios) for which Calamos serves as investment adviser (collectively, the Calamos Funds). The address for all Independent and Interested Trustees and all officers of the Fund is 2020 Calamos Court, Naperville, Illinois 60563.

**Trustees Who Are Interested Persons of the Fund:**

<b>Name and Age</b>	<b>Position(s) with Fund</b>	<b>Portfolios Overseen</b>	<b>Principal Occupation(s) and Other Directorships</b>
John P. Calamos, Sr., 69*	Trustee and President (since inception)	20	Chairman, CEO, and Co-Chief Investment Officer, Calamos Asset Management, Inc. ( CAM ), Calamos Holdings LLC ( CHLLC ) and Calamos Advisors LLC and its predecessor ( Calamos Advisors ), and President and Co-Chief Investment Officer, Calamos Financial Services LLC and its predecessor ( CFS ); Director, CAM

S-22

**Trustees Who Are Not Interested Persons of the Fund:**

<b>Name and Age</b>	<b>Position(s) with Fund</b>	<b>Portfolios Overseen</b>	<b>Principal Occupation(s) and Other Directorships</b>
Weston W. Marsh, 59	Trustee (since inception)	20	Of Counsel, Partner, Freeborn & Peters (law firm)
John E. Neal, 59	Trustee (since inception)	20	Private investor; Managing Director, Banc One Capital Markets, Inc. (investment banking) (2000-2004); Director, Focused Health Services (private disease management company), and Equity Residential (publicly-owned REIT); Partner, Linden LLC (health care private equity) and Greenspire Properties, LLC (private homebuilder and real estate development company)
William R. Rybak, 59	Trustee (since inception)	20	Private investor; formerly Executive Vice President and Chief Financial Officer, Van Kampen Investments, Inc. and subsidiaries (investment manager); Director, Howe Barnes Hoefler Arnett, Inc. (investment services firm) and PrivateBancorp, Inc. (bank holding company); Trustee, JNL Series Trust, JNL Investors Series Trust and JNL Variable Fund LLC**
Stephen B. Timbers, 64	Trustee (since 2004) and Lead Independent Trustee (since 2005)	20	Private investor
David D. Tripple, 66	Trustee (since 2006)	20	Private investor; Trustee, Century Shares Trust and Century Small Cap Select Fund***

\* Mr. Calamos is an interested person of the Trust as defined in the 1940 Act because he is an affiliate of Calamos Advisors and Calamos Financial Services LLC. Mr. Calamos is the uncle of Nick P. Calamos, Vice

President of the  
Fund.

\*\* Overseeing 94  
portfolios in  
fund complex.

\*\*\* Overseeing two  
portfolios in  
fund complex.

The address of  
the Trustees is  
2020 Calamos  
Court,  
Naperville,  
Illinois 60563.

S-23

---

*Officers.* The preceding table gives information about Mr. John Calamos, who is president of the Fund. The following table sets forth each other officer's name and age as of January 31, 2010, position with the Fund and date first appointed to that position, and principal occupation(s) during the past five years. Each officer serves until his or her successor is chosen and qualified or until his or her resignation or removal by the board of trustees.

Name and Age	Position(s) with Fund	Principal Occupation(s) and Other Directorships
Nick P. Calamos, 48	Vice President (since inception)	President of Investments and Co-Chief Investment Officer, CAM, CHLLC, Calamos Advisors and CFS
Nimish S. Bhatt, 46	Vice President and Chief Financial Officer (since 2007)	Senior Vice President and Director of Operations, CAM, CHLLC, Calamos Advisors and CFS (since 2004); Senior Vice President, Alternative Investments and Tax Services, The BISYS Group, Inc., prior thereto
James J. Boyne, 43	Vice President (since 2008)	President of Distribution and Operations, CAM, CHLLC, Calamos Advisors (since 2009); Senior Vice President, General Counsel and Secretary, Calamos Advisors (2008-2009); prior thereto, Chief Operating Officer, General Counsel and Executive Managing Director, McDonnell Investment Management, LLC (2001 - 2008)
Stathy Darcy, 43	Secretary (since 2007)	Vice President and Associate Counsel, Calamos Advisors (since 2006); prior thereto, Partner, Chapman and Cutler LLP (law firm)
Mark J. Mickey, 58	Chief Compliance Officer (since inception)	Chief Compliance Officer, Calamos Funds (since 2005) and Chief Compliance Officer, Calamos Advisors (2005-2006); Director of Risk Assessment and Internal Audit, Calamos Advisors (2003-2005)

The address of each officer is 2020 Calamos Court, Naperville, Illinois 60563.

The Fund's Board of Trustees consists of six members. In accordance with the Fund's Agreement and Declaration of Trust, the Board of Trustees is divided into three classes of approximately equal size. The terms of the trustees of the different classes are staggered. The terms of Weston W. Marsh and Stephen B. Timbers will expire at the annual meeting of shareholders in 2010. The terms of John P. Calamos, Sr. and William R. Rybak will expire at the annual meeting of shareholders in 2011. The terms of John E. Neal and David D. Tripple will expire at the annual meeting of shareholders in 2012. Messrs. Rybak and Timbers are the Trustees who represent the holders of preferred shares, if any. Such classification of the Trustees may prevent the replacement of a majority of the Trustees for up to a two year period. Each of the Fund's officers serves until his or her successor is chosen and qualified or until his or her resignation or removal by the Board of Trustees.

*Committees of the Board of Trustees.* The Fund's Board of Trustees currently has five standing committees:

Executive Committee. Messrs. John Calamos and Stephen B. Timbers are members of the Executive Committee, which has authority during intervals between meetings of the Board of Trustees to exercise the powers of the Board, with certain exceptions.

Audit Committee. Stephen B. Timbers, John E. Neal, William R. Rybak, Weston W. Marsh and David D. Tripple, each a non-interested Trustee, serve on the Audit Committee.

S-24

---

The Audit Committee approves the selection of the independent auditors to the Trustees, approves services to be rendered by the auditors, monitors the auditors' performance, reviews the results of the Fund's audit, determines whether to recommend to the Board that the Fund's audited financial statements be included in the Fund's annual report and responds to other matters deemed appropriate by the Board of Trustees.

Governance Committee. Stephen B. Timbers, John E. Neal, William R. Rybak, Weston W. Marsh and David D. Tripple, each a non-interested Trustee, serve on the Governance Committee. The Governance Committee oversees the independence and effective functioning of the Board of Trustees and endeavors to be informed about good practices for fund boards. The members of the Governance Committee make recommendations to the Board of Trustees regarding candidates for election as non-interested Trustees. The Governance Committee will consider shareholder recommendations regarding potential candidates for nomination as Trustees properly submitted to the Governance Committee for its consideration. A Fund shareholder who wishes to nominate a candidate to the Fund's Board of Trustees must submit any such recommendation in writing via regular mail to the attention of the Fund's Secretary, at the address of the Fund's principal executive offices. The shareholder recommendation must include:

the number and class of all Fund shares owned beneficially and of record by the nominating shareholder at the time the recommendation is submitted and the dates on which such shares were acquired, specifying the number of shares owned beneficially;

a full listing of the proposed candidate's education, experience (including knowledge of the investment company industry, experience as a director or senior officer of public or private companies, and directorships on other boards of other registered investment companies), current employment, date of birth, business and residence address, and the names and addresses of at least three professional references;

information as to whether the candidate is, has been or may be an interested person (as such term is defined in the 1940 Act) of the Fund, Calamos or any of its affiliates, and, if believed not to be or have been an interested person, information regarding the candidate that will be sufficient for the Committee to make such determination;

the written and signed consent of the candidate to be named as a nominee and to serve as a Trustee of the Fund, if elected;

a description of all arrangements or understandings between the nominating shareholder, the candidate and/or any other person or persons (including their names) pursuant to which the shareholder recommendation is being made, and if none, so specify;

the class or series and number of all shares of the Fund owned of record or beneficially by the candidate, as reported by the candidate; and

such other information that would be helpful to the Governance Committee in evaluating the candidate.

The Governance Committee may require the nominating shareholder to furnish other information it may reasonably require or deem necessary to verify any information furnished pursuant to the procedures delineated above or to determine the qualifications and eligibility of the candidate proposed by the nominating shareholder to serve as a Trustee. If the nominating shareholder fails to provide such additional information in writing within seven days of receipt of a written request from the Governance Committee, the recommendation of such candidate as a nominee will be deemed not properly submitted for consideration, and the Governance Committee is not required to consider such candidate. During periods when the Governance Committee is not actively recruiting new Trustees, shareholder recommendations will be kept on file until active recruitment is under way. After consideration of a shareholder recommendation, the Governance Committee may dispose of the shareholder recommendation.

Dividend Committee. Mr. Calamos serves as the sole member of the dividend committee. The dividend committee is authorized to declare distributions on the Fund's shares including, but not limited to, regular dividends, special dividends and short- and long-term capital gains distributions.

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

Valuation Committee. David D. Tripple, Weston W. Marsh, John E. Neal, William R. Rybak and Stephen B. Timbers, each a non-interested Trustee, serve on the Valuation Committee. The Valuation Committee oversees the implementation of the valuation procedures adopted by the Board of Trustees. The members of the Valuation Committee make recommendations to the Board of Trustees regarding valuation matters relating to the Fund.

In addition to the above committees, there is a Board of Trustees directed pricing committee comprised of officers of the Fund and employees of Calamos.

The following table identifies the number of meetings the Board of Trustees and each committee held during the fiscal year ended October 31, 2009.

	<b>Number of Meetings During Fiscal Year Ended October 31, 2009</b>
Board of Trustees	4
Executive Committee	0
Audit Committee	4
Governance Committee	3
Dividend Committee <sup>(1)</sup>	0
Valuation Committee	4

<sup>(1)</sup> Although the divided committee held no meetings, it acted by written consent on twelve occasions.

The Fund's Agreement and Declaration of Trust provides that the Fund will indemnify the Trustees and officers against liabilities and expenses incurred in connection with any claim in which they may be involved because of their offices with the Fund, unless it is determined in the manner specified in the Agreement and Declaration of Trust that they have not acted in good faith in the reasonable belief that their actions were in the best interests of the Fund or that such indemnification would relieve any officer or Trustee of any liability to the Fund or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of his or her duties.

*Compensation of Officers and Trustees.* John P. Calamos, Sr., the trustee who is an interested person of the Fund, does not receive compensation from the Fund. Non-interested trustees are compensated by the Fund, but do not receive any pension or retirement benefits from the Fund. Mr. Mickey is the only Fund officer who receives compensation from the Fund. The following table sets forth the total compensation (including any amounts deferred, as described below) paid by the Fund during the fiscal year ended October 31, 2009 to each of the current non-interested trustees and the one officer compensated by the Fund.

<b>Name of Trustee</b>	<b>Estimated Aggregate Compensation From Fund</b>	<b>Total Compensation From Calamos Fund Complex<sup>(1)*</sup></b>
John P. Calamos Sr.	\$ 0	\$ 0
Joe F. Hanauer <sup>(1)(2)</sup>	\$ 6,240	\$ 116,000
Weston W. Marsh <sup>(1)</sup>	\$ 6,735	\$ 140,000



Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

John E. Neal <sup>(1)</sup>	\$ 9,299	\$ 160,000
William R. Rybak	\$ 6,706	\$ 138,000
Steve B. Timbers	\$ 9,533	\$ 186,000
David D. Tripple	\$ 7,290	\$ 150,000
Mark J. Mickey	\$ 7,273	\$ 150,000

(1) Includes fees that may have been deferred during the year pursuant to a deferred compensation plan with Calamos Investment Trust. Deferred amounts are treated as though such amounts have been invested and reinvested in shares of one or more of the portfolios of the Calamos Investment Trust selected by the Trustee. As of October 31, 2009, the values of the deferred compensation accounts of each of Messrs. Hanauer, Marsh and Neal were \$247,603, \$667,476 and \$830,300, respectively.

(2) Mr. Hanauer retired from the board effective December 31, 2009.

\* The Calamos Fund Complex consists of seven investment companies and each applicable series thereunder including the Fund, Calamos Investment Trust, Calamos Advisors Trust, Calamos Global Total Return Fund, Calamos Convertible Opportunities and Income Fund, Calamos Strategic Total Return Fund and Calamos Global Dynamic Income Fund.

Effective April 1, 2010, the compensation paid to the non-interested trustees of the Calamos Funds for their services as such consists of an annual retainer per trustee of \$86,000, with annual supplemental retainers of \$40,000 to the lead independent trustee, \$20,000 to the chair of the audit committee and \$10,000 to the chair of any other committee. Each non-interested trustee also receives a meeting attendance fee of \$7,000 for any regular board meeting attended in person, \$3,500 for any regular board meeting attended by telephone, \$3,500 for any special board meeting and \$3,000 for any committee meeting attended in person or by telephone. Compensation paid to the non-interested trustees is allocated among the series of the Calamos Funds in accordance with a procedure determined from time to time by the board.

The Fund has adopted a deferred compensation plan for non-interested trustees (the Plan). Under the Plan, a trustee who is not an interested person of Calamos and has elected to participate in the Plan ( a participating trustee ) may defer receipt of all or a portion of his compensation from Fund in order to defer payment of income taxes or for other reasons. The deferred compensation payable to the participating trustee is credited to the trustee's deferral account as of the business day such otherwise compensation would have been paid to the trustee. The value of a trustee's deferred compensation account at any time is equal to what the value if the amounts credited to the account had instead been invested in Class I shares of one or more of the portfolios of Calamos Investment Trust as designated by the trustee. Thus, the value of the account increases with contributions to the account or with increases in the value of the measuring shares, and the value of the account decreases with withdrawals from the account or with declines in the value of the measuring shares. If a participating trustee retires, the trustee may elect to receive payments under the plan in a lump sum or in equal annual installments over a period of five years. If a participating trustee dies, any amount payable under the Plan will be paid to the trustee's beneficiaries. Each Calamos Fund's obligation to make payments under the Plan is a general obligation of that Fund. No Fund is liable for any other Fund's obligations to make payments under the Plan.

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

*Ownership of Shares of the Fund and Other Calamos Funds.* The following table indicates the value of shares that each Trustee beneficially owns in the Fund and the Calamos Fund Complex in the aggregate. The value of shares of the Calamos Funds is determined on the basis of the net asset value of the class of shares held as of December 31, 2009. The value of the shares held, are stated in ranges in accordance with the requirements of the SEC. The table reflects the Trustee's beneficial ownership of shares of the Calamos Fund Complex. Beneficial ownership is determined in accordance with the rules of the SEC.

Name of Trustee	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies in the Calamos Funds
Interested Trustees:		
John P. Calamos	Over \$100,000	Over \$100,000
Non-Interested Trustees:		
Weston W. Marsh	\$10,001 \$50,000	Over \$100,000
John E. Neal	None	Over \$100,000
William R. Rybak	\$10,001 \$50,000	Over \$100,000
Stephen B. Timbers	\$10,001 \$50,000	Over \$100,000
David D. Tripple	\$1 \$10,000	Over \$100,000

*Code of Ethics.* The Fund and Calamos have adopted a code of ethics under Rule 17j-1 under the 1940 Act which is applicable to officers, directors/Trustees and designated employees of Calamos and CFS. Employees of Calamos and CFS are permitted to make personal securities transactions, including transactions in securities that the Fund may purchase, sell or hold, subject to requirements and restrictions set forth in the code of ethics of Calamos and CFS. The code of ethics contains provisions and requirements designed to identify and address certain conflicts of interest between personal investment activities of Calamos and CFS employees and the interests of investment advisory clients such as the Fund. Among other things, the code of ethics prohibits certain types of transactions absent prior approval, imposes time periods during which personal transactions may not be made in certain securities, and requires the submission of duplicate broker confirmations and statements and quarterly reporting of securities transactions. Additional restrictions apply to portfolio managers, traders, research analysts and others involved in the investment advisory process. Exceptions to these and other provisions of the code of ethics may be granted in particular circumstances after review by appropriate personnel. Text only versions of the code of ethics can be viewed online or downloaded from the EDGAR Database on the SEC's internet web site at [www.sec.gov](http://www.sec.gov). You may review and copy the code of ethics by visiting the SEC's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 202-942-8090. In addition, copies of the code of ethics may be obtained, after mailing the appropriate duplicating fee, by writing to the SEC's Public Reference Section, 100 F Street, N.E., Room 1580, Washington, DC 20549 or by e-mail request at [publicinfo@sec.gov](mailto:publicinfo@sec.gov).

*Proxy Voting Procedures.* The Fund has delegated proxy voting responsibilities to Calamos, subject to the Board of Trustees' general oversight. The Fund expects Calamos to vote proxies related to the Fund's portfolio securities for which the Fund has voting authority consistent with the Fund's best economic interests. Calamos has adopted its own Proxy Voting Policies and Procedures (Policies). The Policies address, among other things, conflicts of interest that may arise between the interests of the Fund, and the interests of the adviser and its affiliates.

The following is a summary of the Policies used by Calamos in voting proxies.

To assist it in voting proxies, Calamos has established a Committee comprised of members of its Portfolio Management and Research Departments. The Committee and/or its members will vote proxies using the following guidelines.

In general, if Calamos believes that a company's management and board have interests sufficiently aligned with the Fund's interest, Calamos will vote in favor of proposals recommended by a company's board. More specifically, Calamos seeks to ensure that the board of directors of a company is sufficiently aligned with security holders' interests and provides proper oversight of the company's management. In many cases this may be best accomplished by having a majority of independent board members. Although Calamos will examine board member elections on a case-by-case basis, it will generally vote for the election of directors that would result in a board comprised of a majority of independent directors.

Because of the enormous variety and complexity of transactions that are presented to shareholders, such as mergers, acquisitions, reincorporations, adoptions of anti-takeover measures (including adoption of a shareholder rights plan, requiring supermajority voting on particular issues, adoption of fair price provisions, issuance of blank check preferred stocks and the creation of a separate class of stock with unequal voting rights), changes to capital structures (including authorizing additional shares, repurchasing stock or approving a stock split), executive compensation and option plans, that occur in a variety of industries, companies and market cycles, it is extremely difficult to foresee exactly what would be in the best interests of the Fund in all circumstances. Moreover, voting on such proposals involves considerations unique to each transaction. Accordingly, Calamos will vote on a case-by-case basis on proposals presenting these transactions.

Finally, Calamos has established procedures to help resolve conflicts of interests that might arise when voting proxies for the Fund. These procedures provide that the Committee, along with Calamos' Legal and Compliance Departments, will examine conflicts of interests with the Fund of which Calamos is aware and seek to resolve such conflicts in the best interests of the Fund, irrespective of any such conflict. If a member of the Committee has a personal conflict of interest, that member will refrain from voting and the remainder of the Committee will determine how to vote the proxy solely on the investment merits of any proposal. The Committee will then memorialize the conflict and the procedures used to address the conflict.

The Fund is required to file with the SEC its complete proxy voting record for the twelve-month period ending June 30, by no later than August 31 of each year. The Fund's proxy voting record for the most recent twelve-month period ending June 30 is available by August 31 of each year (1) on the SEC's website at [www.sec.gov](http://www.sec.gov) and (2) without charge, upon request, by calling 1-800-582-6959.

You may obtain a copy of Calamos' Policies by calling 1-800-582-6959, by visiting the Fund's website at [www.calamos.com](http://www.calamos.com), by writing Calamos at: Calamos Investments, Attn: Client Services, 2020 Calamos Court, Naperville, IL 60563, and on the SEC's website at [www.sec.gov](http://www.sec.gov).

#### **Investment Adviser and Investment Management Agreement**

Subject to the overall authority of the Board of Trustees, Calamos provides the Fund with investment research, advice and supervision and furnishes continuously an investment program for the Fund. In addition, Calamos furnishes for use of the Fund such office space and facilities as the Fund may require for its reasonable needs and supervises the business and affairs of the Fund and provides the following other services on behalf of the Fund and not provided by persons not a party to the investment management agreement: (i) preparing or assisting in the preparation of reports to and meeting materials for the Trustees; (ii) supervising, negotiating contractual arrangements with, to the extent appropriate, and monitoring the performance of, accounting agents, custodians, depositories, transfer agents and pricing agents, accountants, attorneys, printers, underwriters, brokers and dealers, insurers and other persons in any capacity deemed to be necessary or desirable to Fund operations; (iii) assisting in the preparation and making of filings with the SEC and other regulatory and self-regulatory organizations, including, but not limited to, preliminary and definitive proxy materials, amendments to the Fund's registration statement on Form N-2 and semi-annual reports on Form N-SAR and Form N-CSR; (iv) overseeing the tabulation of proxies by the Fund's transfer agent; (v) assisting in the preparation and filing of the Fund's federal, state and local tax returns; (vi) assisting in the preparation and filing of the Fund's federal excise tax return pursuant to Section 4982 of the Code; (vii) providing assistance with investor and public

relations matters; (viii) monitoring the valuation of portfolio securities and the calculation of net asset value; (ix) monitoring the registration of shares of beneficial interest of the Fund under applicable federal and state securities laws; (x) maintaining or causing to be maintained for the Fund all books, records and reports and any other information required under the 1940 Act, to the extent that such books, records and reports and other information are not maintained by the Fund's custodian or other agents of the Fund; (xi) assisting in establishing the accounting policies of the Fund; (xii) assisting in the resolution of accounting issues that may arise with respect to the Fund's operations and consulting with the Fund's independent accountants, legal counsel and the Fund's other agents as necessary in connection therewith; (xiii) reviewing the Fund's bills; (xiv) assisting the Fund in determining the amount of dividends and distributions available to be paid by the Fund to its shareholders, preparing and arranging for the printing of dividend notices to shareholders, and providing the transfer and dividend paying agent, the custodian, and the accounting agent with such information as is required for such parties to effect the payment of dividends and distributions; and (xv) otherwise assisting the Fund as it may reasonably request in the conduct of the Fund's business, subject to the direction and control of the Trustees.

Under the investment management agreement, the Fund pays to Calamos a fee based on the average weekly managed assets that is accrued daily and paid on a monthly basis. The fee paid by the Fund is at the annual rate of 0.80% of managed assets. Because the management fees paid to Calamos is based upon a percentage of the Fund's managed assets, fees paid to Calamos are higher when the Fund is leveraged; thus, Calamos will have an incentive to use leverage. Because the fee reimbursement agreement is based on managed assets, to the extent we are engaged in leverage, the gross dollar amount of Calamos' fee reimbursement obligations to us will increase. Calamos intends to use leverage only when it believes it will serve the best interests of the Fund's shareholders.

Calamos has contractually agreed to waive its management fee in the annual amount, and for the time period, set forth below:

<b>Period Ending May 31</b>	<b>Fee Waived (as a Percentage of Average Weekly Managed Assets)</b>
2010	0.05%
2011	0.03%

Calamos has not agreed to waive any portion of its management fees beyond May 31, 2011.

Under the terms of its investment management agreement with the Fund, except for the services and facilities provided by Calamos as set forth therein, the Fund shall assume and pay all expenses for all other Fund operations and activities and shall reimburse Calamos for any such expenses incurred by Calamos. The expenses borne by the Fund shall include, without limitation: (a) organization expenses of the Fund (including out-of-pocket expenses, but not including Calamos' overhead or employee costs); (b) fees payable to Calamos; (c) legal expenses; (d) auditing and accounting expenses; (e) maintenance of books and records that are required to be maintained by the Fund's custodian or other agents of the Fund; (f) telephone, telex, facsimile, postage and other communications expenses; (g) taxes and governmental fees; (h) fees, dues and expenses incurred by the Fund in connection with membership in investment company trade organizations and the expense of attendance at professional meetings of such organizations; (i) fees and expenses of accounting agents, custodians, subcustodians, transfer agents, dividend disbursing agents and registrars; (j) payment for portfolio pricing or valuation services to pricing agents, accountants, bankers and other specialists, if any; (k) expenses of preparing share certificates; (l) expenses in connection with the issuance, offering, distribution, sale, redemption or repurchase of

securities issued by the Fund; (m) expenses relating to investor and public relations provided by parties other than Calamos; (n) expenses and fees of registering or qualifying shares of beneficial interest of the Fund for sale; (o) interest charges, bond premiums and other insurance expenses; (p) freight, insurance and other charges in connection with the shipment of the Fund's portfolio securities; (q) the compensation and all expenses (specifically including travel expenses relating to Fund business) of Trustees, officers and employees of the Fund who are not affiliated persons of Calamos; (r) brokerage commissions or other costs of acquiring or disposing of any portfolio securities of the Fund; (s) expenses of printing and distributing reports, notices and dividends to shareholders; (t) expenses of preparing and setting in type, printing and mailing prospectuses and statements of additional information of the Fund and supplements thereto; (u) costs of stationery; (v) any litigation expenses; (w) indemnification of Trustees and officers of the Fund; (x) costs of shareholders' and other meetings; (y) interest on borrowed money, if any; and (z) the fees and other expenses of listing the Fund's shares on the NYSE or any other national stock exchange.

For the fiscal years ended October 31, 2007, October 31, 2008, and October 31, 2009, the Fund incurred \$11,786,736, \$10,663,964 and \$7,481,913, respectively, in advisory fees. Pursuant to the management fee waiver agreement, Calamos waived \$1,473,216, \$1,175,274 and \$567,676 in advisory fees for the fiscal years ended October 31, 2007, October 31, 2008, and October 31, 2009, respectively.

The investment management agreement had an initial term ending August 1, 2004 and continues in effect from year to year thereafter so long as such continuation is approved at least annually by (1) the Board of Trustees or the vote of a majority of the outstanding voting securities (as defined in the 1940 Act) of the Fund, and (2) a majority of the Trustees who are not interested persons of any party to the investment management agreement, cast in person at a meeting called for the purpose of voting on such approval. The investment management agreement may be terminated at any time, without penalty, by either the Fund or Calamos upon 60 days' written notice, and is automatically terminated in the event of its assignment as defined in the 1940 Act.

A discussion regarding the basis for the Board of Trustees' decision to approve the renewal of the Investment Management Agreement is available in the Fund's Annual Report to shareholders for the fiscal year ended October 31, 2009.

The use of the name "Calamos" in the name of the Fund is pursuant to licenses granted by Calamos, and the Fund has agreed to change the names to remove those references if Calamos ceases to act as investment adviser to the Fund.

#### **Portfolio Managers**

While day-to-day management of each portfolio is a team effort, the Co-Chief Investment Officers ( "Co-CIOs" ), along with the senior strategy analysts, have joint primary and supervisory responsibility for the Fund and work with all team members in developing and executing the Fund's investment program. Each is further identified below.

S-29

---

John P. Calamos, Sr. and Nick P. Calamos, Co-CIOs of Calamos, generally focus on firmwide risk management and the top-down approach of diversification by country and industry sector and macro-level investment themes. Nick P. Calamos, Co-CIO of Calamos, also focuses on portfolio level risk management, sector and country weightings, bottom-up fundamental security analysis, and corresponding research and analysis for key holdings. As Co-CIOs, Messrs. John Calamos and Nick Calamos direct the team's focus on macro themes, upon which the portfolio's strategy is based. The team, as a whole, implements the investment strategies, under the general direction and supervision of the Co-CIOs and the senior strategy analysts. John P. Calamos, Jr., Jeff Scudieri, Jon Vacko, John Hillenbrand, Steve Klouda, Bryan Lloyd, Dino Dussias, Christopher Hartman and Joe Wysocki are each senior strategy analysts. The Co-CIOs, directors and senior strategy analysts are referred to collectively as Team Leaders.

The Team Leaders also have responsibility for the day-to-day management of accounts other than the Fund. Information regarding these other accounts is set forth below:

The Fund's Team Leaders are responsible for managing the Fund and other accounts, including separate accounts and unregistered funds.

**NUMBER OF OTHER ACCOUNTS MANAGED AND  
ASSETS BY ACCOUNT TYPE AS OF OCTOBER 31, 2009\***

TEAM LEADER	REGISTERED INVESTMENT COMPANIES		OTHER POOLED INVESTMENT VEHICLES		OTHER ACCOUNTS	
	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS
John P. Calamos, Sr.	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Nick P. Calamos	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
John P. Calamos, Jr.	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Dino Dussias	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Christopher Hartman	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
John Hillenbrand	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Steve Klouda	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Bryan Lloyd	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Jeff Scudieri	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Jon Vacko	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461
Joe Wysocki	25	\$ 22,748,397,468	12	\$ 1,001,310,525	15,250	\$ 6,785,062,461

**NUMBER OF ACCOUNTS AND ASSETS FOR WHICH ADVISORY  
FEE IS PERFORMANCE BASED AS OF OCTOBER 31, 2009\***

TEAM LEADER	REGISTERED INVESTMENT COMPANIES		OTHER POOLED INVESTMENT VEHICLES		OTHER ACCOUNTS	
	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS
John P. Calamos, Sr.	3	\$ 275,835,829	2	\$ 19,090,907	0	
Nick P. Calamos	3	\$ 275,835,829	2	\$ 19,090,907	0	
John P. Calamos, Jr.	3	\$ 275,835,829	2	\$ 19,090,907	0	
Dino Dussias	3	\$ 275,835,829	2	\$ 19,090,907	0	
Christopher Hartman	3	\$ 275,835,829	2	\$ 19,090,907	0	
John Hillenbrand	3	\$ 275,835,829	2	\$ 19,090,907	0	
Steve Klouda	3	\$ 275,835,829	2	\$ 19,090,907	0	
Bryan Lloyd	3	\$ 275,835,829	2	\$ 19,090,907	0	
Jeff Scudieri	3	\$ 275,835,829	2	\$ 19,090,907	0	
Jon Vacko	3	\$ 275,835,829	2	\$ 19,090,907	0	
Joe Wysocki	3	\$ 275,835,829	2	\$ 19,090,907	0	

\* Each Team Leader may invest for his own benefit in securities held in brokerage and mutual fund accounts. The information shown in the table does not include information about those accounts where the Team Leader or members of his family have beneficial or pecuniary interest because no advisory relationship exists with Calamos or any of its affiliates.

The Fund's Team Leaders are responsible for managing the Fund and other accounts, including separate accounts and unregistered funds.

Other than potential conflicts between investment strategies, the side-by-side management of both the Fund and other accounts may raise potential conflicts of interest due to the interest held by Calamos in an account and certain trading practices used by the portfolio managers (e.g., cross-trades between the Fund and another account and allocation aggregated trades). Calamos has developed policies and procedures reasonably designed to mitigate those conflicts. For example, Calamos will only place cross-trades in securities held by the Fund in accordance with the rules promulgated under the 1940 Act and has adopted policies designed to ensure the fair allocation of securities purchased on an aggregated basis.

S-30

---



The allocation methodology employed by Calamos varies depending on the type of securities sought to be bought or sold and the type of client or group of clients. Generally, however, orders are placed first for those clients that have given Calamos brokerage discretion (including the ability to step out a portion of trades), and then to clients that have directed Calamos to execute trades through a specific broker. However, if the directed broker allows Calamos to execute with other brokerage firms, which then book the transaction directly with the directed broker, the order will be placed as if the client had given Calamos full brokerage discretion. Calamos and its affiliates frequently use a rotational method of placing and aggregating client orders and will build and fill a position for a designated client or group of clients before placing orders for other clients. A client account may not receive an allocation of an order if: (a) the client would receive an unmarketable amount of securities based on account size; (b) the client has precluded Calamos from using the particular broker; (c) the cash balance in the client account will be insufficient to pay for the securities allocated to it at settlement; (d) current portfolio attributes make an allocation inappropriate; or (e) account specific guidelines, objectives and other account specific factors make an allocation inappropriate. Allocation methodology may be modified when strict adherence to the usual allocation is impractical or leads to inefficient or undesirable results. Calamos head trader must approve each instance in which the usual allocation methodology is not followed and provide a reasonable basis for such instances and all modifications must be reported in writing to the Director of Compliance on a monthly basis.

The Team Leaders advise certain accounts under a performance fee arrangement. A performance fee arrangement may create an incentive for a Team Leader to make investments that are riskier or more speculative than would be the case in the absence of performance fees. A performance fee arrangement may result in increased compensation to the Team Leaders from such accounts due to under-realized appreciation as well as realized gains in the client's account.

As of October 31, 2009, Team Leaders John P. Calamos, Sr., Nick P. Calamos and John P. Calamos, Jr. receive all of their compensation from Calamos. Each has entered into an employment agreement that provides for compensation in the form of an annual base salary and a target bonus, both components payable in cash. Their target bonus is set at a percentage of the respective base salary, ranging from 300% to 600%, with a maximum annual bonus opportunity of 150% of the target bonus. For example, the target bonus for a Team Leader who earns \$500,000 would range from \$1,500,000 to \$3,000,000 and the Team Leader's maximum annual bonus opportunity would range from \$2,250,000 to \$4,500,000. Also, due to the ownership and executive management positions with Calamos Asset Management, Inc., additional multiple corporate objectives are utilized to determine the target bonus for John P. Calamos, Sr., Nick P. Calamos and John P. Calamos, Jr. For 2009, the additional corporate objectives were distribution effectiveness, as measured by redemption rates and sales growth; investment performance, as measured by risk-adjusted performance of the investment strategies managed by Calamos Advisors over a blended short- and long-term measurement period; income growth, as measured by operating margin and return on invested capital and the corporate investment portfolio; management evaluation, based upon several factors including the execution of strategic initiatives; and stockholder return relative to the industry peer group.

As of October 31, 2009, Jeff Scudieri, Jon Vacko, John Hillenbrand, Steve Klouda, Bryan Lloyd, Dino Dussias, Christopher Hartman and Joe Wysocki receive all of their compensation from Calamos Advisors. They each receive compensation in the form of an annual base salary, a discretionary bonus (payable in cash) and long-term incentive awards. Each of these associates has a bonus range of opportunity which is expressed as a percentage of base salary. Each of these associates is also eligible for discretionary long-term incentive awards, however these awards are not guaranteed from year to year. Long-term incentive awards consist of restricted stock units or a combination of restricted stock units and stock options.

The amounts paid to all Team Leaders and the criteria utilized to determine the amounts are benchmarked against industry specific data provided by third party analytical agencies. The Team Leaders' compensation structure does not differentiate between the funds and other accounts managed by the Team Leaders, and is determined on an overall basis, taking into consideration the performance of the various strategies managed by the Team Leaders. Portfolio performance, as measured by risk-adjusted portfolio performance, is utilized to determine the target bonus, as well as overall performance of Calamos.

All Team Leaders are eligible to receive annual equity awards in shares of Calamos Asset Management, Inc. under an incentive compensation plan. The target annual equity awards are set at a percentage of their respective base

salaries.

Historically, the annual equity awards granted under the incentive compensation plan have been comprised of stock options and restricted stock units. Most of the stock options and restricted stock units issued have vested annually in one-third installments beginning in the fourth year after the grant date and each award has been subject to accelerated vesting under certain conditions. Unless terminated early, the stock options have a ten-year term.

S-31

---

At October 31, 2009, each portfolio manager beneficially owned (as determined pursuant to Rule 16a-1a(a)(2) under the 1934 Act) shares of the Fund having value within the indicated dollar ranges.

	<b>Fund</b>
John P. Calamos	Over \$1,000,000
Nick P. Calamos	None
John P. Calamos, Jr.	None
Dino Dussias	None
Chris Hartman	None
John Hillenbrand	None
Steve Klouda	None
Brian Lloyd	None
Jeff Scudieri	None
Jon Vacko	None
Joe Wysocki	None

**Fund Accountant**

Under the arrangements with State Street Bank and Trust Company ( State Street ) to provide fund accounting services, State Street provides certain administrative and accounting services including providing daily reconciliation of cash, trades and positions; maintaining general ledger and capital stock accounts; preparing daily trial balance; calculating net asset value; providing selected general ledger reports; preferred share compliance; calculating total returns; preparing financial statements; and providing monthly distribution analysis to the Fund and such other funds advised by Calamos that may be part of those arrangements (the Fund and such other funds are collectively referred to as the Calamos Funds ). For the services rendered to the Calamos Funds, State Street receives fees based on the combined managed assets of the Calamos Funds ( Combined Assets ). State Street receives a fee at the annual rate of 0.005% for the first \$20.0 billion of Combined Assets, 0.004% for the next \$10.0 billion of Combined Assets and 0.003% for the Combined Assets in excess of \$30.0 billion. Each fund of the Calamos Funds pays its pro-rata share of the fees payable to State Street described below based on relative managed assets of each fund.

Pursuant to an agreement between the Calamos Funds and Calamos, Calamos is obligated to provide the following financial accounting services to Calamos Funds: management of expenses and expense payment processing; monitor the calculation of expense accrual amounts for any fund and make any necessary modifications; coordinate any expense reimbursement calculations and payment; calculate yields on the funds in accordance with rules and regulations of the SEC; calculate net investment income dividends and capital gains distributions; calculate, track and report tax adjustments on all assets of each fund, including but not limited to contingent debt and preferred trust obligations; prepare excise tax and fiscal year distributions schedules; prepare tax information required for financial statement footnotes; prepare state and federal income tax returns; prepare specialized calculations of amortization on convertible securities; prepare year-end dividend disclosure information; calculate trustee deferred compensation plan accruals and valuations;

and prepare Form 1099 information statements for Board members and service providers. For providing those financial accounting services, Calamos will receive a fee payable monthly at the annual rate of 0.0175% on the first \$1 billion of the average daily net assets of the Calamos Funds; 0.0150% on the next \$1 billion of the average daily net assets of the Calamos Funds; and 0.0110% on the average daily net assets of the Calamos Funds above \$2 billion ( financial accounting service fee ). Each fund of the Calamos Funds will pay its pro-rata share of the financial accounting service fee payable to Calamos based on relative managed assets of each fund.

#### **CERTAIN SHAREHOLDERS**

At March 18, 2010, the following persons were known to own beneficially or of record more than 5% of the outstanding securities of the Fund:

<b>Class of Shares</b>	<b>Name and Address of Beneficial Owner</b>	<b>Number of Shares Owned</b>	<b>Percent of Class</b>
Common	Citigroup Global Markets 111 Wall Street New York, NY 10005	13,831,170	19.80%
	First Clearing, LLC One North Jefferson Street St. Louis, MO 63103	5,582,393	7.99%
	Charles Schwab & Co., Inc. 101 Montgomery St. San Francisco, CA 94104	5,316,843	7.61%
	National Financial Services LLC 200 Liberty Street, NY4F New York, NY 10281	4,638,115	6.64%
	Bank of New York Mellon 525 William Penn Way Suite 0400 Pittsburgh, PA 15259	4,138,655	5.93%
	RBC Capital Markets Corporation 510 Marquette Avenue South Minneapolis, MN 55402	3,739,865	5.36%

At January 31, 2010, the trustees and officers as a group owned less than one percent of the Fund's outstanding common shares.

#### **PORTFOLIO TRANSACTIONS**

Portfolio transactions on behalf of the Fund effected on stock exchanges involve the payment of negotiated brokerage commissions. There is generally no stated commission in the case of securities traded in the over-the-counter markets, but the price paid by the Fund usually includes an undisclosed dealer commission or mark-up. In underwritten offerings, the price paid by the Fund includes a disclosed, fixed commission or discount retained by the underwriter or dealer.

In executing portfolio transactions, Calamos uses its best efforts to obtain for the Fund the most favorable combination of price and execution available. In seeking the most favorable combination of price and execution, Calamos considers all factors it deems relevant, including price, the size of the transaction, the nature of the market for the security, the amount of commission, the timing of the transaction taking into account market prices and trends, the execution capability of the broker-dealer and the quality of service rendered by the broker-dealer in other transactions.

The Trustees have determined that portfolio transactions for the Fund may be executed through CFS, an affiliate of Calamos, if, in the judgment of Calamos, the use of CFS is likely to result in prices and execution at least as favorable to the Funds as those available from other qualified brokers and if, in such transactions, CFS charges the Fund

commission rates consistent with those charged by CFS to comparable unaffiliated customers in similar transactions. The Board of Trustees, including a majority of the Trustees who are not interested trustees, has adopted procedures that are reasonably designed to provide that any commissions, fees or other remuneration paid to CFS are consistent with the foregoing standard. The Fund will not effect principal transactions with CFS.

Consistent with the Rules of Fair Practice of the Financial Industry Regulatory Authority and subject to seeking the most favorable combination of net price and execution available and such other policies as the Trustees may determine, Calamos may consider sales of shares of the Fund as a factor in the selection of broker-dealers to execute portfolio transactions for that Fund.

In allocating the Fund's portfolio brokerage transactions to unaffiliated broker-dealers, Calamos may take into consideration the research, analytical, statistical and other information and services provided by the broker-dealer, such as general economic reports and information, reports or analyses of particular companies or industry groups, market timing and technical information, and the availability of the brokerage firm's analysts for consultation. Although Calamos believes these services have substantial value, they are considered supplemental to Calamos' own efforts in the performance of its duties under the management agreement. As permitted by Section 28(e) of the Securities Exchange Act of 1934 ( "1934 Act" ), Calamos may cause the Fund to pay a broker-dealer that provides brokerage and research services an amount of commission for effecting a securities transaction for the Fund in excess of the commission that another broker-dealer would have charged for effecting that transaction if the amount is believed by Calamos to be reasonable in relation to the value of the overall quality of the brokerage and research services provided. Other clients of Calamos may indirectly benefit from the provision of these

S-33

---

services to Calamos, and the Fund may indirectly benefit from services provided to Calamos as a result of transactions for other clients.

The Fund paid \$0, \$0, and \$0 in aggregate brokerage commissions for the fiscal years ended October 31, 2007, October 31, 2008, and October 31, 2009, including \$0, \$0, and \$0 to CFS, which represented 0%, 0% and 0% of the Fund's aggregate brokerage fees paid for the respective fiscal year, and 0%, 0%, and 0% of the Fund's aggregate dollar amount of transactions involving brokerage commissions for the respective fiscal year.

#### **Portfolio Turnover**

Our annual portfolio turnover rate may vary greatly from year to year. Although we cannot accurately predict our annual portfolio turnover rate, it is not expected to exceed 100% under normal circumstances. For the fiscal years ended October 31, 2008 and October 31, 2009 the portfolio turnover rate was 55% and 29%, respectively. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for us. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us. High portfolio turnover also may result in the realization of capital gains or losses and, to the extent net short-term capital gains are realized, any distributions resulting from such gains will be considered ordinary income for federal income tax purposes. See Certain Federal Income Tax Matters.

#### **NET ASSET VALUE**

Net asset value per share is determined as of the close of regular session trading on the New York Stock Exchange (usually 4:00 p.m., Eastern time), on the last business day in each week. Net asset value is calculated by dividing the value of all of the securities and other assets of the Fund, less its liabilities (including accrued expenses and indebtedness) and the aggregate liquidation value of any outstanding preferred shares, by the total number of common shares outstanding. Currently, the net asset values of shares of publicly traded closed-end investment companies investing in debt securities are published in *Barron's*, the Monday edition of *The Wall Street Journal* and the Monday and Saturday editions of *The New York Times*.

The valuation of the Fund's portfolio securities is in accordance with policies and procedures adopted by and under the ultimate supervision of the Board of Trustees. Securities for which market quotations are readily available will be valued using the market value of those securities. Securities for which market quotations are not readily available will be fair valued in accordance with policies and procedures adopted by and under the ultimate supervision of the Board of Trustees. The method by which a security may be fair valued will depend on the type of security and the circumstances under which the security is being fair valued.

Portfolio securities that are traded on U.S. securities exchanges, except option securities, are valued at the last current reported sales price at the time the Fund determines its NAV. Securities traded in the over-the-counter market and quoted on The NASDAQ Stock Market are valued at the NASDAQ Official Closing Price, as determined by NASDAQ, or lacking a NASDAQ Official Closing Price, the last current reported sale price on NASDAQ at the time a Fund determines its NAV.

When a last sale or closing price is not available, equity securities, other than option securities, that are traded on a U.S. securities exchange and other equity securities traded in the over-the-counter market are valued at the mean between the most recent bid and asked quotations in accordance with guidelines adopted by the Board of Trustees. Each option security traded on a U.S. securities exchange is valued at the mid-point of the consolidated bid/ask quote for the option security, also in accordance with guidelines adopted by the Board of Trustees. Each over-the-counter option that is not traded through the Options Clearing Corporation is valued based on a quotation provided by the counterparty to such option under the ultimate supervision of the Board of Trustees.

Fixed income securities are generally traded in the over-the-counter market and are valued by independent pricing services or by dealers who make markets in such securities. Valuations of fixed income securities consider yield or price of bonds of comparable quality, coupon rate, maturity, type of issue, trading characteristics and other market data and do not rely exclusively upon exchange or over-the-counter prices.

Trading on European and Far Eastern exchanges and over-the-counter markets is typically completed at various times before the close of business on each day on which the NYSE is open. Each security trading on these exchanges or over-the-counter markets may be valued utilizing a systematic fair valuation model provided by an independent pricing service approved by the Board of Trustees. The valuation of each security that meets certain criteria in relation

to the valuation model is systematically adjusted to reflect the impact of movement in the U.S. market after the foreign markets close. Securities that do not meet the criteria, or that are principally traded in other foreign markets, are valued as of the last reported sale price at the time the Fund determines its NAV, or when reliable market prices or quotations are not readily available, at the mean between the most recent bid and asked quotations as of the close of the appropriate exchange or other designated time. Trading of foreign securities may not take place on every NYSE business day. In addition, trading may take place in various foreign markets on Saturdays or on other days when the NYSE is not open and on which the Fund's NAV is not calculated.

If the pricing committee determines that the valuation of a security in accordance with the methods described above is not reflective of a fair value for such security, the security is valued at a fair value by the pricing committee, under the ultimate supervision of the Board of Trustees, following the guidelines and/or procedures adopted by the Board of Trustees.

The Fund also may use fair value pricing, pursuant to guidelines adopted by the Board of Trustees and under the ultimate supervision of the Board of Trustees, if trading in the security is halted or if the value of a security it holds is materially affected by events occurring before the Fund's pricing time but after the close of the primary market or exchange on which the security is listed. Those procedures may utilize valuations furnished by pricing services approved by the Board of Trustees, which may be based on market transactions for comparable securities and various relationships between securities that are generally recognized by institutional traders, a computerized matrix system, or appraisals derived from information concerning the securities or similar securities received from recognized dealers in those securities.

When fair value pricing of securities is employed, the prices of securities used by the Fund to calculate its NAV may differ from market quotations or official closing prices. In light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a particular security is accurate.

#### **REPURCHASE OF COMMON SHARES**

The Fund is a closed-end investment company and as such its shareholders will not have the right to cause the Fund to redeem their shares. Instead, the Fund's common shares trade in the open market at a price that is a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than net asset value, the Fund's Board of Trustees may consider action that might be taken to reduce or eliminate any material discount from net asset value in respect of common shares, which may include the repurchase of such shares in the

open market or in private transactions, the making of a tender offer for such shares, or the conversion of the Fund to an open-end investment company. The Board of Trustees may decide not to take any of these actions. In addition, there can be no assurance that share repurchases or tender offers, if undertaken, will reduce market discount.

Notwithstanding the foregoing, at any time when the Fund's preferred shares are outstanding, the Fund may not purchase, redeem or otherwise acquire any of its common shares unless (1) all accumulated preferred shares dividends have been paid and (2) at the time of such purchase, redemption or acquisition, the net asset value of the Fund's portfolio (determined after deducting the acquisition price of the common shares) is at least 200% of the liquidation value of the outstanding preferred shares (expected to equal the original purchase price per share plus any accrued and unpaid dividends thereon). Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering shareholders.

Subject to its investment restrictions, the Fund may borrow to finance the repurchase of shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing that might be approved by the Fund's Board of Trustees would have to comply with the 1934 Act, the 1940 Act and the rules and regulations thereunder.

Although the decision to take action in response to a discount from net asset value will be made by the Board of Trustees at the time it considers such issue, it is not currently anticipated that the Board of Trustees would authorize repurchases of common shares or a tender offer for such shares if: (1) such transactions, if consummated, would (a) result in the delisting of the common shares from the NYSE, or (b) impair the Fund's status as a regulated investment company under the Code (which would make the Fund a taxable entity, causing the Fund's income to be taxed at the corporate level in addition to the taxation of shareholders who receive dividends from the Fund) or as a registered closed-end investment company under the 1940 Act; (2) the Fund would not be able to liquidate portfolio securities in an orderly manner and consistent with the Fund's investment objective and policies in order to repurchase shares; or (3) there is, in the board's judgment, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Fund, (b) general suspension of or limitation on prices for trading securities on the NYSE, (c) declaration of a banking moratorium by federal or state authorities or any suspension of payment by United States or New York banks, (d) material limitation affecting the Fund or the issuers of its portfolio securities by federal or state authorities on the extension of credit by lending institutions or on the exchange of foreign currency, (e) commencement of war, armed hostilities or other international or national calamity directly or indirectly involving the United States, or (f) other event or condition which would have a material adverse effect (including any adverse tax effect) on the Fund or its shareholders if shares were repurchased.

The repurchase by the Fund of its shares at prices below net asset value will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tender offers at or below net asset value will result in the Fund's shares trading at a price equal to their net asset value. Nevertheless, the fact that the Fund's shares may be the subject of repurchase or tender offers from time to time, or that the Fund may be converted to an open-end investment company, may reduce any spread between market price and net asset value that might otherwise exist.

In addition, a purchase by the Fund of its common shares will decrease the Fund's total managed assets which would likely have the effect of increasing the Fund's expense ratio. Any purchase by the



Fund of its common shares at a time when preferred shares are outstanding will increase the leverage applicable to the outstanding common shares then remaining.

Before deciding whether to take any action if the common shares trade below net asset value, the Fund's Board of Trustees would likely consider all relevant factors, including the extent and duration of the discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its shareholders and market considerations. Based on these considerations, even if the Fund's shares should trade at a discount, the Board of Trustees may determine that, in the interest of the Fund and its shareholders, no action should be taken.

#### **CERTAIN FEDERAL INCOME TAX MATTERS**

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a shareholder that acquires, holds and/or disposes of the Fund's securities. This discussion only addresses certain U.S. federal income tax consequences to U.S. shareholders who hold their shares as capital assets and does not address all of the U.S. federal income tax consequences that may be relevant to particular shareholders in light of their individual circumstances. This discussion also does not address the tax consequences to shareholders who are subject to special rules, including, without limitation, financial institutions, regulated investment companies, insurance companies, brokers and dealers in securities or foreign currencies, certain securities traders, foreign holders, persons who hold their shares as or in a hedge against currency risk, a constructive sale, or conversion transaction, holders who are subject to the alternative minimum tax, or tax-exempt or tax-deferred plans, accounts, or entities. In addition, the discussion does not address any state, local, or foreign tax consequences. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service ( IRS ) retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting the Fund and its shareholders, and the discussion set forth herein does not constitute tax advice. **INVESTORS ARE URGED TO CONSULT THEIR OWN TAX ADVISERS TO DETERMINE THE SPECIFIC TAX CONSEQUENCES TO THEM OF INVESTING IN THE FUND, INCLUDING THE APPLICABLE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES TO THEM AND THE EFFECT OF POSSIBLE CHANGES IN TAX LAWS.**

#### **Federal Income Taxation of the Fund**

The Fund has elected to be treated, and intends to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code ), so that it will not pay U.S. federal income tax on investment company taxable income (determined without regard to the deduction for dividends paid) and net capital gains timely distributed to shareholders. If the Fund qualifies as a regulated investment company and distributes to its shareholders at least 90% of the sum of (i) its investment company taxable income as that term is defined in the Code (which includes, among other things, dividends, taxable interest, and the excess of any net short-term capital gains over net long-term capital losses, less certain deductible expenses) without regard to the deduction for dividends paid and (ii) the excess of its gross tax-exempt interest, if any, over certain disallowed deductions, the Fund will be relieved of U.S. federal income tax on any income of the Fund, including long-term capital gains, distributed to shareholders. However, if the Fund retains any investment company taxable income or net capital gain (i.e., the excess of net long-term capital gain over the sum of net short-term capital loss and any capital loss carryforward), it will be subject to U.S. federal income tax at regular corporate rates on the amount retained. The Fund intends to distribute at least annually, all or substantially all of its investment company taxable income, net tax-exempt interest, if any, and net capital gain.

If for any taxable year the Fund does not qualify as a regulated investment company for U.S. federal income tax purposes, it would be treated in the same manner as a regular corporation subject to U.S. federal income tax and distributions to its shareholders would not be deductible by the Fund in computing its taxable income. In such event, the Fund's distributions, to the extent derived from the Fund's current or accumulated earnings and profits, would generally constitute ordinary dividends, which would generally be eligible for the dividends received deduction available to corporate shareholders under Section 243 of the Code, and noncorporate shareholders of the Fund would generally be able to treat such distributions as qualified dividend income eligible for reduced rates of federal income taxation in taxable years beginning on or before December 31, 2010 under Section 1(h)(11) of the Code, as described below.

Under the Code, the Fund will be subject to a nondeductible 4% federal excise tax on its undistributed ordinary income for a calendar year and its capital gains for the one-year period generally ending on October 31 of such calendar year if it fails to meet certain distribution requirements with respect to that year. The Fund intends to make distributions in a timely manner and in an amount sufficient to avoid such tax and accordingly does not expect to be subject to this excise tax.

In order to qualify as a regulated investment company under Subchapter M of the Code, the Fund must, among other things, derive at least 90% of its gross income for each taxable year from (i) dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies and (ii) net income derived from interests in certain publicly traded partnerships that derive less than 90% of their gross income from the items described in (i) above (each, a Qualified Publicly Traded Partnership) (the 90% income test). For purposes of the 90% income test, the character of income earned by certain entities in which the Fund invests that are not treated as corporations for U.S. federal income tax purposes will generally pass through to the Fund. Consequently, the Fund may be required to limit its equity investments in certain such entities.

In addition to the 90% income test, the Fund must also diversify its holdings (the asset test) so that, at the end of each quarter of its taxable year (i) at least 50% of the market value of the Fund's total assets is represented by cash and cash items, U.S. government securities, securities of other regulated investment companies and other securities, with such other securities of any one issuer limited for the purposes of this calculation to an amount not greater in value than 5% of the value of the Fund's total assets and to not more than 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its total assets is invested in the securities (other than U.S. government securities or securities of other regulated investment companies) of any one issuer or of two or more issuers controlled by the Fund and engaged in the same, similar or related trades or businesses or in the securities of one or more Qualified Publicly Traded Partnerships.

Foreign exchange gains and losses realized by the Fund in connection with certain transactions involving foreign currency-denominated debt securities, certain options and futures contracts relating to foreign currency, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Section 988 of the Code, which generally causes such gains and losses to be treated as ordinary income and losses and may affect the amount, timing and character of distributions to shareholders.

If the Fund acquires any equity interest (generally including not only stock but also an option to acquire stock such as is inherent in a convertible bond) in certain foreign corporations that receive at least 75% of their annual gross income from passive sources (such as interest, dividends, certain rents and

royalties, or capital gains) or that hold at least 50% of their assets in investments held for the production of such passive income ( passive foreign investment companies ), the Fund could be subject to U.S. federal income tax and additional interest charges on excess distributions received from such companies or on gain from the sale of equity interests in such companies, even if all income or gain actually received by the Fund is timely distributed to its shareholders. These investments could also result in the treatment as ordinary income of associated gains on a sale of the investment. The Fund would not be able to pass through to its shareholders any credit or deduction for such tax. Tax elections may generally be available that would ameliorate these adverse tax consequences, but any such election could require the Fund to recognize taxable income or gain (which would be subject to the distribution requirements described above) without the concurrent receipt of cash. The Fund may limit and/or manage its holdings in passive foreign investment companies to limit its U.S. federal income tax liability or maximize its return from these investments.

If the Fund invests in certain pay-in-kind securities, zero coupon securities, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the Fund elects to include market discount in income currently), the Fund must accrue income on such investments for each taxable year, which generally will be prior to the receipt of the corresponding cash payments. However, the Fund must distribute, at least annually, all or substantially all of its investment company taxable income, including such accrued income, to shareholders to avoid U.S. federal income and excise taxes. Therefore, the Fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash, or may have to leverage itself by borrowing the cash, to satisfy distribution requirements.

The Fund may acquire market discount bonds. A market discount bond is a security acquired in the secondary market at a price below its redemption value (or its adjusted issue price if it is also an original issue discount bond). If the Fund invests in a market discount bond, it will be required to treat any gain recognized on the disposition of such market discount bond as ordinary income (instead of capital gain) to the extent of the accrued market discount, unless the Fund elects to include the market discount in income as it accrues as discussed above. Such market discount will not constitute qualified dividend income.

The Fund may invest to a significant extent in debt obligations that are in the lowest rating categories or are unrated, including debt obligations of issuers not currently paying interest or who are in default. Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. The U.S. federal income tax laws are not entirely clear about issues such as when the Fund may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless securities and how payments received on obligations in default should be allocated between principal and income. These and other related issues will be addressed by the Fund when, as and if it invests in such securities, in order to seek to ensure that it distributes sufficient income to preserve its status as a regulated investment company and does not become subject to U.S. federal income or excise taxes.

The Fund may engage in various transactions utilizing options, futures contracts, forward contracts, hedge instruments, straddles, swaps and other similar transactions. Such transactions may be subject to special provisions of the Code that, among other things, affect the character of any income realized by the Fund from such investments, accelerate recognition of income to the Fund, defer Fund losses, affect the holding period of the Fund's securities, affect whether distributions will be eligible for the dividends received deduction or be treated as qualified dividend income and affect the determination of whether capital gain and loss is characterized as long-term or short-term capital gain or loss. These rules could therefore affect the character, amount and timing of distributions to shareholders. These provisions may also require the Fund to mark-to-market certain types of the positions in its portfolio (i.e., treat them as if they were closed out), which may cause the Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirements for avoiding U.S. federal income and excise taxes. The Fund will monitor its transactions and will make the appropriate entries in its books and records when it acquires an option, futures contract, forward contract, hedge instrument, swap or other similar investment, and if the Fund deems it advisable, will make appropriate elections in order to mitigate the effect of these rules, prevent disqualification of the Fund as a regulated investment company and minimize the imposition of U.S. federal income and excise taxes.



The Fund's transactions in broad based equity index futures contracts, exchange traded options on such indices and certain other futures contracts are generally considered Section 1256 contracts for federal income tax purposes. Any unrealized gains or losses on such Section 1256 contracts are treated as though they were realized at the end of each taxable year. The resulting gain or loss is treated as sixty percent long-term capital gain or loss and forty percent short-term capital gain or loss. Gain or loss recognized on actual sales of Section 1256 contracts is treated in the same manner. As noted below, distributions of net short-term capital gain are taxable to shareholders as ordinary income while distributions of net long-term capital gain are taxable to shareholders as long-term capital gain, regardless of how long the shareholder has held shares of the Fund.

The Fund's entry into a short sale transaction, an option or certain other contracts could be treated as the constructive sale of an appreciated financial position, causing the Fund to realize gain, but not loss, on the position.

The Fund may invest in REITs that hold residual interests in real estate mortgage investment conduits ( REMICs ). Under a notice issued by the IRS, a portion of the Fund's income from a REIT that is attributable to the REIT's residual interest in a REMIC (referred to in the Code as an excess inclusion ) will be subject to U.S. federal income tax in all events. This notice also provides that excess inclusion income of a regulated investment company, such as the Fund, will be allocated to shareholders of the regulated investment company in proportion to the dividends received by such shareholders, with the same consequences as if the shareholders held the related REMIC residual interest directly. In general, excess inclusion income allocated to shareholders (i) cannot be offset by net operating losses (subject to a limited exception for certain thrift institutions), (ii) will constitute unrelated business taxable income to entities (including a qualified pension plan, an individual retirement account, a 401(k) plan, a Keogh plan or other tax-exempt entity) subject to federal income tax on unrelated business income, thereby potentially requiring such an entity that is allocated excess inclusion income, and otherwise might not be required to file a federal income tax return, to file a tax return and pay tax on such income, and (iii) in the case of a foreign shareholder, will not qualify for any reduction in U.S. federal withholding tax. In addition, if at any time during any taxable year a disqualified organization (as defined in the Code) is a record holder of a share in a regulated investment company, then the regulated investment company will be subject to a tax equal to that portion of its excess inclusion income for the taxable year that is allocable to the disqualified organization, multiplied by the highest federal income tax rate imposed on corporations. The Fund does not intend to invest in REITs in which a substantial portion of the assets will consist of residual interests in REMICs.

The Fund may be subject to withholding and other taxes imposed by foreign countries, including taxes on interest, dividends and capital gains with respect to its investments in those countries, which would, if imposed, reduce the yield on or return from those investments. Tax treaties between certain countries and the U.S. may reduce or eliminate such taxes in some cases. The Fund does not expect to satisfy the requirements for passing through to its shareholders their pro rata shares of qualified foreign taxes paid by the Fund, with the result that shareholders will not be required to include such taxes in their gross incomes and will not be entitled to a tax deduction or credit for such taxes on their own federal income tax returns.

### **Common Shares and Preferred Shares**

*Common Share Distributions.* Unless a shareholder is ineligible to participate or elects otherwise, all distributions on common shares will be automatically reinvested in additional common shares of the Fund pursuant to the Automatic Dividend Reinvestment Plan (the Dividend Reinvestment Plan ). For U.S. federal income tax purposes, dividends are generally taxable whether a shareholder takes them in cash or they are reinvested pursuant to the Dividend Reinvestment Plan in additional shares of the Fund.

Distributions of investment company taxable income (determined without regard to the deduction for dividends paid), which includes dividends, taxable interest, net short-term capital gain in excess of net long-term capital loss and certain net foreign exchange gains, are, except as discussed below, taxable as ordinary income to the extent of the Fund's current and accumulated earnings and profits. A portion of such dividends may qualify for the dividends received deduction available to corporations under Section 243 of the Code and the reduced rate of taxation under Section 1(h)(11) of the Code that applies to qualified dividend income received by noncorporate shareholders. For taxable years beginning on or before December 31, 2010, qualified dividend income received by noncorporate shareholders is taxed at rates equivalent to long-term capital gain tax rates, which currently reach a maximum of 15%. Qualified dividend income generally includes dividends from domestic corporations and dividends from foreign corporations that meet certain specified criteria, although dividends paid by REITs will not generally be eligible for treatment as qualified dividend income. The Fund generally can pass the tax treatment of qualified dividend income it receives through to Fund shareholders. For the Fund to receive qualified dividend income, the Fund must meet certain holding period and other requirements with respect to the stock on which the otherwise qualified dividend is paid. In addition, the Fund cannot be obligated to make payments (pursuant to a short sale or otherwise) with respect to substantially similar or related property. The same provisions, including the holding period requirements, apply to each shareholder's investment in the Fund for the dividends received by the shareholder to be eligible for such treatment. The provisions of the Code applicable to qualified dividend income and the 15% maximum individual tax rate on long-term capital gains are currently effective for taxable years beginning on or before December 31, 2010. Thereafter, unless Congress enacts legislation providing otherwise, qualified dividend income will no longer be taxed at the rates applicable to long-term capital gains, but rather will be taxed at ordinary federal income tax rates, which reach a current maximum rate of 35%. Distributions of net capital gain, if any, are taxable as long term capital gains for U.S. federal income tax purposes without regard to the length of time the shareholder has held shares of the Fund. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits, if any, will be treated by a shareholder as a tax-free return of capital which is applied against and reduces the shareholder's basis in his or her shares. To the extent that the amount of any such distribution exceeds the shareholder's basis in his or her shares, the excess will be treated by the shareholder as gain from the sale or exchange of shares. The U.S. federal income tax status of all distributions will be designated by the Fund and reported to the shareholders annually.

If the Fund retains any net capital gain, the Fund may designate the retained amount as undistributed capital gains in a notice to shareholders who, if subject to U.S. federal income tax on long-term capital gains, (i) will be required to include in income, as long-term capital gain, their proportionate share of such undistributed amount, and (ii) will be entitled to credit their proportionate share of the federal income tax paid by the Fund on the undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities. For U.S. federal income tax purposes, the tax basis of shares owned by a shareholder of the Fund will be increased by the difference between the amount of undistributed net capital gain included in the shareholder's gross income and the federal income tax deemed paid by the shareholder.

If a shareholder's distributions are automatically reinvested pursuant to the Dividend Reinvestment Plan and the plan agent invests the distribution in shares acquired on behalf of the shareholder in open-market purchases, for U.S. federal income tax purposes, the shareholder will be treated as having received a taxable distribution in the amount of the cash dividend that the shareholder would have received if the shareholder had elected to receive cash. If a shareholder's distributions are automatically reinvested pursuant to the Dividend Reinvestment Plan and the plan agent invests the distribution in newly issued shares of the Fund, the shareholder will be treated as receiving a taxable distribution equal to the fair market value of the shares the shareholder receives.

At the time of an investor's purchase of the Fund's shares, a portion of the purchase price may be attributable to realized or unrealized appreciation in the Fund's portfolio or undistributed taxable income of the Fund. Consequently, subsequent distributions by the Fund with respect to these shares from such appreciation or income may be taxable to such investor even if the net asset value of the investor's shares is, as a result of the distributions, reduced below the investor's cost for such shares and the distributions economically represent a return of a portion of the investment.

Any dividend declared by the Fund in October, November or December with a record date in such a month and paid during the following January will be treated for U.S. federal income tax purposes as paid by the Fund and received by shareholders on December 31 of the calendar year in which it is declared.

*Preferred Share Distributions.* Under present law and based in part on the fact that there is no express or implied agreement between or among a broker-dealer or any other party, and the Fund or any owners of preferred shares, that the broker-dealer or any other party will guarantee or otherwise arrange to ensure that an owner of preferred shares will be able to sell his or her shares, it is anticipated that the preferred shares will constitute stock of the Fund for federal income tax purposes, and thus distributions with respect to the preferred shares (other than distributions in redemption of the preferred shares subject to Section 302(b) of the Code) will generally constitute dividends to the extent of the Fund's current or accumulated earnings and profits, as calculated for U.S. federal income tax purposes. Except in the case of net capital gain distributions, such dividends generally will be taxable at ordinary income tax rates to holders of preferred shares but may qualify for the dividends received deduction available to corporate shareholders under Section 243 of the Code and the reduced rates of federal income taxation that apply to qualified dividend income received by noncorporate shareholders under Section 1(h)(11) of the Code. Distributions designated by the Fund as net capital gain distributions will be taxable as long-term capital gain regardless of the length of time a shareholder has held shares of the Fund. Please see the discussion above on qualified dividend income, dividends received deductions and net capital gain.

The character of the Fund's income will not affect the amount of dividends to which the holders of preferred shares are entitled to receive. Holders of preferred shares are entitled to receive only the amount of dividends as determined by periodic auctions. For U.S. federal income tax purposes, however, the IRS requires that a regulated investment company that has two or more classes of shares allocate to each such class proportionate amounts of each type of its income (such as ordinary income and net capital gain) for each tax year. Accordingly, the Fund intends to designate distributions made with respect to the common shares and preferred shares as consisting of particular types of income (e.g., net capital gain and ordinary income), in accordance with each class' proportionate share of the total dividends paid to both classes. Thus, each year the Fund will designate dividends qualifying for the corporate dividends received deduction, qualified dividend income, ordinary income and net capital gains in a manner that allocates such income between the preferred shares and common shares in proportion to the total dividends made to each class with respect to such taxable year, or otherwise as required by applicable law. In addition, solely for the purpose of satisfying the 90% distribution requirement and the distribution requirement for avoiding income taxes, certain distributions made after the close of a taxable year of the Fund may be "spilled back" and treated as paid during such taxable year. In such case, shareholders will be treated as having received such dividends in the taxable year in which the distribution was actually made. The IRS has ruled privately that dividends paid following the close of the taxable year that are treated for federal income tax purposes as derived from income from the prior year will be treated as dividends "paid" in the prior year for purposes of determining the proportionate share of a particular type of income for each class. Accordingly, the Fund intends to treat any such dividends that are paid following the close of a taxable year as "paid" in the prior year for purposes of determining a class' proportionate share of a particular type of income. However, the private ruling is not binding on the IRS, and there can be no assurance that the IRS will respect such treatment. Each shareholder will be notified of the allocation within 60 days after the end of the year.

Although the Fund is required to distribute annually at least 90% of its investment company taxable income (determined without regard to the deduction for dividends paid), the Fund is not required to distribute net capital gains to the shareholders. The Fund may retain and reinvest such gains and pay federal income taxes on such gains (the "net undistributed capital gain"). Please see the discussion above on undistributed capital gains. However, it is unclear whether a portion of the net undistributed capital gain would have to be allocated to the preferred shares for U.S. federal income tax purposes. Until and unless the Fund receives acceptable guidance from the IRS or an opinion of

counsel as to the allocation of the net undistributed capital gain between the common shares and the preferred shares, the Fund intends to distribute its net capital gain for any year during which it has

S-41

---



preferred shares outstanding. Such distribution will affect the tax character but not the amount of dividends to which holders of preferred shares are entitled.

Although dividends generally will be treated as distributed when paid, dividends declared in October, November or December with a record date in such months, and paid in January of the following year, will be treated as having been distributed by the Fund and received by the shareholders on December 31 of the year in which the dividend was declared.

Earnings and profits are generally treated, for federal income tax purposes, as first being used to pay distributions on preferred shares, and then to the extent remaining, if any, to pay distributions on the common shares. Distributions in excess of current and accumulated earnings and profits of the Fund are treated first as return of capital to the extent of the shareholder's basis in the shares and, after the adjusted basis is reduced to zero, will be treated as capital gain to a shareholder who holds such shares as a capital asset.

If the Fund utilizes leverage through borrowings, or otherwise, asset coverage limitations imposed by the 1940 Act as well as additional restrictions that may be imposed by certain lenders on the payment of dividends or distributions potentially could limit or eliminate the Fund's ability to make distributions on its common shares and/or preferred shares until the asset coverage is restored. These limitations could prevent the Fund from distributing at least 90% of its investment company taxable income as is required under the Code and therefore might jeopardize the Fund's qualification as a regulated investment company and/or might subject the Fund to a nondeductible 4% federal excise tax. Upon any failure to meet the asset coverage requirements imposed by the 1940 Act, the Fund may, in its sole discretion and to the extent permitted under the 1940 Act, purchase or redeem preferred shares in order to maintain or restore the requisite asset coverage and avoid the adverse consequences to the Fund and its shareholders of failing to meet the distribution requirements. There can be no assurance, however, that any such action would achieve these objectives. The Fund will endeavor to avoid restrictions on its ability to distribute dividends.

*Sales of Fund Shares.* Sales and other dispositions of the Fund's shares are taxable events for shareholders that are subject to federal income tax. Selling shareholders will generally recognize gain or loss in an amount equal to the difference between the amount received for such shares and their adjusted tax basis in the shares sold. If such shares are held as a capital asset at the time of sale, the gain or loss will generally be a long-term capital gain or loss if the shares have been held for more than one year, if not held for such period, a short-term capital gain or loss. Similarly, a redemption (including a redemption by the Fund resulting from liquidation of the Fund), if any, of all of the shares (common and preferred) actually and constructively held by a shareholder generally will give rise to capital gain or loss under Section 302(b) of the Code if the shareholder does not own (and is not regarded under certain federal income tax law rules of constructive ownership as owning) any common or preferred shares of the Fund and provided that the redemption proceeds do not represent declared but unpaid dividends. Other redemptions may also give rise to capital gain or loss, if several conditions imposed by Section 302(b) of the Code are satisfied.

This ability to deduct capital losses may be limited.

Gain or loss will generally be long-term capital gain or loss if the shares disposed of were held for more than one year and will be short-term capital gain or loss if the shares disposed of were held for one year or less. Net long-term capital gain recognized by a noncorporate U.S. shareholder generally will be subject to federal income tax at a lower rate (currently a maximum rate of 15%, although this rate will increase to 20% for taxable years beginning after December 31, 2010) than net short-term capital gain or ordinary income (currently a maximum rate of 35%). For corporate holders, capital gain is generally taxed for federal income tax purposes at the same rate as ordinary income, that is, currently at a maximum rate of 35%. A holder's ability to deduct capital losses may be limited.

Any loss realized by a shareholder upon the sale or other disposition of shares with a tax holding period of six months or less will be treated as a long-term capital loss to the extent of any amounts treated as distributions of long-term capital gain with respect to such shares. Losses on sales or other dispositions of shares may be disallowed under wash sale rules in the event of other investments in the Fund (including those made pursuant to reinvestment of dividends) or other substantially identical stock

or securities within a period of 61 days beginning 30 days before and ending 30 days after a sale or other disposition of shares. In such a case, the disallowed portion of any loss generally would be included in the U.S. federal income tax basis of the shares acquired. Shareholders should consult their own tax advisors regarding their individual circumstances to determine whether any particular transaction in the Fund's shares is properly treated as a sale for U.S. federal income tax purposes and the tax treatment of any gains or losses recognized in such transactions.

*Federal Income Tax Withholding.* Federal law requires that the Fund withhold, as backup withholding, 28% of reportable payments, including dividends, capital gain distributions and the proceeds of sales or other dispositions of the Fund's shares paid to shareholders who have not complied with IRS regulations. In order to avoid this withholding requirement, shareholders must certify on their account applications, or on a separate IRS Form W-9, that the social security number or other taxpayer identification number they provide is their correct number and that they are not currently subject to backup withholding, or that they are exempt from backup withholding. The Fund may nevertheless be required to backup withhold if it receives notice from the IRS or a broker that the number provided is incorrect or backup withholding is applicable.

*Other Matters.* Treasury regulations provide that if a shareholder recognizes a loss with respect to shares of \$2 million or more in a single taxable year (or \$4 million or more in any combination of taxable years) for a shareholder who is an individual, S corporation or trust or \$10 million or more for a corporate shareholder in any single taxable year (or \$20 million or more in any combination of years), the shareholder must file with the IRS a disclosure statement on Form 8886. Direct shareholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, shareholders of a regulated investment company are not excepted. Future guidance may extend the current exception from this reporting requirement to shareholders of most or all regulated investment companies. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer's treatment of the loss is proper. Shareholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

The description of certain federal income tax provisions above relates only to U.S. federal income tax consequences for shareholders who are U.S. persons (i.e., U.S. citizens or resident aliens or U.S. corporations, partnerships, trusts or estates who are subject to U.S. federal income tax on a net income basis). Investors other than U.S. persons, including non-resident alien individuals, may be subject to different U.S. federal income tax treatment. With respect to such persons, the Fund must generally withhold U.S. federal withholding tax at the rate of 30% (or, if the Fund receives certain certifications from such non-U.S. shareholder, such lower rate as prescribed by an applicable tax treaty) on amounts treated as ordinary dividends from the Fund. However, effective for taxable years of the Fund beginning before January 1, 2008, the Fund generally is not required to withhold tax on any amounts paid to a non-U.S. person with respect to dividends attributable to qualified short-term gain (i.e., the excess of net short-term capital gain over net long-term capital loss) designated as such by the Fund and dividends attributable to certain U.S. source interest income that would not be subject to federal withholding tax if earned directly by a non-U.S. person, provided such amounts are properly designated by the Fund. Legislation has been introduced that would extend this exemption through taxable years beginning before January 1, 2010. However, it cannot be predicted whether such legislation will be enacted. **SHAREHOLDERS SHOULD CONSULT THEIR OWN TAX ADVISORS ON THESE MATTERS AND ON ANY SPECIFIC QUESTION OF U.S. FEDERAL, STATE, LOCAL, FOREIGN AND OTHER APPLICABLE TAX LAWS BEFORE MAKING AN INVESTMENT IN THE FUND.**

## Debt Securities

Under present law, it is anticipated that our debt securities will constitute indebtedness for federal income tax purposes, which the discussion below assumes. We intend to treat all payments made with respect to the debt securities consistent with this characterization.

Payments or accruals of interest on debt securities generally will be taxable to holders as ordinary interest income at the time such interest is received (actually or constructively) or accrued, in accordance with the holder's regular method of accounting for federal income tax purposes.

Initially, a holder's tax basis in debt securities acquired generally will be equal to the cost to acquire such debt securities. This basis will increase by the amounts, if any, that the holder includes in income under the rules governing market discount, and will decrease by the amount of any amortized premium on such debt securities, as discussed below. When the holder sells or exchanges any of its debt securities, or if any of the debt securities are redeemed, the holder generally will recognize gain or loss equal to the difference between the amount realized on the transaction (less any accrued and unpaid interest, which will be subject to federal income tax as interest in the manner described above) and the tax basis in the debt securities relinquished.

Except as discussed below with respect to market discount, the gain or loss recognized on the sale, exchange or redemption of any debt securities generally will be capital gain or loss. Such gain or loss will generally be long-term capital gain or loss if the disposed debt securities were held for more than one year and will be short-term capital gain or loss if the disposed debt securities were held for one year or less. Net long-term capital gain recognized by a noncorporate U.S. holder generally will be subject to federal income tax at a lower rate (currently a maximum rate of 15%, although this rate will increase to 20% for taxable years beginning after December 31, 2010) than net short-term capital gain or ordinary income (currently a maximum rate of 35%). For corporate holders, capital gain is generally taxed for federal income tax purposes at the same rate as ordinary income, that is, currently at a maximum rate of 35%. A holder's ability to deduct capital losses may be limited.

If a holder purchases debt securities at a cost greater than their stated principal amount, plus accrued interest, the holder will be considered to have purchased the debt securities at a premium, and generally may elect to amortize this premium as an offset to interest income, using a constant yield method, over the remaining term of the debt securities. If the holder makes the election to amortize the premium, it generally will apply to all debt instruments held at the beginning of the first taxable year to which the election applies, as well as any debt instruments that were subsequently acquired. In addition, the holder may not revoke the election without the consent of the IRS. If the holder elects to amortize the premium, it will be required to reduce its tax basis in the debt securities by the amount of the premium amortized during its holding period. If the holder does not elect to amortize premium, the amount of premium will be included in the holder's tax basis in the debt securities. Therefore, if the holder does not elect to amortize the premium and holds the debt securities to maturity, the holder generally will be required to treat the premium as a capital loss when the debt securities are redeemed.

If the holder purchases debt securities at a price that reflects a market discount, any principal payments on, or any gain that the holder realized on the disposition of, the debt securities generally will be treated as ordinary interest income to the extent of the market discount that accrued on the debt securities during the time such debt securities were held. Market discount is defined under the Code as, in general, the excess of the stated redemption price at maturity over the purchase price of the debt security, except that if the market discount is less than 0.25% of the stated redemption price at maturity multiplied by the number of complete years to maturity, the market discount is considered to be zero. In addition, the holder may be required to defer the deduction of all or a portion of any interest paid on any indebtedness incurred or continued to purchase or carry the debt securities that were acquired at a market discount. In general, market discount will be treated as accruing ratably over the term of the debt securities, or, at the election of the holder, under a constant yield method.

The holder may elect to include market discount in gross income currently as it accrues (on either a ratable or constant yield basis), in lieu of treating a portion of any gain realized on a sale of the debt securities as ordinary income. If the holder elects to include market discount on a current basis, the interest deduction deferral rule described above will not apply and the holder will increase its basis in the debt security by the amount of market discount included in gross income. If the holder does make such an election, it will apply to all market discount debt instruments acquired on or after the first day of the first taxable year to which the election applies. This election may not be revoked without the consent of the IRS.

*Information Reporting and Backup Withholding.* In general, information reporting requirements will apply to payments of principal, interest, and premium, if any, paid on debt securities and to the proceeds of the sale of debt securities paid to U.S. holders other than certain exempt recipients (such as certain corporations). Information reporting generally will apply to payments of interest on the debt securities to non-U.S. Holders (as defined below) and the amount of tax, if any, withheld with respect to such payments. Copies of the information returns reporting such interest payments and any withholding may also be made available to the tax authorities in the country in which the non-U.S. Holder resides under the provisions of an applicable income tax treaty. In addition, for non-U.S. Holders, information reporting will apply to the proceeds of the sale of debt securities within the United States or conducted through United States-related financial intermediaries unless the certification requirements described below have been complied with and the statement described below in *Taxation of Non-U.S. Holders* has been received (and the payor does not have actual knowledge or reason to know that the holder is a United States person) or the holder otherwise establishes an exemption.

We may be required to withhold, for U.S. federal income tax purposes, a portion of all payments (including redemption proceeds) payable to holders of debt securities who fail to provide us with their correct taxpayer identification number, who fail to make required certifications or who have been notified by the IRS that they are subject to backup withholding (or if we have been so notified). Certain corporate and other shareholders specified in the Code and the regulations thereunder are exempt from backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the holder's U.S. federal income tax liability provided the appropriate information is furnished to the IRS. If a holder is a non-U.S. Holder, it may have to comply with certification procedures to establish its non-U.S. status in order to avoid backup withholding tax requirements. The certification procedures required to claim the exemption from withholding tax on interest income described below will satisfy these requirements.

*Taxation of Non-U.S. Holders.* If a holder is a non-resident alien individual or a foreign corporation (a non-U.S. Holder), the payment of interest on the debt securities generally will be considered portfolio interest and thus generally will be exempt from U.S. federal withholding tax. This exemption will apply to the holder provided that (1) interest paid on the debt securities is not effectively connected with the holder's conduct of a trade or business in the United States, (2) the holder is not a bank whose receipt of interest on the debt securities is described in Section 881(c)(3)(A) of the Code, (3) the holder does not actually or constructively own 10 percent or more of the combined voting power of all classes of our stock entitled to vote, (4) the holder is not a controlled foreign corporation that is related, directly or indirectly, to us through stock ownership, and (5) the holder satisfies the certification requirements described below.

To satisfy the certification requirements, either (1) the holder of any debt securities must certify, under penalties of perjury, that such holder is a non-U.S. person and must provide such owner's name, address and taxpayer identification number, if any, on IRS Form W-8BEN, or (2) a securities clearing organization, bank or other financial institution that holds customer securities in the ordinary course of its trade or business and holds the debt securities on behalf of the holder thereof must certify, under penalties of perjury, that it has received a valid and properly executed IRS Form W-8BEN from the beneficial holder and comply with certain other requirements. Special certification rules apply for debt securities held by a foreign partnership and other intermediaries.

Interest on debt securities received by a non-U.S. Holder that is not excluded from U.S. federal withholding tax under the portfolio interest exemption as described above generally will be subject to withholding at a 30% rate, except where (1) the interest is effectively connected with the conduct of a U.S. trade or business, in which case the interest will be subject to U.S. income tax on a net basis as applicable to U.S. holders generally or (2) a non-U.S. Holder can claim the benefits of an applicable income tax treaty to reduce or eliminate such withholding tax. To claim the benefit of an income tax treaty or to claim an exemption from withholding because the interest is effectively connected with a U.S. trade or business, a non-U.S. Holder must timely provide the appropriate, properly executed IRS forms. These forms may be required to be periodically updated. Also, a non-U.S. Holder who is claiming the benefits of an income tax treaty may be required to obtain a U.S. taxpayer identification number and to provide certain documentary evidence issued by foreign governmental authorities to prove residence in the foreign country.

Any capital gain that a non-U.S. Holder realizes on a sale, exchange or other disposition of debt securities generally will be exempt from U.S. federal income tax, including withholding tax. This exemption will not apply to a holder if their gain is effectively connected with the conduct of a trade or business in the U.S. or the holder is an individual holder and is present in the U.S. for a period or periods aggregating 183 days or more in the taxable year of the disposition and either the holder's gain is attributable to an office or other fixed place of business that the holder maintains in the U.S. or the holder has a tax home in the United States.

#### **CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR**

The Fund's securities and cash are held under a custodian agreement with State Street Bank and Trust Company, 200 Clarendon Street, P.O. Box 9130, Boston, Massachusetts 02117-9130. The transfer agent, dividend disbursing agent and registrar for the Fund's shares is BNY Mellon Asset Servicing, One Wall Street, New York, New York 10286.

#### **INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Deloitte & Touche LLP, 111 S. Wacker Drive, Chicago, Illinois 60606, serves as our independent registered public accounting firm. Deloitte & Touche LLP provides audit and audit-related services and consultation in connection with the review of our filing with the SEC.

#### **ADDITIONAL INFORMATION**

A Registration Statement on Form N-2, including amendments thereto, relating to the securities offered hereby, has been filed by the Fund with the SEC, Washington, D.C. The prospectus, prospectus supplement and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the securities offered hereby, reference is made to the Registration Statement. Statements contained in the prospectus, prospectus supplement and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. A copy of the Registration Statement may be inspected without charge at the SEC's principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the SEC upon the payment of certain fees prescribed by the SEC.

#### **ADDITIONAL INFORMATION CONCERNING THE AGREEMENT AND DECLARATION OF TRUST**

The Fund's Agreement and Declaration of Trust provides that the Fund's Trustees shall have the power to cause each shareholder to pay directly, in advance or arrears, for charges of the Fund's custodian

or transfer, shareholder servicing or similar agent, an amount fixed from time to time by the Trustees, by setting off such charges due from such shareholder from declared but unpaid dividends owed such shareholder and/or by reducing the number of shares in the account of such shareholder by that number of full and/or fractional shares which represents the outstanding amount of such charges due from such shareholder. The Fund has no present intention of relying on this provision of the Agreement and Declaration of Trust and would only do so if consistent with the 1940 Act or the rules and regulations or interpretations of the SEC thereunder.

S-47

---

Report of Independent Registered Public Accounting Firm

To the Board of Trustees and Shareholders of Calamos Convertible and High Income Fund

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Calamos Convertible and High Income Fund (the Fund ) as of October 31, 2009, and the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2009, by correspondence with the Fund's custodian. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2009, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois  
December 17, 2009

## Statement of Assets and Liabilities

**October 31, 2009****ASSETS**

Investments in securities, at value (cost \$1,162,997,063)	\$ 1,090,453,166
Cash with custodian (interest bearing)	353,438
Receivables:	
Accrued interest and dividends	18,815,251
Investments sold	7,054,646
Prepaid expenses	18,042
Other assets	101,871
 Total assets	 1,116,796,414

**LIABILITIES**

Options written, at value (premium \$2,983,737)	3,487,000
Unrealized depreciation on interest rate swaps	1,077,687
Payables:	
Note payable	270,000,000
Investments purchased	8,137,051
Affiliates:	
Investment advisory fees	699,615
Deferred compensation to trustees	101,871
Financial accounting fees	10,738
Trustees fees and officer compensation	612
Other accounts payable and accrued liabilities	513,110
 Total liabilities	 284,027,684

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS \$ 832,768,730

**COMPOSITION OF NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS**

Common stock, no par value, unlimited shares authorized 69,837,235 shares issued and outstanding	\$ 991,016,203
Undistributed net investment income (loss)	(15,016,514)
Accumulated net realized gain (loss) on investments, foreign currency transactions, written options and interest rate swaps	(69,144,797)
	(74,086,162)



Unrealized appreciation (depreciation) of investments, foreign currency translations, written options and interest rate swaps

NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS	\$ 832,768,730
--	----------------

Net asset value per common shares based upon 69,837,235 shares issued and outstanding	\$ 11.92
---	----------

See accompanying Notes to Financial Statements

F-2

---

## Statement of Operations

**Year Ended October 31, 2009****INVESTMENT INCOME**

Interest	\$ 61,617,730
Dividends	15,002,020
Dividends from affiliates	63,364
Securities lending income	65,819
Total investment income	76,748,933

**EXPENSES**

Investment advisory fees	7,481,913
Interest expense and related fees	4,246,792
Deferred debt structuring fee	4,066,998
Liquidity fee	2,593,511
Program fee	1,218,824
Printing and mailing fees	221,886
Auction agent and rating agency fees	180,703
Financial accounting fees	108,190
Audit fees	71,445
Registration fees	69,308
Legal fees	63,773
Accounting fees	63,588
Trustees fees and officer compensation	55,945
Transfer agent fees	33,655
Custodian fees	23,282
Other	53,478
Total expenses	20,553,291
Less expense reductions	(579,428)

Net expenses	19,973,863
--------------	------------

NET INVESTMENT INCOME (LOSS)	56,775,070
------------------------------	------------

**REALIZED AND UNREALIZED GAIN (LOSS)**

**Net realized gain (loss) from:**

Investments, excluding purchased options	(29,519,305)
Purchased options	(15,848,434)
Foreign currency transactions	(17,714)
Written options	(7,017,160)
Interest rate swaps	(1,339,446)

**Change in net unrealized appreciation/(depreciation) on:**

Investments, excluding purchased options	308,140,704
Purchased options	13,253,007
Foreign currency translations	158,029
Written options	(1,647,583)
Interest rate swaps	(1,077,687)

NET GAIN (LOSS) 265,084,411

NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS \$ 321,859,481

**DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM**

Net investment income (298,056)

NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON  
SHAREHOLDERS RESULTING FROM OPERATIONS

\$ 321,561,425

See accompanying Notes to Financial Statements

## Statements of Changes in Net Assets

	Year Ended October 31, 2009	Year Ended October 31, 2008
<b>OPERATIONS</b>		
Net investment income (loss)	\$ 56,775,070	\$ 70,573,636
Net realized gain (loss)	(53,742,059)	17,925,974
Change in unrealized appreciation/(depreciation)	318,826,470	(466,594,881)
Distributions to preferred shareholders from:		
Net investment income	(298,056)	(7,932,453)
Net realized gains		(4,400,322)
 Net increase (decrease) in net assets applicable to common shareholders resulting from operations	 321,561,425	 (390,428,046)
<b>DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM</b>		
Net investment income	(69,343,931)	(90,494,947)
Net realized gains	(1,160,756)	(15,309,718)
 Net decrease in net assets from distributions to common shareholders	 (70,504,687)	 (105,804,665)
<b>CAPITAL STOCK TRANSACTIONS</b>		
Proceeds from common shares sold	15,672,670	1,576,989
Offering costs on common shares	(61,529)	(192,745)
Reinvestment of distributions resulting in the issuance of common stock	2,914,241	3,420,910
 Net increase (decrease) in net assets from capital stock transactions	 18,525,382	 4,805,154
 <b>TOTAL INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS</b>	 <b>269,582,120</b>	 <b>(491,427,557)</b>
 <b>NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS</b>		

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

Beginning of year	\$ 563,186,610	\$ 1,054,614,167
End of year	832,768,730	563,186,610
Undistributed net investment income (loss)	\$ (15,016,514)	\$ (7,341,709)

See accompanying Notes to Financial Statements

F-4

---

## Statement of Cash Flows

**Year Ended October 31, 2009****CASH FLOWS FROM OPERATING ACTIVITIES:**

Net increase/(decrease) in net assets from operations	\$ 321,859,481
Adjustments to reconcile net increase/(decrease) in net assets from operations to net cash used in operating activities:	
Change in unrealized appreciation or depreciation on interest rate swaps	1,077,687
Change in written options	(42,770)
Purchase of investment securities	(302,032,196)
Proceeds from disposition of investment securities	368,511,955
Amortization and accretion of fixed-income securities	(2,922,548)
Purchase of short term investments, net	(21,427,410)
Net realized gains/losses from investments, excluding purchased options	29,519,305
Net realized gains/losses from purchased options	15,848,434
Change in unrealized appreciation or depreciation on investments, excluding purchased options	(308,140,704)
Change in unrealized appreciation or depreciation on purchased options	(13,253,007)
Net change in assets and liabilities:	
(Increase)/decrease in assets:	
Accrued interest and dividends receivable	1,805,457
Cash collateral for securities on loan	35,432,438
Prepaid expenses	3,607,983
Other assets	(52,102)
(Increase)/decrease in liabilities:	
Payables to affiliates	125,621
Payable upon return of securities loaned	(35,432,438)
Other accounts payable and accrued liabilities	(748,395)
 Net cash provided by/(used in) operating activities	 \$ 93,736,791

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from common shares sold	15,672,670
Offering costs related to common shares sold	(135,829)
Distributions to common shareholders	(67,590,446)
Distributions to preferred shareholders	(331,364)
Proceeds from note payable	80,000,000
Repayment of note payable	(41,000,000)
Redemption of preferred shares	(80,000,000)
 Net cash provided by/(used in) financing activities	 \$ (93,384,969)

Net increase/(decrease) in cash	\$	351,822
Cash at beginning of year	\$	1,616
Cash at end of year	\$	353,438
Supplemental disclosure		
Cash paid for interest and related fees	\$	5,017,545

Non-cash financing activities not included herein consist of reinvestment of dividends and distributions of \$2,914,241. Repayments of note payable include non-cash financing activities of \$190,000,000

See accompanying Notes to Financial Statements

F-5

---

Notes to Financial Statements

NOTE 1 ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

**Organization.** Calamos Convertible and High Income Fund (the Fund ) was organized as a Delaware statutory trust on March 12, 2003 and is registered under the Investment Company Act of 1940 (the 1940 Act ) as a diversified, closed-end management investment company. The Fund commenced operations on May 28, 2003. The Fund's investment objective is to provide total return through a combination of capital appreciation and current income. Under normal circumstances, the Fund will invest at least 80% of its managed assets in a diversified portfolio of convertibles and non-convertible income securities. Managed assets means the Fund's total assets (including any assets attributable to any leverage that may be outstanding) minus total liabilities (other than debt representing financial leverage).

**Fund Valuation.** The valuation of the Fund's securities is in accordance with policies and procedures adopted by and under the ultimate supervision of the board of trustees.

Fund securities that are traded on U.S. securities exchanges, except option securities, are valued at the last current reported sales price at the time a Fund determines its net asset value ( NAV ). Securities traded in the over-the-counter market and quoted on The NASDAQ Stock Market are valued at the NASDAQ Official Closing Price, as determined by NASDAQ, or lacking a NASDAQ Official Closing Price, the last current reported sale price on NASDAQ at the time a Fund determines its NAV.

When a last sale or closing price is not available, equity securities, other than option securities, that are traded on a U.S. securities exchange and other equity securities traded in the over-the-counter market are valued at the mean between the most recent bid and asked quotations in accordance with guidelines adopted by the board of trustees. Each option security traded on a U.S. securities exchange is valued at the mid-point of the consolidated bid/ask quote for the option security, also in accordance with guidelines adopted by the board of trustees. Each over-the-counter option that is not traded through the Options Clearing Corporation is valued based on a quotation provided by the counterparty to such option under the ultimate supervision of the board of trustees.

Fixed income securities are generally traded in the over-the-counter market and are valued by independent pricing services or by dealers who make markets in such securities. Valuations of fixed income securities consider yield or price of bonds of comparable quality, coupon rate, maturity, type of issue, trading characteristics and other market data and do not rely exclusively upon exchange or over-the-counter prices.

Trading on European and Far Eastern exchanges and over-the-counter markets is typically completed at various times before the close of business on each day on which the New York Stock Exchange ( NYSE ) is open. Each security trading on these exchanges or over-the-counter markets may be valued utilizing a systematic fair valuation model provided by an independent pricing service approved by the board of trustees. The valuation of each security that meets certain criteria in relation to the valuation model is systematically adjusted to reflect the impact of movement in the U.S. market after the foreign markets close. Securities that do not meet the criteria, or that are principally traded in other foreign markets, are valued as of the last reported sale price at the time the Fund determines its NAV, or when reliable market prices or quotations are not readily available, at the mean between the most recent bid and asked quotations as of the close of the appropriate exchange or other designated time. Trading of foreign securities may not take place on every NYSE business day. In addition, trading may take place in various foreign markets on Saturdays or on other days when the NYSE is not open and on which the Fund's NAV is not calculated.



If the pricing committee determines that the valuation of a security in accordance with the methods described above is not reflective of a fair value for such security, the security is valued at a fair value by the pricing committee, under the ultimate supervision of the board of trustees, following the guidelines and/or procedures adopted by the board of trustees.

The Fund also may use fair value pricing, pursuant to guidelines adopted by the board of trustees and under the ultimate supervision of the board of trustees, if trading in the security is halted or if the value of a security it holds is materially affected by events occurring before the Fund's pricing time but after the close of the primary market or exchange on which the security is listed. Those procedures may utilize valuations furnished by pricing services approved by the board of trustees, which may be based on market transactions for comparable securities and various relationships between securities that are generally recognized by

## Notes to Financial Statements

institutional traders, a computerized matrix system, or appraisals derived from information concerning the securities or similar securities received from recognized dealers in those securities.

When fair value pricing of securities is employed, the prices of securities used by a Fund to calculate its NAV may differ from market quotations or official closing prices. In light of the judgment involved in fair valuations, there can be no assurance that a fair value assigned to a particular security is accurate.

**Investment Transactions.** Investment transactions are recorded on a trade date basis. Net realized gains and losses from investment transactions are reported on an identified cost basis. Interest income is recognized using the accrual method and includes accretion of original issue and market discount and amortization of premium. Dividend income is recognized on the ex-dividend date, except that certain dividends from foreign securities are recorded as soon as the information becomes available after the ex-dividend date.

**Investment in Affiliates.** As of October 31, 2008, the Fund had holdings of \$2,963,305 in the affiliated fund, Calamos Government Money Market Fund, and as of October 31, 2009, had no holdings in the affiliated fund. During the period from November 1, 2008 through October 31, 2009, the Fund had net redemptions of \$2,963,305 and earned \$63,364 in dividends from the affiliated fund. The Calamos Government Money Market Fund was liquidated on May 15, 2009 and no subsequent investments were made in the affiliated fund thereafter.

**Foreign Currency Translation.** Values of investments and other assets and liabilities denominated in foreign currencies are translated into U.S. dollars using a rate quoted by a major bank or dealer in the particular currency market, as reported by a recognized quotation dissemination service.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

Reported net realized foreign currency gains or losses arise from disposition of foreign currency, the difference in the foreign exchange rates between the trade and settlement dates on securities transactions, and the difference between the amounts of dividends, interest and foreign withholding taxes recorded on the ex-date or accrual date and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes (due to the changes in the exchange rate) in the value of foreign currency and other assets and liabilities denominated in foreign currencies held at period end.

**Allocation of Expenses Among Funds.** Expenses directly attributable to the Fund are charged to the Fund; certain other common expenses of Calamos Advisors Trust, Calamos Investment Trust, Calamos Convertible Opportunities and Income Fund, Calamos Convertible and High Income Fund, Calamos Strategic Total Return Fund, Calamos Global Total Return Fund and Calamos Global Dynamic Income Fund are allocated proportionately among each fund to which the expenses relate in relation to the net assets of each fund or on another reasonable basis.

**Use of Estimates.** The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

**Income Taxes.** No provision has been made for U.S. income taxes because the Fund's policy is to continue to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended, and distribute to

shareholders substantially all of its taxable income and net realized gains.

Dividends and distributions paid to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains is determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. To the extent these book/tax differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment. These differences are primarily

F-7

---

## Notes to Financial Statements

due to differing treatments for foreign currency transactions, contingent payment debt instruments and methods of amortizing and accreting on fixed income securities. The financial statements are not adjusted for temporary differences.

The Fund recognized no liability for unrecognized tax benefits. A reconciliation is not provided as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions or settlements. Tax years 2005-2008 remain subject to examination by the U.S. and the State of Illinois tax jurisdictions.

**Indemnifications.** Under the Fund's organizational documents, the Fund is obligated to indemnify its officers and trustees against certain liabilities incurred by them by reason of having been an officer or trustee of the Fund. In addition, in the normal course of business, the Fund may enter into contracts that provide general indemnifications to other parties. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. Currently, the Fund's management expects the risk of material loss in connection to a potential claim to be remote.

**New Accounting Pronouncements.** Effective November 1, 2008, the Fund adopted the provisions of the Statement of Financial Accounting Standard No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 requires disclosure surrounding the various inputs used to determine a valuation, and these inputs are segregated into three levels. Tables summarizing the Fund's investments under these levels are shown in the Notes to Financial Statements, Note 11 Valuations.

Effective November 1, 2008, the Fund adopted the Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities (SFAS 161). SFAS 161 requires that objectives for using derivative instruments be disclosed in terms of underlying risk and accounting designation. The required disclosures are reflected in the Schedules of Investments, Statements of Operations, and in the Notes to Financial Statements, Note 6 Derivative Instruments.

**Subsequent Events.** Subsequent events have been evaluated through December 17, 2009, the date that the financial statements were available to be issued. All subsequent events determined to be relevant and material to the financial statements have been appropriately recorded or disclosed.

## NOTE 2 INVESTMENT ADVISOR AND TRANSACTIONS WITH AFFILIATES OR CERTAIN OTHER PARTIES

Pursuant to an investment advisory agreement with Calamos Advisors LLC ( Calamos Advisors ), the Fund pays an annual fee, payable monthly, equal to 0.80% based on the average weekly managed assets. Managed assets means a fund's total assets (including any assets attributable to any leverage that may be outstanding) minus total liabilities (other than debt representing financial leverage). Calamos Advisors has contractually agreed to waive a portion of its management fee at the annual rate of 0.07% of the average weekly managed assets of the Fund (through May 31, 2009 and to waive a declining amount for two additional years (0.05% of the average weekly managed assets in 2010, and 0.03% in 2011). For the year ended October 31, 2009, the total advisory fee waived pursuant to such agreement was \$567,676 and is included in the Statement of Operations under the caption Less expense reductions .

Calamos Advisors has agreed to waive a portion of its advisory fee charged to the Fund equal to the advisory fee paid by Calamos Government Money Market Fund ( GMMF, which was an affiliated fund and a series of Calamos

Investments Trust) attributable to the Fund's investment in GMMF, based on daily net assets. For the year ended October 31, 2009, the total advisory fee waived pursuant to such agreement was \$11,752 and is included in the Statement of Operations under the caption "Less expense reductions".

Pursuant to a financial accounting services agreement, during the year the Fund paid Calamos Advisors a fee for financial accounting services payable monthly at the annual rate of 0.0175% on the first \$1 billion of combined assets, 0.0150% on the next \$1 billion of combined assets and 0.0110% on combined assets above \$2 billion (for purposes of this calculation "combined assets" means the sum of the total average daily net assets of Calamos Investment Trust, Calamos Advisors Trust, and the total average weekly managed assets of Calamos Convertible and High Income Fund, Calamos Strategic Total Return Fund, Calamos Convertible Opportunities and Income Fund, Calamos Global Total Return Fund and Calamos Global Dynamic Income Fund).

## Notes to Financial Statements

Financial accounting services include, but are not limited to, the following: managing expenses and expense payment processing; monitoring the calculation of expense accrual amounts; calculating, tracking and reporting tax adjustments on all assets; and monitoring trustee deferred compensation plan accruals and valuations. The Fund pays its pro rata share of the financial accounting services fee payable to Calamos Advisors based on its relative portion of combined assets used in calculating the fee.

The Fund reimburses Calamos Advisors for a portion of compensation paid to the Fund's Chief Compliance Officer. This compensation is reported as part of Trustees' fees and officer compensation expense on the Statement of Operations.

A trustee and certain officers of the Fund are also officers and directors of Calamos Advisors. Such trustee and officers serve without direct compensation from the Fund.

The Fund has adopted a deferred compensation plan (the Plan). Under the Plan, a trustee who is not an interested person (as defined in the 1940 Act) and has elected to participate in the Plan (a participating trustee) may defer receipt of all or a portion of his compensation from the Fund. The deferred compensation payable to the participating trustee is credited to the trustee's deferral account as of the business day such compensation would have been paid to the participating trustee. The value of amounts deferred for a participating trustee is determined by reference to the change in value of Class I shares of one or more funds of Calamos Investment Trust designated by the participant. The value of the account increases with contributions to the account or with increases in the value of the measuring shares, and the value of the account decreases with withdrawals from the account or with declines in the value of the measuring shares. Deferred compensation investments of \$101,871 are included in Other assets on the Statement of Assets and Liabilities at October 31, 2009. The Fund's obligation to make payments under the Plan is a general obligation of the Fund and is included in Payable for deferred compensation to trustees on the Statement of Assets and Liabilities at October 31, 2009.

## NOTE 3 INVESTMENTS

The cost of purchases and proceeds from the sale of long-term investments, for the year ended October 31, 2009 were as follows:

	<b>U.S. Gov t Securities</b>	<b>Other</b>
Cost of purchases	\$ 3,034,556	\$ 259,992,910
Proceeds from sales	1,000,000	337,696,515

The following information is presented on a federal income tax basis as of October 31, 2009. Differences between the cost basis under U.S. generally accepted accounting principles and federal income tax purposes are primarily due to temporary differences.

The cost basis of investments for federal income tax purposes at October 31, 2009 was as follows:

Cost basis of Investments	\$ 1,183,210,366
---------------------------	------------------

Gross unrealized appreciation	29,373,446
Gross unrealized depreciation	(122,130,646)
Net unrealized appreciation (depreciation)	\$ (92,757,200)

NOTE 4 INCOME TAXES

For the year ended October 31, 2009, the Fund recorded the following permanent reclassifications to reflect tax character. The results of operations and net assets were not affected by these reclassifications.

Undistributed net investment income/(loss)	\$ 5,192,112
Accumulated net realized gain/(loss) on investments	(5,192,112)

The Fund intends to make monthly distributions from its income available for distribution, which consists of the Fund's dividends and interest income after payment of Fund expenses, and net realized gains on stock investments. At least annually, the Fund intends to distribute all or substantially all of its net realized capital gains, if any. Distributions are recorded on the ex-dividend date.

## Notes to Financial Statements

The Fund distinguishes between distributions on a tax basis and a financial reporting basis. Accounting principles generally accepted in the United States of America require that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. Permanent differences between book and tax accounting relating to distributions are reclassified to paid-in-capital. For tax purposes, distributions from short-term capital gains are considered to be from ordinary income. Distributions in any year may include a return of capital component

Distributions were characterized for federal income tax purposes as follows:

	<b>Year Ended October 31, 2009</b>	<b>Year Ended October 31, 2008</b>
<b>Distributions paid from:</b>		
Ordinary income	\$ 69,675,294	\$ 98,187,009
Long-term capital gains	1,160,756	20,227,620

As of October 31, 2009, the components of accumulated earnings/(loss) on a tax basis were as follows:

Undistributed ordinary income	\$ 1,637,402
Undistributed capital gains	
Total undistributed earnings	1,637,402
Accumulated capital and other losses	(65,477,489)
Net unrealized gains/(losses)	(94,299,465)
Total accumulated earnings/(losses)	(158,139,552)
Other	(107,921)
Paid-in capital	991,016,203
Net assets applicable to common shareholders	\$ 832,768,730

As of October 31, 2009, the Fund had a capital loss carryforward of \$65,477,489 which, if not used, will expire in 2017.

## NOTE 5 COMMON SHARES

There are unlimited common shares of beneficial interest authorized and 69,837,235 shares outstanding at October 31, 2009. Calamos Advisors owned 25,605 of the outstanding shares at October 31, 2009. Transactions in common shares



were as follows:

	<b>Year Ended October 31, 2009</b>	<b>Year Ended October 31, 2008</b>
Beginning shares	67,837,867	67,413,993
Shares sold	1,696,795	125,893
Shares issued through reinvestment of distributions	302,573	297,981
Ending shares	69,837,235	67,837,867

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940 that the Fund may from time to time purchase its shares of common stock in the open market.

#### NOTE 6 DERIVATIVE INSTRUMENTS

**Foreign Currency Risk.** The Fund may engage in portfolio hedging with respect to changes in currency exchange rates by entering into foreign currency contracts to purchase or sell currencies. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include, among other things, movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The net unrealized gain, if any, represents the credit risk to the Fund on a forward foreign currency contract. The contracts are valued daily at forward foreign exchange rates and an unrealized gain or loss is recorded. The Fund realizes a gain or loss when a position is closed or upon settlement of the contracts.

## Notes to Financial Statements

As of October 31, 2009, the Fund had no outstanding forwards.

**Equity Risk.** The Fund may engage in option transactions and in doing so achieve the similar objectives to what it would achieve through the sale or purchase of individual securities. A call option, upon payment of a premium, gives the purchaser of the option the right to buy, and the seller of the option the obligation to sell, the underlying security, index or other instrument at the exercise price. A put option gives the purchaser of the option, upon payment of a premium, the right to sell, and the seller the obligation to buy, the underlying security, index, or other instrument at the exercise price.

To seek to offset some of the risk of a potential decline in value of certain long positions, the Fund may also purchase put options on individual securities, broad-based securities indexes or certain exchange traded funds ( ETFs ). The Fund may also seek to generate income from option premiums by writing (selling) options on a portion of the equity securities (including securities that are convertible into equity securities) in the Fund's portfolio, on broad-based securities indexes, or certain ETFs.

When a Fund purchases an option, it pays a premium and an amount equal to that premium is recorded as an asset. When a Fund writes an option, it receives a premium and an amount equal to that premium is recorded as a liability. The asset or liability is adjusted daily to reflect the current market value of the option. If an option expires unexercised, the Fund realizes a gain or loss to the extent of the premium received or paid. If an option is exercised, the premium received or paid is recorded as an adjustment to the proceeds from the sale or the cost basis of the purchase in determining whether the Fund has realized a gain or loss. The difference between the premium and the amount received or paid on a closing purchase or sale transaction is also treated as a realized gain or loss. The cost of securities acquired through the exercise of call options is increased by premiums paid. The proceeds from securities sold through the exercise of put options are decreased by the premiums paid. Gain or loss on written options and purchased options is presented separately as net realized gain or loss on written options and net realized gain or loss on purchased options, respectively.

As of October 31, 2009, the Fund had outstanding purchased options and/or written options as listed on the Schedule of Investments. For the year ended October 31, 2009, the Fund had the following transactions in options written:

	<b>Number of Contracts</b>	<b>Premiums Received</b>
Options outstanding at October 31, 2008	17,829	\$ 4,674,090
Options written	40,986	14,652,512
Options closed	(48,905)	(15,636,849)
Options exercised		
Options expired	(1,660)	(706,016)
Options outstanding at October 31, 2009	8,250	\$ 2,983,737

**Interest Rate Risk.** The Fund may engage in interest rate swaps primarily to manage duration and yield curve risk, or as alternatives to direct investments, or to hedge the interest rate risk on the fund's borrowings (see Note 8

Borrowings). An interest rate swap is a contract that involves the exchange of one type of interest rate for another type of interest rate. Three main types of interest rate swaps are coupon swaps (fixed rate to floating rate in the same currency); basis swaps (one floating rate index to another floating rate index in the same currency); and cross-currency interest rate swaps (fixed rate in one currency to floating rate in another). In the case of a coupon swap, a Fund may agree with a counterparty that the Fund will pay a fixed rate (multiplied by a notional amount) while the counterparty will pay a floating rate multiplied by the same notional amount. If interest rates rise, resulting in a diminution in the value of the Fund's portfolio, the Fund would receive payments under the swap that would offset, in whole or in part, such diminution in value; if interest rates fall, the Fund would likely lose money on the swap transaction. Unrealized gains are reported as an asset, and unrealized losses are reported as a liability on the Statement of Assets and Liabilities. The change in value of swaps, including accruals of periodic amounts of interest to be paid or received on swaps, is reported as change in net unrealized appreciation/depreciation on interest rate swaps in the Statement of Operations. A realized gain or loss is recorded in net realized gain (loss) in the Statement of Operations upon payment or receipt of a periodic payment or termination of the swap agreements. Swap agreements are stated at fair value. Notional principal amounts are used to express the extent of involvement in these transactions, but the amounts potentially subject to credit risk are much smaller. In connection with

Notes to Financial Statements

these contracts, securities may be identified as collateral in accordance with the terms of the respective swap contracts in the event of default or bankruptcy.

Premiums paid to or by a Fund are accrued daily and included in realized gain (loss) when paid on swaps in the accompanying Statement of Operations. The contracts are marked-to-market daily based upon third party vendor valuations and changes in value are recorded as unrealized appreciation (depreciation). Gains or losses are realized upon early termination of the contract. Risks may exceed amounts recognized in the Statement of Assets and Liabilities. These risks include changes in the returns of the underlying instruments, failure of the counterparties to perform under the contracts terms, counterparty s creditworthiness, and the possible lack of liquidity with respect to the contracts.

As of October 31, 2009, the Fund had outstanding interest rate swap agreements as listed on the Schedule of Investments.

Below are the types of derivatives in the Fund by gross value as of October 31, 2009:

	<b>Assets</b>		<b>Liabilities</b>	
	<b>Statement of Assets &amp; Liabilities Location</b>	<b>Value</b>	<b>Statement of Assets &amp; Liabilities Location</b>	<b>Value</b>
Derivative Type:				
Purchased options	Investments in securities	\$1,248,665	Written options	\$ 3,487,000
Interest Rate contracts	Unrealized appreciation on swaps		Unrealized depreciation on swaps	1,077,687

**VOLUME OF DERIVATIVE ACTIVITY FOR THE TWELVE MONTHS ENDED OCTOBER 31, 2009\***

Equity:	
Purchased options	1,000
Written options	40,986
Foreign currency contracts	
Interest rate swaps	\$ 243,000,000
Credit swaps	

\* Activity during the period is measured by opened number of contracts for options and opened notional amount for swap contracts.

**NOTE 7 PREFERRED SHARES**

On March 18, 2009, the Fund s Board approved the final redemption of all preferred shares outstanding. The shares were redeemed at a price of \$25,000 per share plus any accrued and unpaid dividends (an aggregate price of \$80,007,130).

**NOTE 8 BORROWINGS**

On May 15, 2008, the Fund entered into a Revolving Credit and Security Agreement with conduit lenders and a bank that allowed it to borrow up to an initial limit of \$413.4 million. Borrowings under the Revolving Credit and Security Agreement were secured by assets of the Fund. Interest was charged at a rate above the conduits' commercial paper issuance rate and was payable monthly. Under the Revolving Credit and Security Agreement, the Fund also paid a program fee on its outstanding borrowings to administer the facility and a liquidity fee on the total borrowing limit.

The Fund, with the approval of its Board of Trustees, including its independent Trustees, has entered into a financing package that includes a Committed Facility Agreement (the Agreement) with BNP Paribas Prime Brokerage, Inc. (as successor to Bank of America N.A.) (BNP) that allows the Fund to borrow up to an initial limit of \$400,000,000, and a Lending Agreement, as defined below. The Agreement with BNP replaced the Revolving Credit and Security Agreement, and an initial draw-down of \$190,000,000 under the Agreement was utilized to pay off outstanding indebtedness under the Revolving Credit and Security Agreement in its entirety. Borrowings under the Agreement are secured by assets of the Fund that are held with the Fund's custodian in a separate account (the pledged collateral). Interest is charged at the quarterly LIBOR (London Inter-bank Offered Rate) plus .95% on the amount borrowed and .85% on the undrawn balance. For the year ended October 31, 2009, the average borrowings and the average

## Notes to Financial Statements

interest rate were \$214,498,630 and 1.63%, respectively. As of October 31, 2009, the amount of such outstanding borrowings is \$270,000,000. The interest rate applicable to the borrowings on October 31, 2009 was 1.23%.

The Lending Agreement is a separate side-agreement between the Fund and BNP pursuant to which BNP may borrow a portion of the pledged collateral (the Lent Securities) in an amount not to exceed the outstanding borrowings owed by the Fund to BNP under the Agreement. The Lending Agreement is intended to permit the Fund to significantly reduce the cost of its borrowings under the Agreement. BNP may re-register the Lent Securities in its own name or in another name other than the Fund, and may pledge, re-pledge, sell, lend or otherwise transfer or use the Lent Securities with all attendant rights of ownership. (It is the Fund's understanding that BNP will perform due diligence to determine the creditworthiness of any party that borrows Lent Securities from BNP.) The Fund may designate any security within the pledged collateral as ineligible to be a Lent Security, provided there are eligible securities within the pledged collateral in an amount equal to the outstanding borrowing owed by the Fund. During the period in which the Lent Securities are outstanding, BNP must remit payment to the Fund equal to the amount of all dividends, interest or other distributions earned or made by the Lent Securities.

Under the terms of the Lending Agreement, the Lent Securities are marked to market daily, and if the value of the Lent Securities exceeds the value of the then-outstanding borrowings owed by the Fund to BNP under the Agreement (the Current Borrowings), BNP must, on that day, either (1) return Lent Securities to the Fund's custodian in an amount sufficient to cause the value of the outstanding Lent Securities to equal the Current Borrowings; or (2) post cash collateral with the Fund's custodian equal to the difference between the value of the Lent Securities and the value of the Current Borrowings. If BNP fails to perform either of these actions as required, the Fund will recall securities, as discussed below, in an amount sufficient to cause the value of the outstanding Lent Securities to equal the Current Borrowings. The Fund can recall any of the Lent Securities and BNP shall, to the extent commercially possible, return such security or equivalent security to the Fund's custodian no later than three business days after such request. If the Fund recalls a Lent Security pursuant to the Lending Agreement, and BNP fails to return the Lent Securities or equivalent securities in a timely fashion, BNP shall remain liable to the Fund's custodian for the ultimate delivery of such Lent Securities, or equivalent securities, and for any buy-in costs that the executing broker for the sales transaction may impose with respect to the failure to deliver. The Fund shall also have the right to apply and set-off an amount equal to one hundred percent (100%) of the then-current fair market value of such Lent Securities against the Current Borrowings.

**NOTE 9 SECURITIES LENDING**

The Fund may loan one or more of their securities to broker-dealers and banks. Any such loan must be secured by collateral in cash or cash equivalents maintained on a current basis in an amount at least equal to the value of the securities loaned by the Fund. The Fund continues to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned and also receive an additional return that may be in the form of a fixed fee or a percentage of the collateral. Upon receipt of cash or cash equivalent collateral, the Fund's securities lending agent invests the collateral into short term investments following investment guidelines approved by Calamos Advisors. The Fund records the investment of collateral as an asset and the value of the collateral as a liability on the Statements of Assets and Liabilities. If the value of the invested collateral declines below the value of the collateral deposited by the borrower, the Fund will record unrealized depreciation equal to the decline in value of the invested collateral. The Fund may pay reasonable fees to persons unaffiliated with the Fund for services in arranging these loans. The Fund has the right to call a loan and obtain the securities loaned at any time. The Fund does not have the right to vote the securities during the existence of the loan but could call the loan in an attempt to permit voting of the securities in certain circumstances. Upon return of the securities loaned, the cash or cash equivalent collateral will be returned to

the borrower. In the event of bankruptcy or other default of the borrower, the Fund could experience both delays in liquidating the loan collateral or recovering the loaned securities and losses, including (a) possible decline in the value of the collateral or in the value of the securities loaned during the period while the Fund seeks to enforce its rights thereto, (b) possible subnormal levels of income and lack of access to income during this period, and (c) the expenses of enforcing their rights. In an effort to reduce these risks, the Fund's security lending agent monitors and reports to Calamos Advisors on the creditworthiness of the firms to which a Fund lends securities. At October 31, 2009, the Fund had no securities on loan.

F-13

---

Notes to Financial Statements

NOTE 10 SYNTHETIC CONVERTIBLE SECURITIES

The Fund may establish a synthetic convertible instrument by combining separate securities that possess the economic characteristics similar to a convertible security, i.e., fixed-income securities ( fixed-income component ), which may be a convertible or non-convertible security and the right to acquire equity securities ( convertible component ). The fixed-income component is achieved by investing in fixed income securities such as bonds, preferred stocks, and money market instruments. The convertible component is achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index. In establishing a synthetic instrument, the Fund may pool a basket of fixed-income securities and a basket of warrants or purchased options that produce the economic characteristics similar to a convertible security. Within each basket of fixed-income securities and warrants or options, different companies may issue the fixed-income and convertible components, which may be purchased separately and at different times.

The Fund may also purchase synthetic securities created by other parties, typically investment banks, including convertible structured notes. Convertible structured notes are fixed-income debentures linked to equity. Convertible structured notes have the attributes of a convertible security; however, the investment bank that issued the convertible note assumes the credit risk associated with the investment, rather than the issuer of the underlying common stock into which the note is convertible. Purchasing synthetic convertible securities may offer more flexibility than purchasing a convertible security.

NOTE 11 STRUCTURED EQUITY LINKED SECURITIES

The Fund may also invest in structured equity-linked securities created by third parties, typically investment banks. Structured equity linked securities created by such parties may be designed to simulate the characteristics of traditional convertible securities or may be designed to alter or emphasize a particular feature. Traditional convertible securities typically offer stable cash flows with the ability to participate in capital appreciation of the underlying common stock. Because traditional convertible securities are exercisable at the option of the holder, the holder is protected against downside risk. Structured equity-linked securities may alter these characteristics by offering enhanced yields in exchange for reduced capital appreciation or less downside protection, or any combination of these features. Structured equity-linked instruments may include structured notes, equity-linked notes, mandatory convertibles and combinations of securities and instruments, such as a debt instrument combined with a forward contract. Income received from these securities are recorded as dividends on the Statement of Operations.

NOTE 12 VALUATIONS

Various inputs are used to determine the value of the Fund's investments. These inputs are categorized into three broad levels as follows:

Level 1 assets and liabilities use inputs from unadjusted quoted prices from active markets (including securities actively traded on a securities exchange).

Level 2 assets and liabilities reflect inputs other than quoted prices, but use observable market data (including quoted prices of similar securities, interest rates, credit risk, etc.).

Level 3 assets and liabilities are valued using unobservable inputs (including the Fund's own judgments about assumptions market participants would use in determining fair value).





## Notes to Financial Statements

The following is a summary of the inputs used in valuing the Fund's assets and liabilities at fair value:

<b>Valuation Inputs</b>	<b>Value of Investment Securities</b>	<b>Other Financial Instruments</b>
Level 1 - Quoted Prices		
Common Stocks	\$ 17,620,122	\$
Convertible Preferred Stocks	116,158,430	
Synthetic Convertible Securities (Purchased Options)	1,248,665	
Written Options		(3,487,000)
Short Term Investments	24,390,715	
Level 2 - Other significant observable inputs		
Common Stocks		
Convertible Bonds	196,722,584	
Corporate Bonds	637,929,051	
U.S. Government and Agency Security	1,998,407	
Sovereign Bonds	10,424,985	
Convertible Preferred Stocks	35,918,340	
Synthetic Convertible Securities (Corporate Bonds, U.S. Government and Agency Security, Sovereign Bond)	7,081,669	
Structured Equity-Linked Securities	40,960,198	
Interest Rate Swaps		(1,077,687)
<b>Total</b>	<b>\$ 1,090,453,166</b>	<b>\$ (4,564,687)</b>

## Financial Highlights

Selected data for a share outstanding throughout each period were as follows:

	Year Ended October 31,				
	2009	2008	2007	2006	2005
Net asset value, beginning of period	\$8.30	\$15.64	\$15.44	\$15.21	\$15.47
Income from investment operations:					
Net investment income (loss)	0.82**	1.05**	1.27**	1.34	1.49
Net realized and unrealized gain (loss)	3.82	(6.63)	0.75	0.75	(0.09)
Distributions to preferred shareholders from:					
Net investment income (common share equivalent basis)	(a)	(0.12)	(0.30)	(0.29)	(0.20)
Net realized gains (common share equivalent basis)		(0.07)	(0.03)	(0.02)	
Total from investment operations	4.64	(5.77)	1.69	1.78	1.20
Less distributions to common shareholders from:					
Net investment income	(1.00)	(1.34)	(1.22)	(1.29)	(1.34)
Net realized gains	(0.02)	(0.23)	(0.27)	(0.26)	(0.12)

Capital charge resulting from issuance of common and preferred shares and related offering costs	(a)	(a)		(a)	
Net asset value, end of period	\$11.92	\$8.30	\$15.64	\$15.44	\$15.21
Market value, end of period	\$11.01	\$8.74	\$14.67	\$16.98	\$15.52
Total investment return based on: <sup>(b)</sup>					
Net asset value	60.83%	(39.96)%	11.31%	12.16%	7.99%
Market value	41.07%	(32.59)%	(5.06)%	20.88%	1.83%
Net assets, end of period (000)	\$832,769	\$563,187	\$1,054,614	\$1,030,741	\$940,736
Preferred shares, at redemption value (\$25,000 per share liquidation preference) (000 s omitted)	\$	\$80,000	\$430,000	\$430,000	\$430,000
Ratios to average net assets applicable to common shareholders:					
Net expenses <sup>(c)</sup>	3.01%	1.91%	1.18%	1.20%	1.23%
Gross expenses prior to expense reductions and earnings credits <sup>(c)</sup>	3.10%	2.04%	1.33%	1.34%	1.38%
Net investment income (loss) <sup>(c)</sup>	8.56%	7.77%	8.20%	8.76%	9.55%
Preferred share distributions	0.04%	0.87%	1.95%	1.88%	1.30%

Net investment income (loss), net of preferred share distributions from net investment income	8.52%	6.90%	6.25%	6.88%	8.25%
Portfolio turnover rate	29%	55%	57%	38%	55%
Asset coverage per preferred share, at end of period <sup>(d)</sup>	\$	\$201,006	\$86,333	\$84,945	\$79,708
Asset coverage per \$1,000 of loan outstanding <sup>(e)</sup>	\$4,084	\$3,438	\$	\$	\$

\*\* Net investment income allocated based on average shares method.

- (a) Amount equated to less than \$0.005 per common share.
- (b) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of the period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total return is not annualized for periods less than one year. Brokerage commissions are not reflected. NAV per share is determined by dividing the value of the Fund's portfolio securities, cash and other assets, less all liabilities, by the total number of common shares outstanding. The common share market price is the price the market is willing to pay for shares of the Fund at a given time. Common share market price is influenced by a range of factors, including supply and demand and market conditions.
- (c) Does not reflect the effect of dividend payments to Preferred Shareholders.
- (d) Calculated by subtracting the Fund's total liabilities (not including Preferred Shares) from the Fund's total assets and dividing this by the number of Preferred Shares outstanding.
- (e) Calculated by subtracting the Fund's total liabilities (not including Note payable) and preferred shares from the Fund's total assets and dividing this by the amount of note payable outstanding, and by multiplying the result by 1,000.

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
<b>CORPORATE BONDS (76.6%)</b>		
	<i>Consumer Discretionary (12.7%)</i>	
4,575,000	Asbury Automotive Group, Inc. 7.625%, 03/15/17	\$ 4,140,375
989,000	Boyd Gaming Corp. 7.125%, 02/01/16	860,430
1,978,000	Brinker International, Inc. 5.750%, 06/01/14	1,957,197
3,957,000	Cooper Tire & Rubber Company 8.000%, 12/15/19	3,897,645
6,232,000	DISH Network Corp. 7.125%, 02/01/16μ	6,263,160
2,473,000	7.875%, 09/01/19*	2,544,099
6,925,000	Expedia, Inc. 7.456%, 08/15/18	7,357,812
6,702,000	GameStop Corp.μ 8.000%, 10/01/12	6,944,948
6,430,000	General Motors Corp. 7.200%, 01/15/11	964,500
4,748,000	7.125%, 07/15/13	712,200
4,946,000	Goodyear Tire & Rubber Companyμ 7.000%, 03/15/28	4,228,830
7,172,000	Hanesbrands, Inc.μ 4.593%, 12/15/14	6,490,660
9,200,000	Hasbro, Inc.μ 6.600%, 07/15/28	8,712,989
1,850,000	Interpublic Group of Companies, Inc. 10.000%, 07/15/17	1,998,000
1,484,000	J.C. Penney Company, Inc.μ 7.650%, 08/15/16	1,558,200
825,000	9.000%, 08/01/12	903,375
2,948,000	Jarden Corp. 7.500%, 05/01/17	2,918,520
3,175,000		1,115,219

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

	Kellwood Company	
	7.625%, 10/15/17	
3,462,000	Liberty Media Corp.μ	
	8.250%, 02/01/30	3,133,110
3,883,000	Mandalay Resort Group	
	7.625%, 07/15/13	3,082,131
940,000	Phillips-Van Heusen Corp.	
	8.125%, 05/01/13	963,500
	Royal Caribbean Cruises, Ltd.μ	
11,772,000	7.500%, 10/15/27	9,535,320
989,000	7.000%, 06/15/13	959,330
	Service Corp. Internationalμ	
8,409,000	7.500%, 04/01/27	7,526,055
2,968,000	7.625%, 10/01/18	2,960,580
1,484,000	Sotheby's Holdings, Inc.μ	
	7.750%, 06/15/15	1,331,890
989,000	Speedway Motorsports, Inc.*	
	8.750%, 06/01/16	1,038,450
8,507,000	Vail Resorts, Inc.μ	
	6.750%, 02/15/14	8,496,366
1,978,000 GBP	Warner Music Group Corp.	
	8.125%, 04/15/14	3,011,028
		105,605,919
	<b>Consumer Staples (6.5%)</b>	
1,978,000	Chattem, Inc.μ	
	7.000%, 03/01/14	2,007,670
4,204,000	Chiquita Brands International, Inc.	
	8.875%, 12/01/15	4,288,080
	Constellation Brands, Inc.	
4,788,000	7.250%, 09/01/16μ	4,823,910
989,000	7.250%, 05/15/17	996,418
1,350,000	Del Monte Foods Company*	
	7.500%, 10/15/19	1,377,000
4,452,000	NBTY, Inc.μ	
	7.125%, 10/01/15	4,374,090
	Pilgrim's Pride Corp.**	
7,864,000	8.375%, 05/01/17	8,788,020
2,523,000	7.625%, 05/01/15	2,825,760
	Reynolds American, Inc.	
6,430,000	7.300%, 07/15/15μ	6,804,708
3,957,000	7.625%, 06/01/16μ	4,267,838
3,957,000	7.250%, 06/15/37~	4,011,132
	Smithfield Foods, Inc.	
9,892,000	7.750%, 07/01/17	8,111,440
1,978,000	7.750%, 05/15/13	1,780,200
		54,456,266

**Energy (16.9%)**

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

1,484,000	Arch Coal, Inc.* 8.750%, 08/01/16	1,528,520
7,419,000	Arch Western Finance, LLCμ 6.750%, 07/01/13	7,196,430
1,978,000	Berry Petroleum Company 10.250%, 06/01/14	2,126,350
1,484,000	Bill Barrett Corp. 9.875%, 07/15/16	1,580,460
5,886,000	Bristow Group, Inc.μ 7.500%, 09/15/17	5,694,705
3,957,000	Chesapeake Energy Corp. 9.500%, 02/15/15μ	4,303,237
3,195,000	6.875%, 11/15/20~	2,955,375
2,473,000	Complete Production Services, Inc.~ 8.000%, 12/15/16	2,355,533
5,144,000	Comstock Resources, Inc. 8.375%, 10/15/17	5,118,280
1,978,000	Continental Resources, Inc.* 8.250%, 10/01/19	2,042,285
7,467,000	Dresser-Rand Group, Inc. 7.375%, 11/01/14	7,410,997

See accompanying Notes to Schedule of Investments

F-17

---



## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
2,968,000	Frontier Oil Corp.μ 8.500%, 09/15/16	\$ 3,042,200
4,629,000	GulfMark Offshore, Inc.μ 7.750%, 07/15/14	4,536,420
9,892,000	Helix Energy Solutions Group, Inc.μ*	
	9.500%, 01/15/16	10,213,490
5,520,000	Hornbeck Offshore Services, Inc. 8.000%, 09/01/17*	5,492,400
1,133,000	6.125%, 12/01/14μ	1,053,690
3,462,000	Mariner Energy, Inc.μ 11.750%, 06/30/16	3,825,510
2,894,000	8.000%, 05/15/17	2,734,830
6,826,000	Petrohawk Energy Corp.μ 7.125%, 04/01/12	6,826,000
5,935,000	Petroplus Holdings, AG* 9.375%, 09/15/19	5,979,512
1,978,000	6.750%, 05/01/14	1,859,320
495,000	7.000%, 05/01/17	450,450
4,452,000	Pride International, Inc.μ 8.500%, 06/15/19	4,997,370
2,305,000	Range Resources Corp. 8.000%, 05/15/19μ	2,402,963
989,000	7.500%, 10/01/17	996,418
5,441,000	SEACOR Holdings, Inc. 7.375%, 10/01/19	5,468,956
7,518,000	Superior Energy Services, Inc.μ 6.875%, 06/01/14	7,367,640
2,968,000	Swift Energy Companyμ 7.625%, 07/15/11	2,997,680
17,312,000	Valero Energy Corp.μ 7.500%, 06/15/15	17,733,911
3,532,000	Whiting Petroleum Corp.μ 7.250%, 05/01/12	3,554,075
6,875,000	Williams Companies, Inc.~ 7.750%, 06/15/31	7,199,527

		141,044,534
	<b>Financials (8.0%)</b>	
	Ford Motor Credit Company, LLC	
6,183,000	9.875%, 08/10/11	6,326,971
5,441,000	8.625%, 11/01/10	5,551,648
10,882,000	Host Hotels & Resorts, Inc.	
	7.125%, 11/01/13	10,882,000
3,759,000	Janus Capital Group, Inc.	
	6.950%, 06/15/17	3,578,467
	Leucadia National Corp.μ	
7,231,000	8.125%, 09/15/15	7,357,542
5,935,000	7.000%, 08/15/13	6,024,025
6,925,000	Nuveen Investments, Inc.*	
	10.500%, 11/15/15	6,163,250
940,000	Omega Healthcare Investors, Inc.	
	7.000%, 04/01/14	923,550
	Senior Housing Properties Trustμ	
4,946,000	8.625%, 01/15/12	5,069,650
3,495,000	7.875%, 04/15/15	3,302,775
12,860,000	SLM Corp.μ	
	8.450%, 06/15/18	11,342,327
		66,522,205
	<b>Health Care (0.5%)</b>	
	Bio-Rad Laboratories, Inc.	
1,978,000	8.000%, 09/15/16*	2,042,285
1,978,000	7.500%, 08/15/13μ	2,017,560
		4,059,845
	<b>Industrials (7.9%)</b>	
	BE Aerospace, Inc.μ	
3,957,000	8.500%, 07/01/18	4,125,172
	Belden, Inc.	
3,957,000	9.250%, 06/15/19*	4,253,775
2,369,000	7.000%, 03/15/17μ	2,297,930
989,000	Cummins, Inc.~	
	7.125%, 03/01/28	885,913
1,889,000	Deluxe Corp.~	
	7.375%, 06/01/15	1,860,665
13,849,000	Esterline Technologies Corp.	
	7.750%, 06/15/13	13,918,245
3,462,000	Gardner Denver, Inc.μ	
	8.000%, 05/01/13	3,340,830
1,850,000	H&E Equipment Service, Inc.	
	8.375%, 07/15/16	1,789,875
5,837,000	Interline Brands, Inc.μ	
	8.125%, 06/15/14	5,778,630

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

1,978,000 GBP	Iron Mountain, Inc.* 7.250%, 04/15/14	3,246,391
3,166,000	Kansas City Southern 13.000%, 12/15/13	3,648,815
5,935,000	Spirit AeroSystems Holdings, Inc.* 7.500%, 10/01/17	5,920,162
6,925,000	Terex Corp. 8.000%, 11/15/17	6,422,937
1,875,000	7.375%, 01/15/14	1,851,563
3,215,000	Trinity Industries, Inc. 6.500%, 03/15/14	3,186,869
1,978,000	Wesco Distribution, Inc. 7.500%, 10/15/17	1,955,747
989,000	Westinghouse Air Brake Technologies Corp. 6.875%, 07/31/13	1,001,363
		65,484,882
	<b><i>Information Technology (9.6%)</i></b>	
10,189,000	Amkor Technology, Inc. 9.250%, 06/01/16	10,698,450
2,968,000	7.750%, 05/15/13	2,971,710
4,946,000	Anixter International, Inc. 5.950%, 03/01/15	4,599,780

See accompanying Notes to Schedule of Investments

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
989,000	10.000%, 03/15/14	\$ 1,075,538
2,711,000	Arrow Electronics, Inc.~ 6.875%, 06/01/18	2,855,976
8,409,000	Celestica, Inc.μ 7.625%, 07/01/13	8,661,270
3,376,000	Flextronics International, Ltd.~ 6.500%, 05/15/13	3,392,880
5,886,000	Freescale Semiconductor, Inc. 8.875%, 12/15/14	4,811,805
5,441,000	Jabil Circuit, Inc. 8.250%, 03/15/18μ	5,808,267
989,000	7.750%, 07/15/16	1,031,033
5,935,000	Lender Processing Services, Inc.μ 8.125%, 07/01/16	6,276,262
2,898,000	Lexmark International, Inc.μ 6.650%, 06/01/18	2,923,198
1,610,000	NXP, BV 7.875%, 10/15/14	1,336,300
3,462,000	Seagate Technologyμ 6.800%, 10/01/16	3,410,070
3,858,000	SunGard Data Systems, Inc. 9.125%, 08/15/13	3,944,805
15,660,000	Xerox Corp.μ 7.625%, 06/15/13	16,077,308
		79,874,652
	<b>Materials (9.5%)</b>	
2,077,000	Airgas, Inc.* 7.125%, 10/01/18	2,149,695
3,710,000	Allegheny Ludlum Corp. 6.950%, 12/15/25	3,294,369
1,978,000	Anglo American, PLCμ* 9.375%, 04/08/14	2,312,323
861,000	Ashland, Inc.* 9.125%, 06/01/17	932,032

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

1,484,000	Ball Corp. 7.375%, 09/01/19	1,524,810
2,363,000	Boise Cascade Holdings, LLC 7.125%, 10/15/14	1,973,105
6,806,000	Greif, Inc.* 7.750%, 08/01/19	7,010,180
5,935,000 EUR	Ineos Group Holdings, PLC* 7.875%, 02/15/16	4,825,672
989,000	8.500%, 02/15/16	558,785
3,413,000	Mosaic Companyμ* 7.625%, 12/01/16	3,675,999
3,529,000	Nalco Holding Company 8.250%, 05/15/17μ*	3,723,095
2,473,000 EUR	9.000%, 11/15/13	3,766,771
8,903,000	Neenah Paper, Inc.μ 7.375%, 11/15/14	7,612,065
2,473,000	P.H. Glatfelter Company 7.125%, 05/01/16	2,463,726
6,925,000	Sealed Air Corp.μ* 6.875%, 07/15/33	5,974,710
4,372,000	Silgan Holdings, Inc.*μ 7.250%, 08/15/16	4,459,440
5,233,000	Steel Dynamics, Inc.μ* 8.250%, 04/15/16	5,285,330
5,480,000	Terra Industries, Inc.* 7.750%, 11/01/19	5,534,800
1,978,000	Texas Industries, Inc. 7.250%, 07/15/13	1,948,330
4,798,000	Union Carbide Corp.μ 7.875%, 04/01/23	4,175,551
3,215,000	7.500%, 06/01/25	2,754,056
3,660,000	Westlake Chemical Corp.μ 6.625%, 01/15/16	3,467,850
		79,422,694
	<b>Telecommunication Services (4.4%)</b>	
5,975,000	CenturyTel, Inc.μ 6.875%, 01/15/28	5,544,693
8,112,000	Frontier Communications Corp.μ 9.000%, 08/15/31	8,051,160
6,925,000	Leap Wireless International, Inc.μ 9.375%, 11/01/14	6,751,875
6,925,000	Qwest Communications International, Inc.μ 7.750%, 02/15/31	5,713,125
6,925,000	Sprint Nextel Corp.μ 7.375%, 08/01/15	6,171,906
4,452,000	Syniverse Technologies, Inc.μ 7.750%, 08/15/13	4,273,920

		36,506,679
	<i>Utilities (0.6%)</i>	
6,925,000	Energy Future Holdings Corp. 10.250%, 11/01/15	4,951,375
	<b>TOTAL CORPORATE BONDS</b> (Cost \$659,660,120)	637,929,051
<b>CONVERTIBLE BONDS (23.6%)</b>		
	<i>Consumer Discretionary (2.4%)</i>	
5,000,000	Interpublic Group of Companies, Inc. 4.750%, 03/15/23μ	4,812,500
1,000,000	4.250%, 03/15/23	968,750
13,000,000	Liberty Media Corp. (Time Warner, Inc.)μ§ 3.125%, 03/30/23	12,870,000
2,320,000	Liberty Media Corp. (Viacom, CBS Corp. - Class B)μ§ 3.250%, 03/15/31	1,331,100
		19,982,350

See accompanying Notes to Schedule of Investments

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
	<b><i>Energy (1.5%)</i></b>	
11,000,000	Chesapeake Energy Corp.μ 2.250%, 12/15/38	\$ 8,277,500
800,000	Petrobank Energy & Resources, Ltd.* 5.125%, 07/10/15	1,088,000
3,000,000	St. Mary Land & Exploration Companyμ 3.500%, 04/01/27	2,947,500
		12,313,000
	<b><i>Financials (0.4%)</i></b>	
1,970,000	Health Care REIT, Inc.μ 4.750%, 07/15/27	2,176,850
1,000,000	4.750%, 12/01/26	1,110,000
		3,286,850
	<b><i>Health Care (4.4%)</i></b>	
11,500,000	Cubist Pharmaceuticals, Inc.μ 2.250%, 06/15/13	10,335,625
16,500,000	Life Technologies Corp.μ 3.250%, 06/15/25	19,160,625
7,000,000	Millipore Corp.μ 3.750%, 06/01/26	7,210,000
		36,706,250
	<b><i>Industrials (3.3%)</i></b>	
2,503,000	Energy Conversion Devices, Inc.μ 3.000%, 06/15/13	1,686,396
13,500,000	L-3 Communications Holdings, Inc.μ 3.000%, 08/01/35	13,719,375
3,500,000	Suntech Power Holdings Company, Ltd. 3.000%, 03/15/13	2,646,875
13,000,000		9,603,750

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

	Trinity Industries, Inc.µ 3.875%, 06/01/36	27,656,396
	<b>Information Technology (9.8%)</b>	
1,620,000	ADC Telecommunications, Inc. 3.500%, 07/15/15	1,210,950
5,000,000	Blackboard, Inc.µ 3.250%, 07/01/27	4,875,000
7,000,000	Euronet Worldwide, Inc.µ 3.500%, 10/15/25	6,615,000
9,000,000	Informatica Corp.µ 3.000%, 03/15/26	10,890,000
41,000,000	Intel Corp.µ 2.950%, 12/15/35	37,720,000
21,000,000	Linear Technology Corp.µ 3.000%, 05/01/27	20,212,500
		81,523,450
	<b>Materials (1.8%)</b>	
2,000,000	Anglo American, PLC 4.000%, 05/07/14	3,058,000
10,090,000	Newmont Mining Corp.µ 3.000%, 02/15/12	12,196,288
		15,254,288
	<b>TOTAL CONVERTIBLE BONDS</b> (Cost \$209,042,227)	196,722,584
	<b>U.S. GOVERNMENT AND AGENCY SECURITY (0.2%)</b>	
1,988,000	United States Treasury Note~ 2.125%, 01/31/10 (Cost \$1,997,823)	1,998,407
	<b>SOVEREIGN BOND (1.3%)</b>	
1,830,000 BRL	Federal Republic of Brazil 10.000%, 01/01/12 (Cost \$10,637,985)	10,424,985
	<b>SYNTHETIC CONVERTIBLE SECURITIES (1.0%)</b>	
	<b>Corporate Bonds (0.8%)</b>	
	<b>Consumer Discretionary (0.1%)</b>	
50,000	Asbury Automotive Group, Inc. 7.625%, 03/15/17	45,250
11,000	Boyd Gaming Corp. 7.125%, 02/01/16	9,570
22,000	Brinker International, Inc. 5.750%, 06/01/14	21,769



Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

43,000	Cooper Tire & Rubber Company 8.000%, 12/15/19	42,355
68,000	DISH Network Corp. 7.125%, 02/01/16μ	68,340
27,000	7.875%, 09/01/19*	27,776
75,000	Expedia, Inc. 7.456%, 08/15/18	79,687
73,000	GameStop Corp.μ 8.000%, 10/01/12	75,646
70,000	General Motors Corp. 7.200%, 01/15/11	10,500
52,000	7.125%, 07/15/13	7,800
54,000	Goodyear Tire & Rubber Companyμ 7.000%, 03/15/28	46,170
78,000	Hanesbrands, Inc.μ 4.593%, 12/15/14	70,590
100,000	Hasbro, Inc.μ 6.600%, 07/15/28	94,706
20,000	Interpublic Group of Companies, Inc. 10.000%, 07/15/17	21,600
16,000	J.C. Penney Company, Inc.μ 7.650%, 08/15/16	16,800
9,000	9.000%, 08/01/12	9,855
32,000	Jarden Corp. 7.500%, 05/01/17	31,680
35,000	Kellwood Company 7.625%, 10/15/17	12,294

See accompanying Notes to Schedule of Investments

F-20

---

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
38,000	Liberty Media Corp.µ 8.250%, 02/01/30	\$ 34,390
42,000	Mandalay Resort Group 7.625%, 07/15/13	33,338
10,000	Phillips-Van Heusen Corp. 8.125%, 05/01/13	10,250
128,000	Royal Caribbean Cruises, Ltd.µ 7.500%, 10/15/27	103,680
11,000	7.000%, 06/15/13	10,670
91,000	Service Corp. Internationalµ 7.500%, 04/01/27	81,445
32,000	7.625%, 10/01/18	31,920
16,000	Sotheby s Holdings, Inc.µ 7.750%, 06/15/15	14,360
11,000	Speedway Motorsports, Inc.* 8.750%, 06/01/16	11,550
93,000	Vail Resorts, Inc.µ 6.750%, 02/15/14	92,884
22,000 GBP	Warner Music Group Corp. 8.125%, 04/15/14	33,490
		1,150,365
	<b><i>Consumer Staples (0.1%)</i></b>	
22,000	Chattem, Inc.µ 7.000%, 03/01/14	22,330
46,000	Chiquita Brands International, Inc. 8.875%, 12/01/15	46,920
52,000	Constellation Brands, Inc. 7.250%, 09/01/16µ	52,390
11,000	7.250%, 05/15/17	11,083
15,000	Del Monte Foods Company* 7.500%, 10/15/19	15,300
48,000	NBTY, Inc.µ 7.125%, 10/01/15	47,160
	Pilgrim s Pride Corp.**	

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

86,000	8.375%, 05/01/17	96,105
27,000	7.625%, 05/01/15	30,240
	Reynolds American, Inc.	
70,000	7.300%, 07/15/15μ	74,079
43,000	7.625%, 06/01/16μ	46,378
43,000	7.250%, 06/15/37~	43,588
	Smithfield Foods, Inc.	
108,000	7.750%, 07/01/17	88,560
22,000	7.750%, 05/15/13	19,800
		593,933
	<b>Energy (0.2%)</b>	
16,000	Arch Coal, Inc.*	
	8.750%, 08/01/16	16,480
81,000	Arch Western Finance, LLCμ	
	6.750%, 07/01/13	78,570
22,000	Berry Petroleum Company	
	10.250%, 06/01/14	23,650
16,000	Bill Barrett Corp.	
	9.875%, 07/15/16	17,040
64,000	Bristow Group, Inc.μ	
	7.500%, 09/15/17	61,920
	Chesapeake Energy Corp.	
43,000	9.500%, 02/15/15μ	46,762
35,000	6.875%, 11/15/20~	32,375
27,000	Complete Production Services, Inc.~	
	8.000%, 12/15/16	25,718
56,000	Comstock Resources, Inc.	
	8.375%, 10/15/17	55,720
22,000	Continental Resources, Inc.*	
	8.250%, 10/01/19	22,715
81,000	Dresser-Rand Group, Inc.	
	7.375%, 11/01/14	80,392
32,000	Frontier Oil Corp.μ	
	8.500%, 09/15/16	32,800
50,000	GulfMark Offshore, Inc.μ	
	7.750%, 07/15/14	49,000
108,000	Helix Energy Solutions Group, Inc.μ*	
	9.500%, 01/15/16	111,510
	Hornbeck Offshore Services, Inc.	
60,000	8.000%, 09/01/17*	59,700
12,000	6.125%, 12/01/14μ	11,160
	Mariner Energy, Inc.μ	
38,000	11.750%, 06/30/16	41,990
31,000	8.000%, 05/15/17	29,295
74,000	Petrohawk Energy Corp.μ	
	7.125%, 04/01/12	74,000
	Petroplus Holdings, AG*	
65,000	9.375%, 09/15/19	65,487
22,000	6.750%, 05/01/14	20,680

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

5,000	7.000%, 05/01/17	4,550
48,000	Pride International, Inc.μ 8.500%, 06/15/19	53,880
25,000	Range Resources Corp. 8.000%, 05/15/19μ	26,063
11,000	7.500%, 10/01/17	11,083
59,000	SEACOR Holdings, Inc. 7.375%, 10/01/19	59,303
82,000	Superior Energy Services, Inc.μ 6.875%, 06/01/14	80,360
32,000	Swift Energy Companyμ 7.625%, 07/15/11	32,320
188,000	Valero Energy Corp.μ 7.500%, 06/15/15	192,582
38,000	Whiting Petroleum Corp.μ 7.250%, 05/01/12	38,238
75,000	Williams Companies, Inc.~ 7.750%, 06/15/31	78,540
		1,533,883

See accompanying Notes to Schedule of Investments

F-21

---

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
	<i>Financials (0.1%)</i>	
	Ford Motor Credit Company, LLC	
67,000	9.875%, 08/10/11	\$ 68,560
59,000	8.625%, 11/01/10	60,200
118,000	Host Hotels & Resorts, Inc.	
	7.125%, 11/01/13	118,000
41,000	Janus Capital Group, Inc.	
	6.950%, 06/15/17	39,031
	Leucadia National Corp.μ	
79,000	8.125%, 09/15/15	80,382
65,000	7.000%, 08/15/13	65,975
75,000	Nuveen Investments, Inc.*	
	10.500%, 11/15/15	66,750
10,000	Omega Healthcare Investors, Inc.	
	7.000%, 04/01/14	9,825
	Senior Housing Properties Trustμ	
54,000	8.625%, 01/15/12	55,350
38,000	7.875%, 04/15/15	35,910
140,000	SLM Corp.μ	
	8.450%, 06/15/18	123,478
		723,461
	<i>Health Care (0.0%)</i>	
	Bio-Rad Laboratories, Inc.	
22,000	8.000%, 09/15/16*	22,715
22,000	7.500%, 08/15/13μ	22,440
		45,155
	<i>Industrials (0.1%)</i>	
	BE Aerospace, Inc.μ	
43,000	8.500%, 07/01/18	44,828
	Belden, Inc.	
43,000	9.250%, 06/15/19*	46,225
26,000	7.000%, 03/15/17μ	25,220

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

11,000	Cummins, Inc.~ 7.125%, 03/01/28	9,853
21,000	Deluxe Corp.~ 7.375%, 06/01/15	20,685
151,000	Esterline Technologies Corp. 7.750%, 06/15/13	151,755
38,000	Gardner Denver, Inc.μ 8.000%, 05/01/13	36,670
20,000	H&E Equipment Service, Inc. 8.375%, 07/15/16	19,350
63,000	Interline Brands, Inc.μ 8.125%, 06/15/14	62,370
22,000 GBP	Iron Mountain, Inc.* 7.250%, 04/15/14	36,107
34,000	Kansas City Southernμ 13.000%, 12/15/13	39,185
65,000	Spirit AeroSystems Holdings, Inc.* 7.500%, 10/01/17	64,837
75,000	Terex Corp. 8.000%, 11/15/17	69,562
20,000	7.375%, 01/15/14	19,750
35,000	Trinity Industries, Inc.μ 6.500%, 03/15/14	34,694
22,000	Wesco Distribution, Inc. 7.500%, 10/15/17	21,753
11,000	Westinghouse Air Brake Technologies Corp. 6.875%, 07/31/13	11,138
		713,982
	<b>Information Technology (0.1%)</b>	
111,000	Amkor Technology, Inc.μ 9.250%, 06/01/16	116,550
32,000	7.750%, 05/15/13	32,040
54,000	Anixter International, Inc. 5.950%, 03/01/15μ	50,220
11,000	10.000%, 03/15/14	11,963
29,000	Arrow Electronics, Inc.~ 6.875%, 06/01/18	30,551
91,000	Celestica, Inc.μ 7.625%, 07/01/13	93,730
37,000	Flextronics International, Ltd.~ 6.500%, 05/15/13	37,185
64,000	Freescale Semiconductor, Inc. 8.875%, 12/15/14	52,320
59,000	Jabil Circuit, Inc. 8.250%, 03/15/18μ	62,982
11,000	7.750%, 07/15/16	11,468
65,000	Lender Processing Services, Inc.μ 8.125%, 07/01/16	68,737

Edgar Filing: CALAMOS CONVERTIBLE & HIGH INCOME FUND - Form 497

32,000	Lexmark International, Inc.µ 6.650%, 06/01/18	32,278
18,000	NXP, BV 7.875%, 10/15/14	14,940
38,000	Seagate Technologyµ 6.800%, 10/01/16	37,430
42,000	SunGard Data Systems, Inc. 9.125%, 08/15/13	42,945
170,000	Xerox Corp.µ 7.625%, 06/15/13	174,530
		869,869
	<b>Materials (0.1%)</b>	
23,000	Airgas, Inc.* 7.125%, 10/01/18	23,805
40,000	Allegheny Ludlum Corp. 6.950%, 12/15/25	35,519
22,000	Anglo American, PLCµ* 9.375%, 04/08/14	25,718
9,000	Ashland, Inc.* 9.125%, 06/01/17	9,743

See accompanying Notes to Schedule of Investments

## Schedule of Investments

OCTOBER 31, 2009

PRINCIPAL AMOUNT		VALUE
16,000	Ball Corp. 7.375%, 09/01/19	\$ 16,440
26,000	Boise Cascade Holdings, LLC 7.125%, 10/15/14	21,710
74,000	Greif, Inc.* 7.750%, 08/01/19	76,220
65,000 EUR	Ineos Group Holdings, PLC* 7.875%, 02/15/16	52,851
11,000	8.500%, 02/15/16	6,215
37,000	Mosaic Company $\mu$ * 7.625%, 12/01/16	39,851
38,000	Nalco Holding Company 8.250%, 05/15/17 $\mu$ *	40,090
27,000 EUR	9.000%, 11/15/13	41,125
97,000	Neenah Paper, Inc. $\mu$ 7.375%, 11/15/14	82,935
27,000	P.H. Glatfelter Company 7.125%, 05/01/16	26,899
75,000	Sealed Air Corp. $\mu$ * 6.875%, 07/15/33	64,708
48,000	Silgan Holdings, Inc.* $\mu$ 7.250%, 08/15/16	48,960
57,000	Steel Dynamics, Inc. $\mu$ * 8.250%, 04/15/16	57,570
60,000	Terra Industries, Inc.* 7.750%, 11/01/19	60,600
22,000	Texas Industries, Inc. 7.250%, 07/15/13	21,670
52,000	Union Carbide Corp. $\mu$ 7.875%, 04/01/23	45,254
35,000	7.500%, 06/01/25	29,982
40,000	Westlake Chemical Corp. $\mu$ 6.625%, 01/15/16	37,900
		865,765



	<b>Telecommunication Services (0.0%)</b>		
65,000	CenturyTel, Inc.µ		
	6.875%, 01/15/28		60,319
88,000	Frontier Communications Corp.µ		
	9.000%, 08/15/31		87,340
75,000	Leap Wireless International, Inc.µ		
	9.375%, 11/01/14		73,125
75,000	Qwest Communications		
	International, Inc.µ		
	7.750%, 02/15/31		61,875
75,000	Sprint Nextel Corp.µ		
	7.375%, 08/01/15		66,843
48,000	Syniverse Technologies, Inc.µ		
	7.750%, 08/15/13		46,080
			395,582
	<b>Utilities (0.0%)</b>		
75,000	Energy Future Holdings Corp.		
	10.250%, 11/01/15		53,625
	<b>TOTAL CORPORATE BONDS</b>		<b>6,945,620</b>
	<b>U.S. Government and Agency Security (0.0%)</b>		
22,000	United States Treasury Note~		
	2.125%, 01/31/10		22,115
	<b>Sovereign Bond (0.0%)</b>		
20,000 BRL	Federal Republic of Brazil		
	10.000%, 01/01/12		113,934
	<b>NUMBER OF</b>		<b>VALUE</b>
	<b>CONTRACTS</b>		
	<b>Purchased Options (0.2%)#</b>		
	<b>Consumer Discretionary (0.1%)</b>		
	Nike, Inc. - Class B		
670	Call, 01/16/10, Strike \$60.00		301,500
550	Call, 01/16/10, Strike \$70.00		44,000
			345,500
	<b>Consumer Staples (0.1%)</b>		
1,350	Sysco Corp.		
	Call, 01/16/10, Strike \$30.00		16,875
1,050	Walgreen Company		
	Call, 01/16/10, Strike \$32.50		593,250
			610,125

	<b>Health Care (0.0%)</b>		
690	Gilead Sciences, Inc.		
	Call, 01/16/10, Strike \$55.00		8,625
	<b>Information Technology (0.0%)</b>		
80	Apple, Inc.		
	Call, 01/16/10, Strike \$170.00		193,800
630	QUALCOMM, Inc.		
	Call, 01/16/10, Strike \$45.00		74,340
525	Call, 01/16/10, Strike \$50.00		16,275
			284,415
	TOTAL PURCHASED OPTIONS		1,248,665
	<b>TOTAL SYNTHETIC CONVERTIBLE SECURITIES</b>		
	(Cost \$12,159,529)		8,330,334

**NUMBER OF  
SHARES**

**VALUE**

**CONVERTIBLE PREFERRED STOCKS (18.3%)**

	<b>Consumer Staples (3.3%)</b>		
410,000	Archer-Daniels-Midland Company		
	6.250%		17,527,500
17,500	Bunge, Ltd.		
	5.125%		10,193,750
			27,721,250

**Financials (3.6%)**

See accompanying Notes to Schedule of Investments

## Schedule of Investments

OCTOBER 31, 2009

NUMBER OF SHARES		VALUE
185,000	<i>Affiliated Managers Group, Inc.</i> 5.150%	5,896,875
175,000	American International Group, Inc. 8.500%	\$ 1,968,750
19,500	Bank of America Corp. 7.250%	16,328,130
35,000	Reinsurance Group of America, Inc. 5.750%	2,165,100
3,500	Wells Fargo & Company 7.500%	3,132,500
		29,491,355
	<b><i>Health Care (4.3%)</i></b>	
105,000	Merck & Company, Inc. 6.000%	25,331,250
10,000	Mylan, Inc. 6.500%	10,300,000
		35,631,250
	<b><i>Industrials (0.8%)</i></b>	
8,500	Stanley Works 5.125%	6,940,250
	<b><i>Materials (6.3%)</i></b>	
242,500	Freeport-McMoRan Copper & Gold, Inc. 6.750%	25,947,500
1,750 CHF	Givaudan, SA 5.375%	12,887,465
210,000	Vale Capital, Ltd. (Companhia Vale do Rio Doce) 5.500%	10,300,500
40,000	Vale, SA 6.750%	3,157,200

		52,292,665
	<b>TOTAL CONVERTIBLE PREFERRED STOCKS</b> (Cost \$185,617,738)	152,076,770
<b>NUMBER OF UNITS</b>		<b>VALUE</b>
<b>STRUCTURED EQUITY-LINKED SECURITIES (4.9%) +*</b>		
	<i>Energy (3.7%)</i>	
130,000	Barclays Capital, Inc. (Noble Corp.) 12.000%, 01/29/10	5,196,100
73,600	BNP Paribas, SA (Devon Energy Corp.) 12.000%, 06/17/10	4,823,008
117,200	BNP Paribas, SA (ENSCO International, Inc.) 12.000%, 01/29/10	5,262,280
73,000	Credit Suisse Group (Noble Energy, Inc.) 12.000%, 06/18/10	4,757,410
163,000	Goldman Sachs Group, Inc. (Cameron International Corp.) 12.000%, 02/16/10	5,626,760
202,000	Goldman Sachs Group, Inc. (Halliburton Company) 12.000%, 12/23/09	5,510,560
		31,176,118
	<i>Health Care (0.6%)</i>	
135,000	Deutsche Bank, AG (Medtronic, Inc.) 11.000%, 05/27/10	4,742,550
	<i>Materials (0.6%)</i>	
139,000	Credit Suisse Group (Barrick Gold Corp.) 12.000%, 04/19/10	5,041,530
	<b>TOTAL STRUCTURED EQUITY-LINKED SECURITIES</b> (Cost \$38,746,483)	40,960,198
<b>NUMBER OF SHARES</b>		<b>VALUE</b>

**COMMON STOCKS (2.1%)**

	<i>Financials (1.1%)</i>	
282,712	MetLife, Inc.	\$ 9,620,690
	<i>Industrials (1.0%)</i>	
224,388	Avery Dennison Corp.μ	7,999,432
	<b>TOTAL COMMON STOCKS</b>	
	(Cost \$20,744,443)	17,620,122

**SHORT TERM INVESTMENT (2.9%)**

24,390,715	Fidelity Prime Money Market Fund - Institutional Class	
	(Cost \$24,390,715)	24,390,715

**TOTAL INVESTMENTS IN SECURITIES (130.9%)**

(Cost \$1,162,997,063)	1,090,453,166
------------------------	---------------

LIABILITIES, LESS OTHER ASSETS (-30.9%)	(257,684,436)
---	---------------

<b>NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS (100.0%)</b>	<b>\$ 832,768,730</b>
--	-----------------------

**NUMBER OF  
CONTRACTS****VALUE****WRITTEN OPTIONS (-0.4%)#**

	<i>Other (-0.4%)</i>	
	SPDR Trust Series 1	
1,750	Call, 12/19/09, Strike \$109.00	(253,750)
1,250	Call, 11/21/09, Strike \$109.00	(71,250)
1,200	Call, 12/19/09, Strike \$98.00	(930,000)
1,200	Call, 12/19/09, Strike \$96.00	(1,122,000)

See accompanying Notes to Schedule of Investments

## Schedule of Investments

OCTOBER 31, 2009

NUMBER OF CONTRACTS		VALUE
750	Call, 11/21/09, Strike \$106.00	\$ (112,125)
750	Call, 12/19/09, Strike \$101.00	(414,375)
600	Call, 12/19/09, Strike \$97.00	(511,500)
375	Call, 11/21/09, Strike \$108.00	(30,375)
375	Call, 11/21/09, Strike \$107.00	(41,625)
	<b>TOTAL WRITTEN OPTIONS</b>	
	(Premium \$2,983,737)	(3,487,000)

**NOTES TO SCHEDULE OF INVESTMENTS**

- μ Security, or portion of security, is held in a segregated account as collateral for note payable aggregating a total value of \$693,791,865.
- \* Securities issued and sold pursuant to a Rule 144A transaction are excepted from the registration requirement of the Securities Act of 1933, as amended. These securities may only be sold to qualified institutional buyers ( QIBs ), such as the fund. Any resale of these securities must generally be effected through a sale that is registered under the Act or otherwise exempted from such registration requirements. At October 31, 2009, the value of 144A securities that could not be exchanged to the registered form is \$67,531,677 or 8.1% of net assets applicable to common shareholders.  
Variable rate or step bond security. The rate shown is the rate in effect at October 31, 2009.
- \*\* Security is in default. Pilgrim s Pride Corp. filed for bankruptcy protection on December 1, 2008.
- ~ Security, or portion of security, is segregated as collateral for written options and swaps aggregating a total value of \$26,571,865.
- § Securities exchangeable or convertible into securities of one or more entities that are different than the issuer. Each entity is identified in the parenthetical.
- # Non-income producing security.
- + Structured equity linked securities are designed to simulate the characteristics of the security in the parenthetical.

**FOREIGN CURRENCY ABBREVIATIONS**

<b>BRL</b>	Brazilian Real
<b>CHF</b>	Swiss Franc
<b>EUR</b>	European Monetary Unit
<b>GBP</b>	British Pound Sterling

*Note: Value for securities denominated in foreign currencies is shown in U.S. dollars. The principal amount for such securities is shown in the respective foreign currency. The date on options represents the expiration date of the option contract. The option contract may be exercised at any date on or before the date shown.*

**INTEREST RATE SWAPS**

<b>Counterparty</b>	<b>Fixed Rate (Fund Pays)</b>	<b>Floating Rate (Fund Receives)</b>	<b>Termination Date</b>	<b>Notional Amount</b>	<b>Unrealized Appreciation/ (Depreciation)</b>
BNP Paribas, SA	2.4300% quarterly	3 month LIBOR	04/14/14	\$ 115,000,000	\$ (80,429)
BNP Paribas, SA	1.8650% quarterly	3 month LIBOR	04/14/12	75,000,000	(719,917)
BNP Paribas, SA	1.8525% quarterly	3 month LIBOR	09/14/12	53,000,000	(277,341)
					\$ (1,077,687)

See accompanying Notes to Financial Statements

**APPENDIX A**  
**SUMMARY OF CERTAIN PROVISIONS OF THE INDENTURE**  
**AND FORM OF SUPPLEMENTAL INDENTURE**

The following is a summary of certain provisions of the indenture (the Original Indenture ) and the supplemental indenture ( Supplemental Indenture ) that the Fund expects to enter into in connection with the issuance of debt securities. This summary does not purport to be complete and is qualified in its entirety by reference to the indenture, a copy of which will be filed with the Commission in connection with an offering of debt securities by the Fund.

**DEFINITIONS**

**AA Composite Commercial Paper Rate** on any date means (i) the interest equivalent of (1) the 7-day rate, in the case of a Rate Period which is 7 days or shorter, (2) the 30-day rate, in the case of a Rate Period which is a Standard Rate Period greater than 7 days but fewer than or equal to 31 days, or (3) the 180-day rate, in the case of all other Rate Periods, on financial commercial paper on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by another nationally recognized rating agency, as announced by the Federal Reserve Bank of New York for the close of business on the Business Day immediately preceding such date; or (ii) if the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the interest equivalent of such rates on financial commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date (rounded to the next highest .001 of 1%). If any Commercial Paper Dealer does not quote a rate required to determine the AA Composite Commercial Paper Rate, such rate shall be determined on the basis of the quotations (or quotation) furnished by the remaining Commercial Paper Dealers (or Dealer), if any, or, if there are no such Commercial Paper Dealers, a nationally recognized dealer in commercial paper of such issues then making such quotations selected by the Issuer. For purposes of this definition, (A) Commercial Paper Dealers shall mean (1) \_\_\_\_\_ and \_\_\_\_\_; (2) in lieu of any thereof, its respective Affiliate or successor; and (3) in the event that any of the foregoing shall cease to quote rates for financial commercial paper of issuers of the sort described above, in substitution therefor, a nationally recognized dealer in financial commercial paper of such issuers then making such quotations selected by the Issuer, and (B) interest equivalent of a rate stated on a discount basis for financial commercial paper of a given number of days maturity shall mean a number equal to the quotient (rounded upward to the next higher one-thousandth of 1%) of (1) such rate expressed as a decimal, divided by (2) the difference between (x) 1.00 and (y) a fraction, the numerator of which shall be the product of such rate expressed as a decimal, multiplied by the number of days in which such commercial paper shall mature and the denominator of which shall be 360.

**Affiliate** means any person controlled by, in control of or under common control with the Issuer; provided that no Broker-Dealer controlled by, in control of or under common control with the Issuer shall be deemed to be an Affiliate nor shall any corporation or any person controlled by, in control of or under common control with such corporation one of the directors or executive officers of which is also a Director of the Issuer be deemed to be an Affiliate solely because such director or executive officer is also a Director of the Issuer.

**Agent Member** means a member of or participant in the Securities Depository that will act on behalf of a Bidder.

**All Hold Rate** means 80% of the AA Composite Commercial Paper Rate.



**Applicable Rate** means the rate determined in accordance with the procedures in Section 2.02(c)(i) of this Supplemental Indenture.

**Auction** means each periodic implementation of the Auction Procedures.

**Auction Agent** means \_\_\_\_\_ unless and until another commercial bank, trust company, or other financial institution appointed by a resolution of the Board of Directors enters into an agreement with the Issuer to follow the Auction Procedures for the purpose of determining the Applicable Rate.

**Auction Agreement** means the agreement between the Auction Agent and the Issuer pursuant to which the Auction Agent agrees to follow the procedures specified in Appendix A-I to this Supplemental Indenture, as such agreement may from time to time be amended or supplemented.

**Auction Date** means the first Business Day next preceding the first day of a Rate Period for each series of \_\_\_\_\_ Notes.

**Auction Desk** means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the \_\_\_\_\_ Notes, and units of the Broker-Dealer which are not separated by information controls appropriate to control, limit and monitor the inappropriate dissemination of information about Bids.

**Auction Period** means with respect to the \_\_\_\_\_ Notes, either a Standard Auction Period or a Special Auction Period, as applicable.

**Auction Procedures** means the procedures for conducting Auctions set forth in Appendix A-I hereto.

**Auction Rate** means for each series of \_\_\_\_\_ Notes for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the \_\_\_\_\_ Notes are the subject of Submitted Hold Orders, the All Hold Rate for such series of \_\_\_\_\_ Notes and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such series of \_\_\_\_\_ Notes.

**Authorized Denomination** means \$25,000 and any integral multiple thereof.

**Available \_\_\_\_\_ Notes** means for each series of \_\_\_\_\_ Notes on each Auction Date, the number of Units of \_\_\_\_\_ Notes of such series that are not the subject of Submitted Hold Orders.

**Beneficial Owner**, with respect to each series of \_\_\_\_\_ Notes, means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of such series of \_\_\_\_\_ Notes.

**Bid** shall have the meaning specified in Appendix A-I hereto.

**Bidder** means each Beneficial Owner, Potential Beneficial Owner and Broker Dealer who places an Order.

**Board of Directors** or **Board** means the Board of Directors of the Issuer or any duly authorized committee thereof as permitted by applicable law.

**Broker-Dealer** means any broker-dealer or broker-dealers, or other entity permitted by law to perform the function required of a Broker-Dealer by the Auction Procedures, that has been selected by the Issuer and that is a party to a Broker-Dealer Agreement with the Auction Agent.

**Broker-Dealer Agreement** means an agreement between the Auction Agent and a Broker-Dealer, pursuant to which such Broker-Dealer agrees to follow the Auction Procedures.

**Broker-Dealer Deadline** means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

**Business Day** means a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in the City of New York, New York are authorized or obligated by law to close, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the \_\_\_\_\_ Notes.

**Clerical Error** means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Holders or Potential Beneficial Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a Clerical Error is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

**Code** means the Internal Revenue Code of 1986, as amended.

**Commercial Paper Dealers** has the meaning set forth in the definition of AA Composite Commercial Paper Rate.

**Commission** means the Securities and Exchange Commission.

**Default Rate** means the Reference Rate multiplied by three (3).

**Deposit Securities** means cash and any obligations or securities, including short term money market instruments that are Eligible Assets, rated at least \_\_\_\_\_, \_\_\_\_\_ or \_\_\_\_\_ by \_\_\_\_\_, except that, such obligations or securities shall be considered Deposit Securities only if they are also rated at least P-2 by Moody's.

**Discount Factor** means the Moody's Discount Factor (if Moody's is then rating the \_\_\_\_\_ Notes), \_\_\_\_\_ Discount Factor (if \_\_\_\_\_ is then rating the \_\_\_\_\_ Notes) or an Other Rating Agency Discount Factor, whichever is applicable.

**Discounted Value** means the quotient of the Market Value of an Eligible Asset divided by the applicable Discount Factor, provided that with respect to an Eligible Asset that is currently callable, Discounted Value will be equal to the quotient as calculated above or the call price, whichever is lower, and that with respect to an Eligible Asset that is prepayable, Discounted Value will be equal to the quotient as calculated above or the par value, whichever is lower.

**Eligible Assets** means Moody's Eligible Assets or \_\_\_\_\_'s Eligible Assets (if Moody's or \_\_\_\_\_ are then rating the \_\_\_\_\_ Notes) and/or Other Rating Agency Eligible Assets, whichever is applicable.

**Error Correction Deadline** means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

**Existing Holder**, with respect to \_\_\_\_\_ Notes of a series, shall mean a Broker-Dealer (or any such other Person as may be permitted by the Issuer) that is listed on the records of the Auction Agent as a holder of \_\_\_\_\_ Notes of such series.

\_\_\_\_\_ means \_\_\_\_\_ Ratings and its successors at law.

\_\_\_\_\_ **Discount Factor** means the discount factors set forth in the \_\_\_\_\_ Guidelines for use in calculating the Discounted Value of the Issuer's assets in connection with \_\_\_\_\_'s ratings of \_\_\_\_\_ Notes.

\_\_\_\_\_ **Eligible Asset** means assets of the Issuer set forth in the \_\_\_\_\_ Guidelines as eligible for inclusion in calculating the Discounted Value of the Issuer's assets in connection with \_\_\_\_\_'s ratings of \_\_\_\_\_ Notes.

\_\_\_\_\_ **Guidelines** mean the guidelines provided by \_\_\_\_\_, as may be amended from time to time, in connection with \_\_\_\_\_'s ratings of \_\_\_\_\_ Notes.

**Hold Order** shall have the meaning specified in Appendix A-I hereto or an Order deemed to have been submitted as provided in paragraph (c) of Section 1 of Appendix A-I hereto.

**Holder** means, with respect to \_\_\_\_\_ Notes, the registered holder of notes of each series of \_\_\_\_\_ Notes as the same appears on the books or records of the Issuer.

**Index** means on any Auction Date with respect to \_\_\_\_\_ Notes in any Auction Period of 35 days or less the applicable LIBOR rate. The Index with respect to \_\_\_\_\_ Notes in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by the Trustee and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Issuer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e., a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

**Interest Payment Date** when used with respect to any \_\_\_\_\_ Notes, means the date on which an installment of interest on such \_\_\_\_\_ Notes shall be due and payable which generally shall be the day next following an Auction Date.

**LIBOR** means, for purposes of determining the Reference Rate, (i) the rate for deposits in U.S. dollars for the designated Rate Period, which appears on display page 3750 of Moneyline's Telerate Service ( Telerate Page 3750 ) (or such other page as may replace that page on that service, or such other service as may be selected by Lehman Brothers Inc. or its successors) as of 11:00 a.m., London time, on the day that is the Business Day on the Auction Date or, if the Auction Date is not a Business Day, the Business Day preceding the Auction Date (the LIBOR Determination Date ), or (ii) if such rate does not appear on Telerate Page 3750 or such other page as may replace such Telerate Page 3750, (A) \_\_\_\_\_ shall determine the arithmetic mean of the offered quotations of the reference banks to leading banks in the London interbank market for deposits in U.S. dollars for the designated Rate Period in an amount determined by \_\_\_\_\_ by reference to requests for quotations as of approximately 11:00 a.m. (London time) on such date made by \_\_\_\_\_ to the reference banks, (B) if at least two of the reference banks provide such quotations, LIBOR shall equal such arithmetic mean of such quotations, (C) if only one or none of the reference banks provide such quotations, LIBOR shall be deemed to be the arithmetic mean of the offered quotations that leading banks in The City of New York, New York selected by \_\_\_\_\_ (after obtaining the Issuer's approval) are quoting on the relevant LIBOR Determination Date for deposits in U.S. dollars for the designated Rate Period in an amount determined by \_\_\_\_\_ (after obtaining the Issuer's approval) that is representative of a single transaction in such market at such time by reference to the principal London office of leading banks in the London interbank market; provided, however, that if \_\_\_\_\_ is not a Broker-Dealer or does not quote a rate required to determine LIBOR, LIBOR will be determined on the basis of the quotation or quotations furnished by any other Broker-Dealer selected by the Issuer to provide such rate or rates not being supplied by \_\_\_\_\_; provided further, that if \_\_\_\_\_ and/or a substitute Broker-Dealer are required but unable to determine a rate in accordance with at least one of the procedures provided above, LIBOR shall be the most recently determinable LIBOR. If the number of Rate Period days shall be (i) 7 or more but fewer than 21 days, such rate shall be the seven-day LIBOR rate; (ii) more than 21 but fewer than 49 days, such rate shall be one-month LIBOR rate; (iii) 49 or more but fewer than 77 days, such rate shall be the two-month LIBOR rate; (iv) 77 or more but fewer than 112 days, such rate shall be the three-month LIBOR rate; (v) 112 or more but fewer than 140 days, such rate shall be the four-month LIBOR rate; (vi) 140 or more but fewer than 168 days, such rate shall be the five-month LIBOR rate; (vii) 168 or more but fewer 189 days, such rate shall be the six-month LIBOR rate; (viii) 189 or more but fewer than 217 days, such rate shall be the seven-month LIBOR rate; (ix) 217 or more but fewer than 252 days, such rate shall be the eight-month LIBOR rate; (x) 252 or more but fewer than 287 days, such rate shall be the nine-month LIBOR rate; (xi) 287 or more but fewer than 315 days, such rate shall be the ten-month LIBOR rate; (xii) 315 or more but fewer than 343 days, such rate shall be the eleven-month LIBOR rate; and (xiii) 343 or more days but fewer than 365 days, such rate shall be the twelve-month LIBOR rate.

**Market Value** means the market value of an asset of the Issuer determined as follows: For equity securities, the value obtained from readily available market quotations. If an equity security is not traded on an exchange or not available from a Board-approved pricing service, the value obtained from written broker-dealer quotations. For fixed-income securities, the value obtained from readily available market quotations based on the last sale price of a security on the day the Issuer values its assets or the market value obtained from a pricing service or the value obtained from a direct written broker-dealer quotation from a dealer who has made a market in the security. Market Value for other securities will mean the value obtained pursuant to the Issuer's valuation procedures. If the market value of a security cannot be obtained, or the Issuer's investment adviser determines that the value of a security as so

obtained does not represent the fair value of a security, fair value for that security shall be determined pursuant to the valuation procedures adopted by the Board of Directors.

**Maximum Rate** means, on any date on which the Applicable Rate is determined, the rate equal to the applicable percentage of the Reference Rate, subject to upward but not downward adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers, provided that immediately following any such increase the Issuer would be in compliance with the \_\_\_\_\_ Notes Basic Maintenance Amount.

**Minimum Rate** means, on any Auction Date with respect to a Rate Period of \_\_\_\_\_ days or fewer, 70% of the AA Composite Commercial Paper Rate at the close of business on the Business Day next preceding such Auction Date. There shall be no Minimum Rate on any Auction Date with respect to a Rate Period of more than the Standard Rate Period.

**Moody's** means Moody's Investors Service, Inc., a Delaware corporation, and its successors at law.

**Moody's Discount Factor** means the discount factors set forth in the Moody's Guidelines for use in calculating the Discounted Value of the Issuer's assets in connection with Moody's ratings of \_\_\_\_\_ Notes.

**Moody's Eligible Assets** means assets of the Issuer set forth in the Moody's Guidelines as eligible for inclusion in calculating the Discounted Value of the Issuer's assets in connection with Moody's ratings of \_\_\_\_\_ Notes.

**Moody's Guidelines** mean the guidelines provided by Moody's, as may be amended from time to time, in connection with Moody's ratings of \_\_\_\_\_ Notes.

**1940 Act \_\_\_\_\_ Notes Asset Coverage** means asset coverage, as determined in accordance with Section 18(h) of the Investment Company Act, of at least 300% with respect to all outstanding senior securities representing indebtedness of the Issuer, including all Outstanding \_\_\_\_\_ Notes (or such other asset coverage as may in the future be specified in or under the Investment Company Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its common stock), determined on the basis of values calculated as of a time within 48 hours next preceding the time of such determination.

**Notes** means Securities of the Issuer ranking on a parity with the \_\_\_\_\_ Notes that may be issued from time to time pursuant to the Indenture.

**Order** means a Hold Order, Bid or Sell Order.

**Original Issue Date** means, with respect to the \_\_\_\_\_ Notes, \_\_\_\_\_ .

**Other Rating Agency** means each rating agency, if any, other than Moody's or \_\_\_\_\_ then providing a rating for the \_\_\_\_\_ Notes pursuant to the request of the Issuer.

**Other Rating Agency Discount Factor** means the discount factors set forth in the Other Rating Agency Guidelines of each Other Rating Agency for use in calculating the Discounted Value of the Issuer's assets in connection with the Other Rating Agency's rating of \_\_\_\_\_ Notes.

**Other Rating Agency Eligible Assets** means assets of the Issuer set forth in the Other Rating Agency Guidelines of each Other Rating Agency as eligible for inclusion in calculating the Discounted Value of the Issuer's assets in connection with the Other Rating Agency's rating of \_\_\_\_\_ Notes.

**Other Rating Agency Guidelines** mean the guidelines provided by each Other Rating Agency, as may be amended from time to time, in connection with the Other Rating Agency's rating of \_\_\_\_\_ Notes.

**Outstanding** or **outstanding** means, as of any date, \_\_\_\_\_ Notes theretofore issued by the Issuer except, without duplication, (i) any \_\_\_\_\_ Notes theretofore canceled, redeemed or repurchased by the Issuer, or delivered to the Trustee for cancellation or with respect to which the Issuer has given notice of redemption and irrevocably deposited with the Paying Agent sufficient funds to redeem such \_\_\_\_\_ Notes and (ii) any \_\_\_\_\_ Notes represented by any certificate in lieu of which a new certificate has been executed and delivered by the Issuer. Notwithstanding the foregoing, (A) in connection with any Auction, any series of \_\_\_\_\_ Notes as to which the Issuer or any person known to the Auction Agent to be an Affiliate of the Issuer shall be the Existing Holder thereof shall be disregarded and deemed not to be Outstanding; and (B) for purposes of determining the \_\_\_\_\_ Notes Basic Maintenance Amount, \_\_\_\_\_ Notes held by the Issuer shall be disregarded and not deemed Outstanding but \_\_\_\_\_ Notes held by any Affiliate of the Issuer shall be deemed Outstanding.

**Paying Agent** means \_\_\_\_\_ unless and until another entity appointed by a resolution of the Board of Directors enters into an agreement with the Issuer to serve as paying agent, transfer agent, registrar, and redemption agent with respect to the \_\_\_\_\_ Notes, which Paying Agent may be the same as the Trustee or the Auction Agent.

**Person** or **person** means and includes an individual, a partnership, a trust, a company, an unincorporated association, a joint venture or other entity or a government or any agency or political subdivision thereof.

**Potential Beneficial Owner**, with respect to a series of \_\_\_\_\_ Notes, shall mean a customer of a Broker-Dealer that is not a Beneficial Owner of \_\_\_\_\_ Notes of such series but that wishes to purchase \_\_\_\_\_ Notes of such series, or that is a Beneficial Owner of \_\_\_\_\_ Notes of such series that wishes to purchase additional \_\_\_\_\_ Notes of such series; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Beneficial Owner.

**Potential Holder**, with respect to \_\_\_\_\_ Notes of such series, shall mean a Broker-Dealer (or any such other person as may be permitted by the Issuer) that is not an Existing Holder of \_\_\_\_\_ Notes of such series or that is an Existing Holder of \_\_\_\_\_ Notes of such series that wishes to become the Existing Holder of additional \_\_\_\_\_ Notes of such series; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Holder.

**Rate Period** means, with respect to a series of \_\_\_\_\_ Notes, the period commencing on the Original Issue Date thereof and ending on the date specified for such series on the Original Issue Date thereof and thereafter, as to such series, the period commencing on the day following each Rate Period for such series and ending on the day established for such series by the Issuer.

**Rating Agency** means each of \_\_\_\_\_ (if \_\_\_\_\_ is then rating \_\_\_\_\_ Notes), Moody's (if Moody's is then rating \_\_\_\_\_ Notes) and any Other Rating Agency.

**Rating Agency Guidelines** mean \_\_\_\_\_ Guidelines (if \_\_\_\_\_ is then rating \_\_\_\_\_ Notes), Moody's Guidelines (if Moody's is then rating \_\_\_\_\_ Notes) and any Other Rating Agency Guidelines.

**Redemption Date**, when used with respect to any \_\_\_\_\_ Note to be redeemed, means the date fixed for such redemption by or pursuant to the Indenture.

**Redemption Price**, when used with respect to any \_\_\_\_\_ Note to be redeemed, means the price at which it is to be redeemed pursuant to the Indenture.

**Reference Rate** means, with respect to the determination of the Maximum Rate and Default Rate, the greater of (i) the applicable AA Composite Commercial Paper Rate (for a Rate Period of fewer than 184 days) or the applicable Treasury Index Rate (for a Rate Period of 184 days or more), or (ii) the applicable LIBOR Rate.

**Securities Act** means the Securities Act of 1933, as amended from time to time.

**Securities Depository** means The Depository Trust Company and its successors and assigns or any successor securities depository selected by the Issuer that agrees to follow the procedures required to be followed by such securities depository in connection with the \_\_\_\_\_ Notes Series \_\_\_\_\_.

**Sell Order** shall have the meaning specified in Appendix A-I hereto.

**Special Auction Period** means an Auction Period that is not a Standard Auction Period.

**Special Rate Period** means a Rate Period that is not a Standard Rate Period.

**Specific Redemption Provisions** means, with respect to any Special Rate Period of more than one year, either, or any combination of a period (a Non-Call Period) determined by the Board of Directors after consultation with the Broker-Dealers, during which the \_\_\_\_\_ Notes subject to such Special Rate Period are not subject to redemption at the option of the Issuer consisting of a number of whole years as determined by the Board of Directors after consultation with the Broker-Dealers, during each year of which the \_\_\_\_\_ Notes subject to such Special Rate Period shall be redeemable at the Issuer's option and/or in connection with any mandatory redemption at a price equal to the principal amount plus accrued but unpaid interest plus a premium expressed as a percentage or percentages of \$25,000 or expressed as a formula using specified variables as determined by the Board of Directors after consultation with the Broker-Dealers.

**Standard Auction Period** means an Auction Period of \_\_\_\_\_ days.

**Standard Rate Period** means a Rate Period of \_\_\_\_\_ days.

**Stated Maturity** with respect to \_\_\_\_\_ Notes Series \_\_\_\_\_, shall mean \_\_\_\_\_.

**Submission Deadline** means 1:00 P.M., New York City time, on any Auction Date or such other time on such date as shall be specified by the Auction Agent from time to time pursuant to the Auction Agreement as the time by which the Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association's Early Market Close Recommendations for shortened trading days for the bond markets (the SIFMA Recommendation) unless the Auction Agent is instructed otherwise in writing by the Issuer. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 A.M., instead of 1:00 P.M., New York City time.

**Submitted Bid** shall have the meaning specified in Appendix A-I hereto.

**Submitted Hold Order** shall have the meaning specified in Appendix A-I hereto.

**Submitted Order** shall have the meaning specified in Appendix A-I hereto.

**Submitted Sell Order** shall have the meaning specified in Appendix A-I hereto.

**Sufficient Clearing Bids** means for each series of \_\_\_\_\_ Notes, an Auction for which the number of Units of \_\_\_\_\_ Notes of such series that are the subject of Submitted Bids by Potential Beneficial Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of \_\_\_\_\_ Notes of such series that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Holders specifying rates higher than the Maximum Rate.

\_\_\_\_\_ **Notes Basic Maintenance Amount** as of any Valuation Date has the meaning set forth in the Rating Agency Guidelines.

\_\_\_\_\_ **Notes Series** \_\_\_\_\_ means the Series \_\_\_\_\_ Notes or any other Notes hereinafter designated as Series \_\_\_\_\_ of the \_\_\_\_\_ Notes.

**Treasury Index Rate** means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities having the same number of 30-day periods to maturity as the length of the applicable Rate Period, determined, to the extent necessary, by linear interpolation based upon the yield for such securities having the next shorter and next longer number of 30-day periods to maturity treating all Rate Periods with a length greater than the longest maturity for such securities as having a length equal to such longest maturity, in all cases based upon data set forth in the most recent weekly statistical release published by the Board of Governors of the Federal Reserve System (currently in H.15(519)); provided, however, if the most recent such statistical release shall not have been published during the 15 days preceding the date of computation, the foregoing computations shall be based upon the average of comparable data as quoted to the Issuer by at least three recognized dealers in U.S. Government securities selected by the Issuer.

**Trustee** means \_\_\_\_\_ or such other person who is named as a trustee pursuant to the terms of the Indenture.

**Unit** means, with respect to each series of \_\_\_\_\_ Notes, the principal amount of the minimum Authorized Denomination of the \_\_\_\_\_ Notes.

**Valuation Date** means every Friday, or, if such day is not a Business Day, the next preceding Business Day; provided, however, that the first Valuation Date may occur on any other date established by the Issuer; provided, further, however, that such first Valuation Date shall be not more than one week from the date on which \_\_\_\_\_ Notes Series \_\_\_\_\_ initially are issued.

**Winning Bid Rate** means for each series of \_\_\_\_\_ Notes, the lowest rate specified in any Submitted Bid of such series of \_\_\_\_\_ Notes which if selected by the Auction Agent as the Applicable Rate would cause the number of Units of \_\_\_\_\_ Notes of such series that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available \_\_\_\_\_ Notes of such series.



## NOTE DETAILS, FORM OF NOTES AND REDEMPTION OF NOTES

### Interest

(a) The Holders of any series of \_\_\_\_\_ Notes shall be entitled to receive interest payments on their \_\_\_\_\_ Notes at the Applicable Rate, determined as set forth in paragraph (c) of this Section 2.02, and no more, payable on the respective dates determined as set forth in paragraph (b) of this Section 2.02. Interest on the Outstanding \_\_\_\_\_ Notes of any series issued on the Original Issue Date shall accumulate from the Original Issue Date.

(b) (i) Interest shall be payable, subject to subparagraph (b)(ii) of this Section 2.02, on each series of \_\_\_\_\_ Notes, with respect to any Rate Period on the first Business Day following the last day of such Rate Period; provided, however, if the Rate Period is greater than 30 days then on a monthly basis on the first Business Day of each month within such Rate Period, not including the initial Rate Period, and on the Business Day following the last day of such Rate Period.

(ii) If a day for payment of interest resulting from the application of subparagraph (b)(i) above is not a Business Day, then the Interest Payment Date shall be the first Business Day following such day for payment of interest in the case of a series of \_\_\_\_\_ Notes designated as Series \_\_\_\_\_.

(iii) The Issuer shall pay to the Paying Agent not later than 3:00 p.m., New York City time, on the Business Day next preceding each Interest Payment Date for each series of \_\_\_\_\_ Notes, an aggregate amount of funds available on the next Business Day in the City of New York, New York, equal to the interest to be paid to all Holders of such \_\_\_\_\_ Notes on such Interest Payment Date. The Issuer shall not be required to establish any reserves for the payment of interest.

(iv) All moneys paid to the Paying Agent for the payment of interest shall be held in trust for the payment of such interest by the Paying Agent for the benefit of the Holders specified in subparagraph (b)(v) of this Section 2.02. Any moneys paid to the Paying Agent in accordance with the foregoing but not applied by the Paying Agent to the payment of interest, including interest earned on such moneys, will, to the extent permitted by law, be repaid to the Issuer at the end of 90 days from the date on which such moneys were to have been so applied.

(v) Each interest payment on a series of \_\_\_\_\_ Notes shall be paid on the Interest Payment Date therefor to the Holders of that series as their names appear on the security ledger or security records of the Issuer on the Business Day next preceding such Interest Payment Date. Interest in arrears for any past Rate Period may be declared and paid at any time, without reference to any regular Interest Payment Date, to the Holders as their names appear on the books or records of the Issuer on such date, not exceeding 15 days preceding the payment date thereof, as may be fixed by the Board of Directors. No interest will be payable in respect of any Interest Payment or payments which may be in arrears.

(c) (i) The interest rate on Outstanding \_\_\_\_\_ Notes of each series during the period from and after the Original Issue Date to and including the last day of the initial Rate Period therefor shall be equal to \_\_\_\_\_ %. For each subsequent Rate Period with respect to the \_\_\_\_\_ Notes Outstanding thereafter, the interest rate shall be equal to the rate per annum that results from an Auction; provided, however, that if an Auction for any subsequent Rate Period of a series of \_\_\_\_\_ Notes is not held for any reason or if Sufficient Clearing Bids have not been made in an Auction (other than as a result of all series of \_\_\_\_\_ Notes being the subject of Submitted

Hold Orders), then the interest rate on a series of \_\_\_\_\_ Notes for any such Rate Period shall be the Maximum Rate (except during a Default Period (as defined below) when the interest rate shall be the Default Rate, as set forth in Section 2.02(c)(ii) below). The All Hold Rate will apply automatically following an Auction in which all of the Outstanding series of \_\_\_\_\_ Notes are subject (or are deemed to be subject) to Hold Orders. The rate per annum at which interest is payable on a series of \_\_\_\_\_ Notes as determined pursuant to this Section 2(c)(i) shall be the Applicable Rate. For Standard Rate Periods or shorter periods only, the Applicable Rate resulting from an Auction will not be less than the Minimum Rate.

(ii) Subject to the cure provisions below, a Default Period with respect to a particular series will commence on any date the Issuer fails to deposit irrevocably in trust in same-day funds, with the Paying Agent by 12:00 noon, New York City time, (A) the full amount of any redemption price (the Redemption Price) payable on the date fixed for redemption (the Redemption Date) (a Redemption Default, which shall constitute an Event of Default pursuant to Section 5.1(7) of the Original Indenture) or (B) the full amount of any accrued interest on that series payable on the Interest Payment Date (an Interest Default and together with a Redemption Default, hereinafter referred to as Default). Subject to the cure provisions of Section 2(c)(iii) below, a Default Period with respect to an Interest Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, all unpaid interest and any unpaid Redemption Price shall have been deposited irrevocably in trust in same-day funds with the Paying Agent. In the case of an Interest Default, the Applicable Rate for each Rate Period commencing during a Default Period will be equal to the Default Rate, and each subsequent Rate Period commencing after the beginning of a Default Period shall be a Standard Rate Period; provided, however, that the commencement of a Default Period will not by itself cause the commencement of a new Rate Period. No Auction shall be held during a Default Period with respect to an Interest Default applicable to that series of \_\_\_\_\_ Notes.

(iii) No Default Period with respect to an Interest Default or Redemption Default shall be deemed to commence if the amount of any interest or any Redemption Price due (if such default is not solely due to the willful failure of the Issuer) is deposited irrevocably in trust, in same-day funds with the Paying Agent by 12:00 noon, New York City time within three Business Days after the applicable Interest Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount of such non-payment based on the actual number of days comprising such period divided by 360 for each series. The Default Rate shall be equal to the Reference Rate multiplied by three (3).

(iv) The amount of interest per Unit of \_\_\_\_\_ Notes payable on each Interest Payment Date of each Rate Period of less than one (1) year (or in respect of interest on another date in connection with a redemption during such Rate Period) shall be computed by multiplying the Applicable Rate (or the Default Rate) for such Rate Period (or a portion thereof) by a fraction, the numerator of which will be the number of days in such Rate Period (or portion thereof) that such \_\_\_\_\_ Notes were outstanding and for which the Applicable Rate or the Default Rate was applicable and the denominator of which will be 360, multiplying the amount so obtained by \$25,000, and rounding the amount so obtained to the nearest cent. During any Rate Period of one (1) year or more, the amount of interest per Unit of \_\_\_\_\_ Notes payable on any Interest Payment Date (or in respect of interest on another date in connection with a redemption during such Rate Period) shall be computed as described in the preceding sentence.

(d) Any Interest Payment made on any series of \_\_\_\_\_ Notes shall first be credited against the earliest accrued but unpaid interest due with respect to such series.

**Redemption**

(a) (i) After the initial Rate Period, subject to the provisions of this Section 2.03 and to the extent permitted under the Investment Company Act, the Issuer may, at its option, redeem in whole or in part out of funds legally available therefor a series of \_\_\_\_\_ Notes herein designated as (A) having a Rate Period of one year or less, on the Business Day after the last day of such Rate Period by delivering a notice of redemption not less than 15 days and not more than 40 days prior to the date fixed for such redemption, at a redemption price equal to the aggregate principal amount, plus an amount equal to accrued but unpaid interest thereon (whether or not earned) to the date fixed for redemption ( Redemption Price ), or (B) having a Rate Period of more than one year, on any Business Day prior to the end of the relevant Rate Period by delivering a notice of redemption not less than 15 days and not more than 40 days prior to the date fixed for such redemption, at the Redemption Price, plus a redemption premium, if any, determined by the Board of Directors after consultation with the Broker-Dealers and set forth in any applicable Specific Redemption Provisions at the time of the designation of such Rate Period as set forth in Section 2.04 hereof; provided, however, that during a Rate Period of more than one year no series of \_\_\_\_\_ Notes will be subject to optional redemption except in accordance with any Specific Redemption Provisions approved by the Board of Directors after consultation with the Broker-Dealers at the time of the designation of such Rate Period. Notwithstanding the foregoing, the Issuer shall not give a notice of or effect any redemption pursuant to this Section 2.03(a)(i) unless, on the date on which the Issuer intends to give such notice and on the date of redemption (a) the Issuer has available certain Deposit Securities with maturity or tender dates not later than the day preceding the applicable redemption date and having a value not less than the amount (including any applicable premium) due to Holders of a series of \_\_\_\_\_ Notes by reason of the redemption of such \_\_\_\_\_ Notes on such date fixed for the redemption and (b) the Issuer would have Eligible Assets with an aggregate Discounted Value at least equal the \_\_\_\_\_ Notes Basic Maintenance Amount immediately subsequent to such redemption, if such redemption were to occur on such date, it being understood that the provisions of paragraph (d) of this Section 2.03 shall be applicable in such circumstances in the event the Issuer makes the deposit and takes the other action required thereby.

(ii) If the Issuer fails to maintain, as of any Valuation Date, Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount or, as of the last Business Day of any month, the 1940 Act \_\_\_\_\_ Notes Asset Coverage, and such failure is not cured within ten Business Days following such Valuation Date in the case of a failure to maintain the \_\_\_\_\_ Notes Basic Maintenance Amount or on the last Business Day of the following month in the case of a failure to maintain the 1940 Act \_\_\_\_\_ Notes Asset Coverage as of such last Business Day (each an Asset Coverage Cure Date ), the \_\_\_\_\_ Notes will be subject to mandatory redemption out of funds legally available therefor. The aggregate principal amount of \_\_\_\_\_ Notes to be redeemed in such circumstances will be equal to the lesser of (A) the minimum principal amount of \_\_\_\_\_ Notes the redemption of which, if deemed to have occurred immediately prior to the opening of business on the relevant Asset Coverage Cure Date, would result in the Issuer having Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount, or sufficient to satisfy 1940 Act \_\_\_\_\_ Notes Asset Coverage, as the case may be, in either case as of the relevant Asset Coverage Cure Date (provided that, if there is no such minimum principal amount of \_\_\_\_\_ Notes the redemption of which would have such result, all \_\_\_\_\_ Notes then Outstanding will be redeemed), and (B) the maximum principal amount of \_\_\_\_\_ Notes that can be redeemed out of funds expected to be available therefor on the Mandatory Redemption Date at the Mandatory Redemption Price set forth in subparagraph (a)(iii) of this Section 2.03.

(iii) In determining the \_\_\_\_\_ Notes required to be redeemed in accordance with the foregoing Section 2.03(a)(ii), the Issuer shall allocate the aggregate principal amount of \_\_\_\_\_ Notes required to be redeemed to satisfy the \_\_\_\_\_ Notes Basic Maintenance Amount or the 1940 Act \_\_\_\_\_ Notes Asset Coverage, as the case may be, pro rata among the Holders of \_\_\_\_\_ Notes in proportion to the aggregate principal amount of \_\_\_\_\_ Notes they hold, by lot or by such other method as the Issuer shall deem equitable, subject to the further provisions of this subparagraph (iii). The Issuer shall effect any required mandatory redemption pursuant to subparagraph (a)(ii) of this Section 2.03 no later than 40 days after the Asset Coverage Cure Date (the Mandatory Redemption Date), except that if the Issuer does not have funds legally available for the redemption of, or is not otherwise legally permitted to redeem, the aggregate principal amount of \_\_\_\_\_ Notes which would be required to be redeemed by the Issuer under clause (A) of subparagraph (a)(ii) of this Section 2.03 if sufficient funds were available, or the Issuer otherwise is unable to effect such redemption on or prior to such Mandatory Redemption Date, the Issuer shall redeem those \_\_\_\_\_ Notes, and other Notes, on the earliest practicable date on which the Issuer will have such funds available, upon notice pursuant to Section 2.03(b) to record owners of the \_\_\_\_\_ Notes to be redeemed and the Paying Agent. The Issuer will deposit with the Paying Agent funds sufficient to redeem the specified aggregate principal amount of \_\_\_\_\_ Notes with respect to a redemption required under subparagraph (a)(ii) of this Section 2.03, by 1:00 p.m., New York City time, of the Business Day immediately preceding the Mandatory Redemption Date. If fewer than all of the Outstanding \_\_\_\_\_ Notes are to be redeemed pursuant to this Section 2.03(a)(iii), the aggregate principal amount of \_\_\_\_\_ Notes to be redeemed shall be redeemed pro rata from the Holders of such \_\_\_\_\_ Notes in proportion to the aggregate principal amount of such \_\_\_\_\_ Notes held by such Holders, by lot or by such other method as the Issuer shall deem fair and equitable, subject, however, to the terms of any applicable Specific Redemption Provisions. Mandatory Redemption Price means the Redemption Price plus (in the case of a Rate Period of one year or more only) a redemption premium, if any, determined by the Board of Directors after consultation with the Broker-Dealers and set forth in any applicable Specific Redemption Provisions.

(b) In the event of a redemption pursuant to Section 2.03(a), the Issuer will file a notice of its intention to redeem with the Commission so as to provide at least the minimum notice required under Rule 23c-2 under the Investment Company Act or any successor provision. In addition, the Issuer shall deliver a notice of redemption to the Auction Agent and the Trustee (the Notice of Redemption) containing the information set forth below (i) in the case of an optional redemption pursuant to subparagraph (a)(i) above, at least three Business Days prior to the giving of notice to the Holders and (ii) in the case of a mandatory redemption pursuant to subparagraph (a)(ii) above, on or prior to the 30th day preceding the Mandatory Redemption Date. The Trustee will use its reasonable efforts to provide notice to each Holder of \_\_\_\_\_ Notes called for redemption by electronic or other reasonable means not later than the close of business on the Business Day immediately following the day on which the Trustee determines the \_\_\_\_\_ Notes to be redeemed (or, during a Default Period with respect to such \_\_\_\_\_ Notes, not later than the close of business on the Business Day immediately following the day on which the Trustee receives Notice of Redemption from the Issuer). The Trustee shall confirm such notice in writing not later than the close of business on the third Business Day preceding the date fixed for redemption by providing the Notice of Redemption to each Holder of \_\_\_\_\_ Notes called for redemption, the Paying Agent (if different from the Trustee) and the Securities Depository. Notice of Redemption will be addressed to the registered owners of each series of \_\_\_\_\_ Notes at their addresses appearing on the books or records of the Issuer. Such Notice of Redemption will set forth (i) the date fixed for redemption, (ii) the principal amount and identity of \_\_\_\_\_ Notes to be redeemed, (iii) the redemption price (specifying the amount of accrued

interest to be included therein and any redemption premium, if any), (iv) that interest on the \_\_\_\_\_ Notes to be redeemed will cease to accrue on such date fixed for redemption, (v) applicable cusip number(s) and (vi) the provision under which redemption shall be made. No defect in the Notice of Redemption or in the transmittal or mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law. If fewer than all \_\_\_\_\_ Notes held by any Holder are to be redeemed, the Notice of Redemption mailed to such Holder shall also specify the principal amount of \_\_\_\_\_ Notes to be redeemed from such Holder.

(c) Notwithstanding the provisions of paragraph (a) of this Section 2.03, no \_\_\_\_\_ Notes may be redeemed unless all interest on the Outstanding \_\_\_\_\_ Notes and all Notes of the Issuer ranking on a parity with the \_\_\_\_\_ Notes, have been or are being contemporaneously paid or set aside for payment; provided, however, that the foregoing shall not prevent the purchase or acquisition of all Outstanding \_\_\_\_\_ Notes pursuant to the successful completion of an otherwise lawful purchase or exchange offer made on the same terms to, and accepted by, Holders of all Outstanding \_\_\_\_\_ Notes.

(d) Upon the deposit of funds sufficient to redeem any \_\_\_\_\_ Notes with the Paying Agent and the giving of the Notice of Redemption to the Trustee under paragraph (b) of this Section 2.03, interest on such \_\_\_\_\_ Notes shall cease to accrue and such \_\_\_\_\_ Notes shall no longer be deemed to be Outstanding for any purpose (including, without limitation, for purposes of calculating whether the Issuer has maintained the requisite \_\_\_\_\_ Notes Basic Maintenance Amount or the 1940 Act \_\_\_\_\_ Notes Asset Coverage), and all rights of the Holder of the \_\_\_\_\_ Notes so called for redemption shall cease and terminate, except the right of such Holder to receive the redemption price specified herein, but without any interest or other additional amount. Such redemption price shall be paid by the Paying Agent to the nominee of the Securities Depository. The Issuer shall be entitled to receive from the Paying Agent, promptly after the date fixed for redemption, any cash deposited with the Paying Agent in excess of (i) the aggregate redemption price of the \_\_\_\_\_ Notes called for redemption on such date and (ii) such other amounts, if any, to which Holders of the \_\_\_\_\_ Notes called for redemption may be entitled. Any funds so deposited that are unclaimed at the end of two years from such redemption date shall, to the extent permitted by law, be paid to the Issuer, after which time the Holders of \_\_\_\_\_ Notes so called for redemption may look only to the Issuer for payment of the redemption price and all other amounts, if any, to which they may be entitled. The Issuer shall be entitled to receive, from time to time after the date fixed for redemption, any interest earned on the funds so deposited.

(e) To the extent that any redemption for which Notice of Redemption has been given is not made by reason of the absence of legally available funds therefor, or is otherwise prohibited, such redemption shall be made as soon as practicable to the extent such funds become legally available or such redemption is no longer otherwise prohibited. Failure to redeem any series of \_\_\_\_\_ Notes shall be deemed to exist at any time after the date specified for redemption in a Notice of Redemption when the Issuer shall have failed, for any reason whatsoever, to deposit in trust with the Paying Agent the redemption price with respect to any \_\_\_\_\_ Notes for which such Notice of Redemption has been given. Notwithstanding the fact that the Issuer may not have redeemed any \_\_\_\_\_ Notes for which a Notice of Redemption has been given, interest may be paid on a series of \_\_\_\_\_ Notes and shall include those \_\_\_\_\_ Notes for which Notice of Redemption has been given but for which deposit of funds has not been made.

(f) All moneys paid to the Paying Agent for payment of the redemption price of any \_\_\_\_\_ Notes called for redemption shall be held in trust by the Paying Agent for the benefit of Holders of \_\_\_\_\_ Notes to be redeemed.

(g) So long as any \_\_\_\_\_ Notes are held of record by the nominee of the Securities Depository, the redemption price for such \_\_\_\_\_ Notes will be paid on the date fixed for redemption to the nominee of the Securities Depository for distribution to Agent Members for distribution to the persons for whom they are acting as agent.

(h) Except for the provisions described above, nothing contained herein limits any right of the Issuer to purchase or otherwise acquire any \_\_\_\_\_ Notes outside of an Auction at any price, whether higher or lower than the price that would be paid in connection with an optional or mandatory redemption, so long as, at the time of any such purchase, there is no arrearage in the payment of interest on, or the mandatory or optional redemption price with respect to, any series of \_\_\_\_\_ Notes for which Notice of Redemption has been given and the Issuer is in compliance with the 1940 Act \_\_\_\_\_ Notes Asset Coverage and has Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount after giving effect to such purchase or acquisition on the date thereof. If fewer than all the Outstanding \_\_\_\_\_ Notes of any series are redeemed or otherwise acquired by the Issuer, the Issuer shall give notice of such transaction to the Trustee, in accordance with the procedures agreed upon by the Board of Directors.

(i) The Board of Directors may, without further consent of the holders of the \_\_\_\_\_ Notes or the holders of shares of capital stock of the Issuer, authorize, create or issue any class or series of Notes, including other series of \_\_\_\_\_ Notes, ranking prior to or on a parity with the \_\_\_\_\_ Notes to the extent permitted by the Investment Company Act, if, upon issuance, either (A) the net proceeds from the sale of such Notes (or such portion thereof needed to redeem or repurchase the Outstanding \_\_\_\_\_ Notes) are deposited with the Trustee in accordance with Section 2.03(d), Notice of Redemption as contemplated by Section 2.03(b) has been delivered prior thereto or is sent promptly thereafter, and such proceeds are used to redeem all Outstanding \_\_\_\_\_ Notes or (B) the Issuer would meet the 1940 Act \_\_\_\_\_ Notes Asset Coverage, the \_\_\_\_\_ Notes Basic Maintenance Amount and the requirements of Section 2.08 hereof.

(j) If any \_\_\_\_\_ Notes are to be redeemed and such \_\_\_\_\_ Notes are held by the Securities Depository, the Issuer shall include in the notice of redemption delivered to the Securities Depository: (i) under an item entitled Publication Date for Securities Depository Purposes, the Interest Payment Date prior to the Redemption Date, and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Depository participants whose Securities Depository positions will be redeemed and the principal amount of such \_\_\_\_\_ Notes to be redeemed from each such position (the Securities Depository Redemption Information), and (y) notify the Auction Agent immediately after such determination of (A) the positions of the Depository Participants in such \_\_\_\_\_ Notes immediately prior to such Auction settlement, (B) the positions of the Depository Participants in such \_\_\_\_\_ Notes immediately following such Auction settlement and (C) the Securities Depository Redemption Information. Publication Date shall mean three Business Days after the Auction Date next preceding such Redemption Date.

**Designation of Rate Period**

The initial Rate Period for each series of \_\_\_\_\_ Notes is as set forth under Designation in Section 2.01(a) above. The Issuer will designate the duration of subsequent Rate Periods of each series of \_\_\_\_\_ Notes; provided, however, that no such designation is necessary for a Standard Rate Period and, provided further, that any designation of a Special Rate Period shall be effective only if (i) notice thereof shall have been given as provided herein, (ii) any failure to pay

in a timely manner to the Trustee the full amount of any interest on, or the redemption price of, \_\_\_\_\_ Notes shall have been cured as provided above, (iii) Sufficient Clearing Bids shall have existed in an Auction held on the Auction Date immediately preceding the first day of such proposed Special Rate Period, (iv) if the Issuer shall have mailed a Notice of Redemption with respect to any \_\_\_\_\_ Notes, the redemption price with respect to such \_\_\_\_\_ Notes shall have been deposited with the Paying Agent, and (v) in the case of the designation of a Special Rate Period, the Issuer has confirmed that as of the Auction Date next preceding the first day of such Special Rate Period, it has Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount, and the Issuer has consulted with the Broker-Dealers and has provided notice of such designation and otherwise complied with the Rating Agency Guidelines.

If the Issuer proposes to designate any Special Rate Period, not fewer than 7 (or two Business Days in the event the duration of the Rate Period prior to such Special Rate Period is fewer than 8 days) nor more than 30 Business Days prior to the first day of such Special Rate Period, notice shall be (i) made by press release and (ii) communicated by the Issuer by telephonic or other means to the Trustee and confirmed in writing promptly thereafter. Each such notice shall state (A) that the Issuer proposes to exercise its option to designate a succeeding Special Rate Period, specifying the first and last days thereof and (B) that the Issuer will by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such Special Rate Period, notify the Auction Agent and the Trustee, who will promptly notify the Broker-Dealers, of either (x) its determination, subject to certain conditions, to proceed with such Special Rate Period, subject to the terms of any Specific Redemption Provisions, or (y) its determination not to proceed with such Special Rate Period, in which latter event the succeeding Rate Period shall be a Standard Rate Period.

No later than 3:00 p.m., New York City time, on the second Business Day next preceding the first day of any proposed Special Rate Period, the Issuer shall deliver to the Auction Agent and Trustee, who will promptly deliver to the Broker-Dealers and Existing Holders, either:

(i) a notice stating (A) that the Issuer has determined to designate the next succeeding Rate Period as a Special Rate Period, specifying the first and last days thereof and (B) the terms of any Specific Redemption Provisions; or

(ii) a notice stating that the Issuer has determined not to exercise its option to designate a Special Rate Period. If the Issuer fails to deliver either such notice with respect to any designation of any proposed Special Rate Period to the Auction Agent or is unable to make the confirmation provided in clause (v) of Paragraph (a) of this Section 2.04 by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such proposed Special Rate Period, the Issuer shall be deemed to have delivered a notice to the Auction Agent with respect to such Rate Period to the effect set forth in clause (ii) above, thereby resulting in a Standard Rate Period.

**Restrictions on Transfer**

\_\_\_\_\_ Notes may be transferred only (a) pursuant to an order placed in an Auction, (b) to or through a Broker-Dealer or (c) to the Issuer or any Affiliate. Notwithstanding the foregoing, a transfer other than pursuant to an Auction will not be effective unless the selling Existing Holder or the Agent Member of such Existing Holder, in the case of an Existing Holder whose \_\_\_\_\_ Notes are listed in its own name on the books of the Auction Agent, or the Broker-Dealer or Agent Member of such Broker-Dealer, in the case of a transfer between persons holding \_\_\_\_\_ Notes through different Broker-Dealers, advises the Auction Agent of such transfer. The certificates representing the

\_\_\_\_\_ Notes issued to the Securities Depository will bear legends with respect to the restrictions described above and stop-transfer instructions will be issued to the Transfer Agent and/or Registrar.

**1940 Act \_\_\_\_\_ Notes Asset Coverage**

The Issuer shall maintain, as of the last Business Day of each month in which any \_\_\_\_\_ Notes are Outstanding, asset coverage with respect to the \_\_\_\_\_ Notes which is equal to or greater than the 1940 Act \_\_\_\_\_ Notes Asset Coverage; provided, however, that Section 2.03(a)(ii) shall be the sole remedy in the event the Issuer fails to do so.

**\_\_\_\_\_ Notes Basic Maintenance Amount**

So long as the \_\_\_\_\_ Notes are Outstanding and any Rating Agency is then rating the \_\_\_\_\_ Notes, the Issuer shall maintain, as of each Valuation Date, Eligible Assets having an aggregate Discounted Value equal to or greater than the \_\_\_\_\_ Notes Basic Maintenance Amount; provided, however, that Section 2.03(a)(ii) shall be the sole remedy in the event the Issuer fails to do so.

**Certain Other Restrictions**

For so long as any \_\_\_\_\_ Notes are Outstanding and any Rating Agency is then rating the \_\_\_\_\_ Notes, the Issuer will not engage in certain proscribed transactions set forth in the Rating Agency Guidelines, unless it has received written confirmation from each such Rating Agency that proscribes the applicable transaction in its Rating Agency Guidelines that any such action would not impair the rating then assigned by such Rating Agency to a series of \_\_\_\_\_ Notes.

For so long as any \_\_\_\_\_ Notes are Outstanding, the Issuer will not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of, or options, warrants or rights to subscribe for or purchase, common shares or other shares of capital stock of the Issuer) upon any class of shares of capital stock of the Issuer, unless, in every such case, immediately after such transaction, the 1940 Act \_\_\_\_\_ Notes Asset Coverage would be achieved after deducting the amount of such dividend, distribution, or purchase price, as the case may be; provided, however, that dividends may be declared upon any preferred shares of capital stock of the Issuer if the \_\_\_\_\_ Notes and any other senior securities representing indebtedness of the Issuer have an asset coverage of at least 200% at the time of declaration thereof, after deducting the amount of such dividend.

A declaration of a dividend or other distribution on or purchase or redemption of any common or preferred shares of capital stock of the Issuer is prohibited (i) at any time that an Event of Default under the Indenture has occurred and is continuing, (ii) if after giving effect to such declaration, the Issuer would not have Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount or the 1940 Act \_\_\_\_\_ Notes Asset Coverage, or (iii) the Issuer has not redeemed the full amount of \_\_\_\_\_ Notes required to be redeemed by any provisions for mandatory redemption contained herein.

**Compliance Procedures for Asset Maintenance Tests**

For so long as any \_\_\_\_\_ Notes are Outstanding and any Rating Agency is then rating such \_\_\_\_\_ Notes:



(a) As of each Valuation Date, the Issuer shall determine in accordance with the procedures specified herein (i) the Market Value of each Eligible Asset owned by the Issuer on that date, (ii) the Discounted Value of each such Eligible Asset using the Discount Factors, (iii) whether the \_\_\_\_\_ Notes Basic Maintenance Amount is met as of that date, (iv) the value of the total assets of the Issuer, less all liabilities, and (v) whether the 1940 Act \_\_\_\_\_ Notes Asset Coverage is met as of that date.

(b) Upon any failure to maintain the required \_\_\_\_\_ Notes Basic Maintenance Amount or 1940 Act \_\_\_\_\_ Notes Asset Coverage on any Valuation Date, the Issuer may use reasonable commercial efforts (including, without limitation, altering the composition of its portfolio, purchasing \_\_\_\_\_ Notes outside of an Auction or in the event of a failure to file a Rating Agency Certificate (as defined below) on a timely basis, submitting the requisite Rating Agency Certificate) to re-attain (or certify in the case of a failure to file on a timely basis, as the case may be) the required \_\_\_\_\_ Notes Basic Maintenance Amount or 1940 Act \_\_\_\_\_ Notes Asset Coverage on or prior to the Asset Coverage Cure Date.

(c) Compliance with the \_\_\_\_\_ Notes Basic Maintenance Amount and 1940 Act \_\_\_\_\_ Notes Asset Coverage tests shall be determined with reference to those \_\_\_\_\_ Notes which are deemed to be Outstanding hereunder.

(d) The Issuer shall deliver to each Rating Agency which is then rating \_\_\_\_\_ Notes and any other party specified in the Rating Agency Guidelines all certificates that are set forth in the respective Rating Agency Guidelines regarding 1940 Act \_\_\_\_\_ Notes Asset Coverage, \_\_\_\_\_ Notes Basic Maintenance Amount and/or related calculations at such times and containing such information as set forth in the respective Rating Agency Guidelines (each, a Rating Agency Certificate ).

(e) In the event that any Rating Agency Certificate is not delivered within the time periods set forth in the Rating Agency Guidelines, the Issuer shall be deemed to have failed to maintain the \_\_\_\_\_ Notes Basic Maintenance Amount or the 1940 Act \_\_\_\_\_ Notes Asset Coverage, as the case may be, on such Valuation Date for purposes of Section 2.09(b). In the event that any Rating Agency Certificate with respect to an applicable Asset Coverage Cure Date is not delivered within the time periods set forth in the Rating Agency Guidelines, the Issuer shall be deemed to have failed to have Eligible Assets with an aggregate Discounted Value at least equal to the \_\_\_\_\_ Notes Basic Maintenance Amount or to meet the 1940 \_\_\_\_\_ Notes Asset Coverage, as the case may be, as of the related Valuation Date, and such failure shall be deemed not to have been cured as of such Asset Coverage Cure Date for purposes of the mandatory redemption provisions.

#### **Delivery of Notes**

Upon the execution and delivery of this Supplemental Indenture, the Issuer shall execute and deliver to the Trustee and the Trustee shall authenticate the \_\_\_\_\_ Notes and deliver them to The Depository Trust Company and as hereinafter in this Section provided.

Prior to the delivery by the Trustee of any of the \_\_\_\_\_ Notes, there shall have been filed with or delivered to the Trustee the following:

(a) A resolution duly adopted by the Issuer, certified by the Secretary or other Authorized Officer thereof, authorizing the execution and delivery of this Supplemental Indenture and the issuance of the \_\_\_\_\_ Notes.

- (b) Duly executed copies of this Supplemental Indenture and a copy of the Indenture.
- (c) Rating letters from each Rating Agency rating the \_\_\_\_\_ Notes.
- (d) An Opinion of Counsel and an Officers Certificate pursuant to Sections 3.3 and 9.3 of the Original Indenture.

**Trustee s Authentication Certificate**

The Trustee s authentication certificate upon the \_\_\_\_\_ Notes shall be substantially in the forms provided in Appendix \_\_\_\_\_ hereto. No \_\_\_\_\_ Note shall be secured hereby or entitled to the benefit hereof, or shall be valid or obligatory for any purpose, unless a certificate of authentication, substantially in such form, has been duly executed by the Trustee; and such certificate of the Trustee upon any \_\_\_\_\_ Note shall be conclusive evidence and the only competent evidence that such Bond has been authenticated and delivered hereunder. The Trustee s certificate of authentication shall be deemed to have been duly executed by it if manually signed by an authorized officer of the Trustee, but it shall not be necessary that the same person sign the certificate of authentication on all of the \_\_\_\_\_ Notes issued hereunder.

**EVENTS OF DEFAULT; REMEDIES**

**Events of Default**

An Event of Default means any one of the following events set forth below (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of any interest upon a series of \_\_\_\_\_ Notes when it becomes due and payable and the continuance of such default for thirty (30) days; or

(b) default in the payment of the principal of, or any premium on, a series of \_\_\_\_\_ Notes at its Stated Maturity; or

(c) default in the performance, or breach, of any covenant or warranty of the Company in the Indenture, and continuance of such default or breach for a period of ninety (90) days after there has been given, by registered or certified mail, to the Company by the Trustee a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a Notice of Default; or

(d) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 60 consecutive days; or

(e) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree

or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(f) if, pursuant to Section 18(a)(1)(c)(ii) of the 1940 Act on the last business day of each of twenty-four (24) consecutive calendar months, the 1940 Act \_\_\_\_\_ Notes Asset Coverage is less than 100%; or

(g) any other Event of Default provided with respect to a series of \_\_\_\_\_ Notes, including a default in the payment of any Redemption Price payable on the date fixed for redemption.

Unless otherwise noted, an Event of Default that relates only to one series of \_\_\_\_\_ Notes will not affect any other series.

#### **Acceleration of Maturity; Rescission and Annulment**

If an Event of Default with respect to \_\_\_\_\_ Notes of a series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the holders of not less than a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of that series may declare the principal amount of all the \_\_\_\_\_ Notes of that series to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in paragraphs (d) and (e) above with respect to \_\_\_\_\_ Notes of any series at the time Outstanding occurs, the principal amount of all the \_\_\_\_\_ Notes of that series shall automatically, and without any declaration or other action on the part of the Trustee or any holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to \_\_\_\_\_ Notes of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the holders of a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if:

- (a) the Company has paid or deposited with the Trustee a sum sufficient to pay
  - (i) all overdue interest on all \_\_\_\_\_ Notes of that series,
  - (ii) the principal of (and premium, if any, on) any \_\_\_\_\_ Notes of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such \_\_\_\_\_ Notes,
  - (iii) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such \_\_\_\_\_ Notes,
  - (iv) all sums paid or advanced by the Trustee and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel; and

(b) all Events of Default with respect to \_\_\_\_\_ Notes of that series, other than the non-payment of the principal of \_\_\_\_\_ Notes of that series which have become due solely by such declaration of acceleration, have been cured or waived.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

**Collection of Indebtedness and Suits for Enforcement by Trustee**

The Company covenants that if:

(a) default is made in the payment of any interest on any \_\_\_\_\_ Notes when such interest becomes due and payable and such default continues for a period of 90 days, or

(b) default is made in the payment of the principal of (or premium, if any, on) any \_\_\_\_\_ Notes at the Maturity thereof, the Company will, upon demand of the Trustee, pay to it, for the benefit of the holders of such \_\_\_\_\_ Notes, the whole amount then due and payable on such \_\_\_\_\_ Notes for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor in such \_\_\_\_\_ Notes, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to \_\_\_\_\_ Notes of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the holders of \_\_\_\_\_ Notes of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in the Indenture or in aid of the exercise of any power granted in the Indenture, or to enforce any other proper remedy.

**Application of Money Collected**

Any money collected by the Trustee pursuant to the provisions of the Indenture relating to an Event of Default shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the \_\_\_\_\_ Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under the Indenture;

and

SECOND: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the \_\_\_\_\_ Notes in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such \_\_\_\_\_ Notes for principal and any premium and interest, respectively.

**Limitation On Suits**

No holder of any \_\_\_\_\_ Notes of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to the Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(a) such holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the \_\_\_\_\_ Notes of that series;

(b) the holders of not less than a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) such holder or holders have offered to the Trustee indemnity reasonably satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the holders of a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of that series; it being understood and intended that no one or more of such holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of the Indenture to affect, disturb or prejudice the rights of any other of such holders, or to obtain or to seek to obtain priority or preference over any other of such holders or to enforce any right under the Indenture, except in the manner provided and for the equal and ratable benefit of all of such holders.

**Unconditional Right of Holders to Receive Principal, Premium and Interest**

Notwithstanding any other provision in the Indenture, the holder of any \_\_\_\_\_ Notes shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to the provisions of any supplemental indenture) interest on such \_\_\_\_\_ Notes on the respective Stated Maturities expressed in such \_\_\_\_\_ Notes (or, in the case of redemption, on the Redemption Date), and to institute suit for the enforcement of any such payment and such rights shall not be impaired without the consent of such holder.

**Restoration of Rights and Remedies**

If the Trustee or any holder has instituted any proceeding to enforce any right or remedy under the Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the holders shall be restored severally and respectively to their former positions and thereafter all rights and remedies of the Trustee and the holders shall continue as though no such proceeding had been instituted.

**Rights and Remedies Cumulative**

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen \_\_\_\_\_ Notes, no right or remedy conferred upon or reserved to the Trustee or to the holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

### **Control By Holders**

The holders of not less than a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the \_\_\_\_\_ Notes of such series, provided that

- (1) such direction shall not be in conflict with any rule of law or with the Indenture, and
- (2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

### **Waiver of Past Defaults**

The holders of not less than a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of any series may on behalf of the holders of all the \_\_\_\_\_ Notes of such series waive any past default hereunder with respect to such series and its consequences, except a default

- (1) in the payment of the principal of or any premium or interest on any \_\_\_\_\_ Notes of such series, or
- (2) in respect of a covenant or provision which cannot be modified or amended without the consent of the holder of each Outstanding \_\_\_\_\_ Notes of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of the Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

### **SATISFACTION AND DISCHARGE OF INDENTURE**

The Indenture shall upon request of the Company cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of any \_\_\_\_\_ Notes expressly provided for herein or in the terms of such security), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of the Indenture, when

- (a) Either:
- (i) all \_\_\_\_\_ Notes theretofore authenticated and delivered (other than (1) securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in the Indenture; and (2) \_\_\_\_\_ Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in the Indenture) have been delivered to the Trustee for cancellation; or
  - (ii) all such \_\_\_\_\_ Notes not theretofore delivered to the Trustee for cancellation have become due and payable, or will become due and payable at their Stated Maturity within one year, or are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company, and the Company, in the case of this subsection (ii) has deposited or caused to be deposited with the Trustee as trust funds in trust money in an amount sufficient to pay and discharge the entire indebtedness on such securities not theretofore delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in

the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(b) the Company has paid or caused to be paid all other sums payable hereunder by the Trust; and

(c) the Company has delivered to the Trustee an Officers Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of the Indenture have been complied with.

Notwithstanding the satisfaction and discharge of the Indenture, the obligations of the Company to the Trustee under the Indenture and, if money shall have been deposited with the Trustee pursuant to subparagraph (ii) of paragraph (a) above, the obligations of the Trustee under certain provisions of the Indenture shall survive.

#### **THE TRUSTEE**

##### **Certain Duties and Responsibilities**

(1) Except during the continuance of an Event of Default,

(A) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture and as required by the Trust Indenture Act, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and

(B) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; but in the case of any such certificates or opinions which by any provision of the Indenture are specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not they conform to the requirements of the Indenture (but need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

(2) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.

(3) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(4) In no event shall the Trustee be responsible or liable for any failure or delay in the performance of its obligations arising out of or caused by, directly or indirectly, forces beyond its control, including, without limitation, strikes, work stoppages, accidents, acts of war or terrorism, civil or military disturbances, nuclear or natural catastrophes or acts of God, and interruptions, loss or malfunctions of utilities, communications or computer (software and hardware) services; it being understood that the Trustee shall use reasonable efforts which are consistent with accepted practices in the banking industry to resume performance as soon as practicable under the circumstances.

(5) No provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(A) this Subsection shall not be construed to limit the effect of Subsection (1)(A) of this Section;

(B) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(C) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the holders of a majority in principal amount of the Outstanding securities of any series, determined as provided in the Indenture, relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under the Indenture with respect to the Securities of such series; and

(D) no provision of the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

**Notice of Defaults**

If a default occurs hereunder with respect to \_\_\_\_\_ Notes of any series, the Trustee shall give the Holders of \_\_\_\_\_ Notes of such series notice of such default as and to the extent provided by the Trust Indenture Act; provided, however, that in the case of any default with respect to \_\_\_\_\_ Notes of such series, no such notice to Holders shall be given until at least 90 days after the occurrence thereof. For the purpose hereof, the term default means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to \_\_\_\_\_ Notes of such series.

**Certain Rights of Trustee**

Subject to the provisions under Certain Duties and Responsibilities above:

(a) the Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(b) any request or direction of the Company shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(c) whenever in the administration of the Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee may, in the absence of bad faith on its part, rely upon an Officers Certificate;



(d) the Trustee may consult with counsel of its selection and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it in good faith and in reliance thereon;

(e) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by the Indenture at the request or direction of any of the holders pursuant to the Indenture, unless such holders shall have offered to the Trustee security or indemnity reasonably satisfactory to it against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(f) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney;

(g) the Trustee may execute any of the trusts or powers or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder;

(h) the Trustee shall not be liable for any action taken, suffered or omitted to be taken by it in good faith and reasonably believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Indenture;

(i) the Trustee shall not be deemed to have notice of any default or Event of Default unless a Responsible Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the \_\_\_\_\_ Notes and the Indenture;

(j) the rights, privileges, protections, immunities and benefits given to the Trustee, including its rights to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder; and

(k) the Trustee may request that the Company deliver an Officers Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to the Indenture, which Officers Certificate may be signed by any person authorized to sign an Officers Certificate, including any person specified as so authorized in any such certificate previously delivered and not superceded.

#### **Compensation and Reimbursement**

The Company agrees:

(a) to pay to the Trustee from time to time such compensation as shall be agreed in writing between the parties for all services rendered by it (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(b) except as otherwise expressly provided, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of the Indenture (including the reasonable compensation and the expenses and disbursements of

its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(c) to indemnify each of the Trustee or any predecessor Trustee for, and to hold it harmless against, any and all losses, liabilities, damages, claims or expenses including taxes (other than taxes imposed on the income of the Trustee) incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim (whether asserted by the Company, a holder or any other Person) or liability in connection with the exercise or performance of any of its powers or duties hereunder.

When the Trustee incurs expenses or renders services in connection with an Event of Default, the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions hereof shall survive the termination of the Indenture.

### **Conflicting Interests**

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and the Indenture. To the extent not prohibited by the Trust Indenture Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under the Indenture with respect to \_\_\_\_\_ Notes of more than one series.

### **Resignation and Removal; Appointment of Successor**

No resignation or removal of the Trustee and no appointment of a successor Trustee shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements.

The Trustee may resign at any time with respect to the \_\_\_\_\_ Notes of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 60 days after the giving of such notice of resignation, the resigning Trustee may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the \_\_\_\_\_ Notes of such series.

The Trustee may be removed at any time with respect to the \_\_\_\_\_ Notes of any series by Act of the holders of a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of such series, delivered to the Trustee and to the Company. If the instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within 30 days after the giving of a notice of removal pursuant to this paragraph, the Trustee being removed may petition, at the expense of the Company, any court of competent jurisdiction for the appointment of a successor Trustee with respect to the \_\_\_\_\_ Notes of such series.

If at any time:

(a) the Trustee shall fail to comply after written request therefor by the Company or by any holder who has been a bona fide holder of \_\_\_\_\_ Notes for at least six months, or

(b) the Trustee shall cease to be eligible and shall fail to resign after written request therefor by the Company or by any such holder, or

(c) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, (i) the Company by a Board Resolution may remove the Trustee with respect to all \_\_\_\_\_ Notes, or (ii) any holder who has been a bona fide holder of \_\_\_\_\_ Notes for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all \_\_\_\_\_ Notes and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the \_\_\_\_\_ Notes of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the \_\_\_\_\_ Notes of that or those series (it being understood that any such successor Trustee may be appointed with respect to the \_\_\_\_\_ Notes of one or more or all of such series and that at any time there shall be only one Trustee with respect to the \_\_\_\_\_ Notes of any particular series) and shall comply with the applicable requirements. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the \_\_\_\_\_ Notes of any series shall be appointed by Act of the holders of a majority in principal amount of the Outstanding \_\_\_\_\_ Notes of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements, become the successor Trustee with respect to the \_\_\_\_\_ Notes of such series and to that extent supersede the successor Trustee appointed by the Company.

If no successor Trustee with respect to the \_\_\_\_\_ Notes of any series shall have been so appointed by the Company or the holders and accepted appointment in the manner required, any holder who has been a bona fide holder of \_\_\_\_\_ Notes of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the \_\_\_\_\_ Notes of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the \_\_\_\_\_ Notes of any series and each appointment of a successor Trustee with respect to the \_\_\_\_\_ Notes of any series to all holders of \_\_\_\_\_ Notes of such series in the manner provided. Each notice shall include the name of the successor Trustee with respect to the \_\_\_\_\_ Notes of such series and the address of its Corporate Trust Office.

#### **Acceptance of Appointment by Successor**

In case of the appointment hereunder of a successor Trustee with respect to all \_\_\_\_\_ Notes, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the \_\_\_\_\_ Notes of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the \_\_\_\_\_ Notes of one or more series shall execute and deliver a supplemental indenture wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the \_\_\_\_\_ Notes of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all \_\_\_\_\_ Notes, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the \_\_\_\_\_ Notes of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of the Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing in the Indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the \_\_\_\_\_ Notes of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the \_\_\_\_\_ Notes of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible.

**Merger, Conversion, Consolidation or Succession to Business**

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any \_\_\_\_\_ Notes shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the \_\_\_\_\_ Notes so authenticated with the same effect as if such successor Trustee had itself authenticated such \_\_\_\_\_ Notes.

**CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE**

**Company May Consolidate, Etc., Only On Certain Terms**

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company, unless:

(a) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership or trust, shall be organized and validly existing under the laws of any domestic or foreign jurisdiction and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the \_\_\_\_\_ Notes and the performance or observance of every covenant of the Indenture on the part of the Company to be performed or observed;

(b) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or any subsidiary as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(c) the Company has delivered to the Trustee an Officers Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply and that all conditions precedent in the Indenture provided for relating to such transaction have been complied with.

#### **Successor Substituted**

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under the Indenture with the same effect as if such successor Person had been named as the Company in the Indenture, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under the Indenture and the \_\_\_\_\_ Notes.

### **DEFEASANCE AND COVENANT DEFEASANCE**

#### **Defeasance and Discharge**

Upon the Company's exercise of its option (if any) to have the provisions of the Indenture relating to Defeasance applied to any \_\_\_\_\_ Notes or any series of \_\_\_\_\_ Notes, as the case may be, the Company shall be deemed to have been discharged from its obligations, with respect to such \_\_\_\_\_ Notes as provided in the Indenture on and after the date the conditions set forth are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such \_\_\_\_\_ Notes and to have satisfied all its other obligations under such \_\_\_\_\_ Notes and the Indenture insofar as such \_\_\_\_\_ Notes are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of holders of such \_\_\_\_\_ Notes to receive, solely from the trust fund, payments in respect of the principal of and any premium and interest on such \_\_\_\_\_ Notes when payments are due, (2) the Company's obligations with respect to such \_\_\_\_\_ Notes, (3) the rights, powers, trusts, duties and immunities of the Trustee.

**Covenant Defeasance**

Upon the Company's exercise of its option (if any) to have provisions of the Indenture relating to Covenant Defeasance applied to any \_\_\_\_\_ Notes or any series of \_\_\_\_\_ Notes, as the case may be, (1) the Company shall be released from its obligations under certain provisions of the Indenture for the benefit of the holders of such \_\_\_\_\_ Notes and (2) the occurrence of any event specified in the Indenture, and any such covenants provided pursuant to certain provisions of the Indenture shall be deemed not to be or result in an Event of Default, in each case with respect to such \_\_\_\_\_ Notes as provided in the Indenture on and after the date the conditions are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such \_\_\_\_\_ Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified section of the Indenture, whether directly or indirectly by reason of any reference elsewhere in the Indenture, or by reason of any reference in any such section or article of the Indenture to any other provision in the Indenture or in any other document, but the remainder of the Indenture and such \_\_\_\_\_ Notes shall be unaffected thereby.

**Conditions to Defeasance or Covenant Defeasance**

(a) The Company shall irrevocably have deposited or caused to be deposited with the Trustee (or another trustee which satisfies the requirements and agrees to comply with the provisions of the relevant Article of the Indenture applicable to it) as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefits of the holders of such \_\_\_\_\_ Notes, (i) money in an amount, or (ii) U.S. Government Obligations which through the scheduled payment of principal and interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (iii) such other obligations or arrangements as may be specified with respect to such \_\_\_\_\_ Notes, or (iv) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee (or any such other qualifying trustee) to pay and discharge, the principal of and any premium and interest on such \_\_\_\_\_ Notes on the respective Stated Maturities, in accordance with the terms of the Indenture and such \_\_\_\_\_ Notes. As used in the Indenture, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the Company thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the \_\_\_\_\_ Notes Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, provided that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(b) In the event of an election to have Defeasance and Discharge apply to any \_\_\_\_\_ Notes or any series of \_\_\_\_\_ Notes, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of this instrument,

there has been a change in the applicable Federal income tax law, in either case (i) or (ii) to the effect that, and based thereon such opinion shall confirm that, the holders of such \_\_\_\_\_ Notes will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such \_\_\_\_\_ Notes and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(c) In the event of an election to have Covenant Defeasance apply to any \_\_\_\_\_ Notes or any series of \_\_\_\_\_ Notes, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the holders of such \_\_\_\_\_ Notes will not recognize gain or loss for Federal income tax purposes as a result of the deposit and Covenant Defeasance to be effected with respect to such \_\_\_\_\_ Notes and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(d) The Company shall have delivered to the Trustee an Officers Certificate to the effect that neither such \_\_\_\_\_ Notes nor any other \_\_\_\_\_ Notes of the same series, if then listed on any \_\_\_\_\_ Notes exchange, will be delisted as a result of such deposit.

(e) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such \_\_\_\_\_ Notes or any other \_\_\_\_\_ Notes shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified, at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(f) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all \_\_\_\_\_ Notes are in default within the meaning of such Act).

(g) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(h) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under the Investment Company Act or exempt from registration thereunder.

(i) No event or condition shall exist that would prevent the Company from making payments of the principal of (and any premium) or interest on the \_\_\_\_\_ Notes of such series on the date of such deposit or at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(j) The Company shall have delivered to the Trustee an Officers Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

(k) The Company shall have delivered to the Trustee an Opinion of Counsel substantially to the effect that (i) the trust funds deposited pursuant hereto will not be subject to any rights of any holders of indebtedness or equity of the Company, and (ii) after the 90th day following the deposit, the trust funds will not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors rights generally, except that if a court were to rule under any such law in any case or

proceeding that the trust funds remained property of the Company, no opinion is given as to the effect of such laws on the trust funds except the following: (A) assuming such trust funds remained in the possession of the trustee with whom such funds were deposited prior to such court ruling to the extent not paid to holders of such \_\_\_\_\_ Notes, such trustee would hold, for the benefit of such holders, a valid and perfected security interest in such trust funds that is not avoidable in bankruptcy or otherwise and (B) such holders would be entitled to receive adequate protection of their interests in such trust funds if such trust funds were used.

A-33

---



## APPENDIX B DESCRIPTION OF RATINGS

### Moody's Prime Rating System

Moody's short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Such obligations generally have an original maturity not exceeding one year, unless explicitly noted.

Moody's employs the following designations, all judged to be investment grade, to indicate the relative repayment ability of rated issuers:

Prime-1: Issuers rated Prime-1 (or supporting institutions) have a superior ability for repayment of senior short-term debt obligations. Prime-1 repayment ability will often be evidenced by many of the following characteristics:

Leading market positions in well-established industries. High rates of return on funds employed. Conservative capitalization structure with moderate reliance on debt and ample asset protection. Broad margins in earnings coverage of fixed financial charges and high internal cash generation. Well-established access to a range of financial markets and assured sources of alternate liquidity.

Prime-2: Issuers (or supporting institutions) rated Prime-2 have a strong ability to repay senior short-term debt obligations. This will normally be evidenced by many of the characteristics cited above, but to a lesser degree. Earnings trends and coverage ratios, while sound, may be more subject to variation than is the case for Prime-1 securities. Capitalization characteristics, while still appropriate, may be more affected by external conditions. Ample alternate liquidity is maintained.

Prime-3: Issuers (or supporting institutions) rated Prime-3 have an acceptable ability for repayment of senior short-term obligations. The effect of industry characteristics and market compositions may be more pronounced. Variability in earnings and profitability may result in changes in the level of debt-protection measurements and may require relatively high financial leverage. Adequate alternate liquidity is maintained.

Not Prime: Issuers rated Not Prime do not fall within any of the Prime rating categories.

In addition, in certain countries the prime rating may be modified by the issuer's or guarantor's senior unsecured long-term debt rating.

### Moody's Debt Ratings

Aaa: Bonds and preferred stock which are rated Aaa are judged to be of the best quality. They carry the smallest degree of investment risk and are generally referred to as "gilt edged." Interest payments are protected by a large or by an exceptionally stable margin and principal is secure. While the various protective elements are likely to change, such changes as can be visualized are most unlikely to impair the fundamentally strong position of such issues.

Aa: Bonds and preferred stock which are rated Aa are judged to be of high quality by all standards. Together with the Aaa group they comprise what are generally known as high-grade bonds. They are rated lower than the best bonds because margins of protection may not be as large as in Aaa securities or fluctuation of protective elements may be of greater amplitude or there may be other elements present which make the long-term risk in Aa-rated securities appear somewhat larger than those securities rated Aaa.

A: Bonds and preferred stock which are rated A possess many favorable investment attributes and are to be considered as upper-medium-grade obligations. Factors giving security to principal and interest are

<sup>1</sup> The ratings indicated herein are believed to be the most recent ratings available at the date of this prospectus for the securities listed. Ratings are generally given to securities at the time of issuance. While the rating agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings indicated do not necessarily represent ratings which will be given to these securities on the date of the fund's fiscal year-end.

B-1

---

considered adequate, but elements may be present which suggest a susceptibility to impairment some time in the future.

Baa: Bonds and preferred stock which are rated Baa are considered as medium-grade obligations (i.e., they are neither highly protected nor poorly secured). Interest payments and principal security appear adequate for the present but certain protective elements may be lacking or may be characteristically unreliable over any great length of time. Such bonds lack outstanding investment characteristics and in fact have speculative characteristics as well.

Ba: Bonds and preferred stock which are rated Ba are judged to have speculative elements; their future cannot be considered as well-assured. Often the protection of interest and principal payments may be very moderate, and thereby not well safeguarded during both good and bad times over the future. Uncertainty of position characterizes bonds in this class.

B: Bonds and preferred stock which are rated B generally lack characteristics of the desirable investment. Assurance of interest and principal payments or of maintenance of other terms of the contract over any long period of time may be small.

Caa: Bonds and preferred stock which are rated Caa are of poor standing. Such issues may be in default or there may be present elements of danger with respect to principal or interest.

Ca: Bonds and preferred stock which are rated Ca represent obligations which are speculative in a high degree. Such issues are often in default or have other marked shortcomings.

C: Bonds and preferred stock which are rated C are the lowest rated class of bonds, and issues so rated can be regarded as having extremely poor prospects of ever attaining any real investment standing.

Moody's assigns ratings to individual debt securities issued from medium-term note (MTN) programs, in addition to indicating ratings to MTN programs themselves. Notes issued under MTN programs with such indicated ratings are rated at issuance at the rating applicable to all pari passu notes issued under the same program, at the program's relevant indicated rating, provided such notes do not exhibit any of the characteristics listed below. For notes with any of the following characteristics, the rating of the individual note may differ from the indicated rating of the program:

- 1) Notes containing features which link the cash flow and/or market value to the credit performance of any third party or parties.
- 2) Notes allowing for negative coupons, or negative principal.
- 3) Notes containing any provision which could obligate the investor to make any additional payments.

Market participants must determine whether any particular note is rated, and if so, at what rating level.

Note: Moody's applies numerical modifiers 1, 2, and 3 in 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.

#### **Standard & Poor's Short-Term Issue Credit Ratings**

A-1: A short-term obligation rated A-1 is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment 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 commitment 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 commitment on the obligation is satisfactory.

B-2

---

A-3: A short-term obligation rated A-3 exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

B: A short-term obligation rated B is regarded as having significant speculative characteristics. The obligor currently has the capacity to meet its financial commitment on the obligation; however, it faces major ongoing uncertainties which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

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 commitment on the obligation.

D: A short-term obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

### **Standard & Poor's Long-Term Issue Credit Ratings**

Issue credit ratings are based, in varying degrees, on the following considerations:

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

Nature of and provisions of the obligation;

Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

The issue rating definitions are expressed in terms of default risk. As such, they pertain to senior obligations of an entity. Junior obligations are typically rated lower than senior obligations, to reflect the lower priority in bankruptcy, as noted above. (Such differentiation applies when an entity has both senior and subordinated obligations, secured and unsecured obligations, or operating company and holding company obligations.) Accordingly, in the case of junior debt, the rating may not conform exactly with the category definition.

AAA: An obligation rated AAA has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

AA: An obligation rated AA differs from the highest rated obligations only in small degree. The obligor's capacity to meet its financial commitment 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 commitment 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 lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

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 exposures 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 which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B-3

---

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 commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment 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 commitment 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 commitment on the obligation.

CC: An obligation rated CC is currently highly vulnerable to nonpayment.

C: A subordinated debt or preferred stock obligation rated C is **currently highly vulnerable** to nonpayment. The C rating may be used to cover a situation where a bankruptcy petition has been filed or similar action taken, but payments on this obligation are being continued. A C also will be assigned to a preferred stock issue in arrears on dividends or sinking fund payments, but that is currently paying.

D: An obligation rated D is in payment default. The D rating category is used when payments on an obligation are not made on the date due even if the applicable grace period has not expired, unless Standard & Poor's believes that such payments will be made during such grace period. The D rating also will be used upon the filing of a bankruptcy petition or the taking of a similar action if payments on an obligation are jeopardized.

Plus (+) or Minus (-): 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.

L: This symbol is attached to the ratings of instruments with significant noncredit risks. It highlights risks to principal or volatility of expected returns which are not addressed in the credit rating.

N.R.: This indicates that no rating has been requested, that there is insufficient information on which to base a rating, or that Standard & Poor's does not rate a particular obligation as a matter of policy.

### **Local Currency and Foreign Currency Risks**

Country risk considerations are a standard part of Standard & Poor's analysis for credit ratings on any issuer or issue. Currency of repayment is a key factor in this analysis. An obligor's capacity to repay foreign currency obligations may be lower than its capacity to repay obligations in its local currency due to the sovereign government's own relatively lower capacity to repay external versus domestic debt. These sovereign risk considerations are incorporated in the debt ratings assigned to specific issues. Foreign currency issuer ratings are also distinguished from local currency issuer ratings to identify those instances where sovereign risks make them different for the same issuer.