Global Eagle Entertainment Inc.
Form 10-Q
May 08, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED March 31, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM __________ TO ________
COMMISSION FILE NUMBER 001-35176
GLOBAL EAGLE ENTERTAINMENT INC.
(Exact name of registrant as specified in its charter)

Delaware	27-4757800
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
4553 Glencoe Avenue	
Los Angeles, California	90292
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (310) 437-6000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

(Class)	(Outstanding as of May 6, 2015)	
COMMON STOCK, $0.0001 PAR VALUE	77,104,388	SHARES*

* Excludes 3,053,634 shares held by Global Entertainment AG, a wholly owned subsidiary of the registrant.

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PART I — FINANCIAL INFORMATION

GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 2015 (Unaudited)	December 31, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$277,290	$197,648
Accounts receivable, net	92,481	85,517
Content library, current	8,704	9,570
Inventories	15,178	13,626
Prepaid and other current assets	21,625	23,549
TOTAL CURRENT ASSETS:	415,278	329,910
Property, plant & equipment, net	24,404	23,651
Goodwill	52,756	53,014
Intangible assets	106,580	112,904
Other non-current assets	18,855	14,116
TOTAL ASSETS	$617,873	$533,595
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$100,998	$99,328
Deferred revenue	12,902	13,401
Warrant liabilities	51,660	52,671
Notes payable	752	752
Deferred tax liabilities	4,048	80
Other current liabilities	9,195	8,080
TOTAL CURRENT LIABILITIES:	179,555	174,312
Deferred tax liabilities, non-current	15,078	23,330
Deferred revenue, non-current	6,854	6,748
Notes payable	71,572	2,263
Other non-current liabilities	15,228	14,313
TOTAL LIABILITIES	288,287	220,966
COMMITMENTS AND CONTINGENCIES		
EQUITY:		
Preferred stock, $0.0001 par value; 1,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	—	—
Common stock, $0.0001 par value; 375,000,000 shares authorized, 80,158,022 and 79,626,261 shares issued, 77,104,388 and 76,572,627 shares outstanding, at March 31, 2015 and December 31, 2014, respectively	8	8
Non-voting common stock, $0.0001 par value; 25,000,000 shares authorized, 0 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	—	—
Treasury stock, 3,053,634 shares at March 31, 2015 and December 31, 2014	(30,659)	(30,659)
Additional paid-in capital	665,732	645,110
Subscriptions receivable	(509)	(503)

Accumulated deficit	(304,762)	(301,331)
Accumulated other comprehensive (loss) income	(224)	4
TOTAL GLOBAL EAGLE ENTERTAINMENT INC. STOCKHOLDERS' EQUITY	329,586	312,629
TOTAL LIABILITIES AND EQUITY	$617,873	$533,595

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended March 31, 2015	2014
Revenue	$100,305	$85,968
Operating expenses:		
Cost of sales	69,426	65,117
Sales and marketing expenses	3,275	2,835
Product development	7,230	3,922
General and administrative	18,119	17,067
Amortization of intangible assets	5,983	6,419
Restructuring charges	302	—
Total operating expenses	104,335	95,360
Loss from operations	(4,030)	(9,392)
Other income (expense):		
Interest expense, net	(245)	(161)
Change in fair value of derivatives	954	(15,538)
Other (expense) income, net	(796)	199
Loss before income taxes	(4,117)	(24,892)
Income tax (benefit) expense	(686)	1,257
Net loss	(3,431)	(26,149)
Net income attributable to non-controlling interests	—	194
Net loss attributable to Global Eagle Entertainment Inc. common stockholders	$(3,431)	$(26,343)
Net loss per common share -- basic	$(0.04)	$(0.37)
Net loss per common share -- diluted	$(0.06)	$(0.37)
Weighted average common shares - basic	76,874	71,978
Weighted average common shares - diluted	78,725	71,978

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (UNAUDITED)
(In thousands)

	Three Months Ended March 31,	
	2015	2014
Net loss	$(3,431)	$(26,149)
Other comprehensive income (loss):		
Unrealized foreign currency translation losses	(228)	—
Unrealized gains (losses) on available for sale securities		
Unrealized gain on available for sale securities	—	91
Unrealized gain on available for sale securities, net	—	91
Other comprehensive (loss) income	(228)	91
Comprehensive loss	(3,659)	(26,058)
Comprehensive income attributable to non-controlling interests	—	200
Comprehensive loss attributable to Global Eagle Entertainment Inc. common stockholders	$(3,659)	$(26,258)

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands)

	Common Stock		Treasury Stock		Additional	Subscriptions	Accumulated	Accumulated Other	Total
	Shares	Amount	Shares	Amount	Paid-in Capital	Receivable	Deficit	Comprehensive Income (Loss)	Stockholders' Equity
Balance at December 31, 2014	79,626	$8	(3,054)	$(30,659)	$645,110	$ (503)	$ (301,331)	$ 4	$ 312,629
Exercise of stock options and warrants	532	—	—	—	5,323	—	—	—	5,323
Equity component of convertible senior notes	—	—	—	—	12,674	—	—	—	12,674
Stock-based compensation		—	—	—	2,550	—	—	—	2,550
Interest income on subscription receivable	—	—	—	—	—	(6)	—	—	(6)
Excess tax benefit related to the exercise of stock option	—	—	—	—	75	—	—	—	75
Other comprehensive income	—	—	—	—	—	—	—	(228)	(228)
Net loss	—	—	—	—	—	—	(3,431)	—	(3,431)
Balance at March 31, 2015	80,158	$8	(3,054)	$(30,659)	$665,732	$ (509)	$ (304,762)	$ (224)	$ 329,586

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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GLOBAL EAGLE ENTERTAINMENT INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	Three Months Ended March 31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(3,431)	$(26,149)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,165	9,395
Non-cash interest expense, net	97	—
Change in fair value of derivative financial instrument	(954)	15,538
Stock-based compensation	2,550	2,616
Deferred income taxes	(3,748)	(1,563)
Other	170	81
Changes in operating assets and liabilities:		
Accounts receivable	(6,733)	1,533
Inventory and content library	1,205	(4,645)
Prepaid expenses and other assets	(1,841)	(4,986)
Accounts payable and accrued expenses	44	4,472
Deferred revenue	(393)	248
Other liabilities	1,115	587
NET CASH USED IN OPERATING ACTIVITIES	(3,754)	(2,873)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(2,651)	(2,032)
NET CASH USED IN INVESTING ACTIVITIES	(2,651)	(2,032)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of convertible senior notes	81,250	—
Repayments of notes payable	(282)	(3,099)
Proceeds from the exercise of common stock options	4,963	—
Other financing activities, net	(105)	(239)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	85,826	(3,338)
Effects of exchange rate movements on cash and cash equivalents	221	—
Net increase (decrease) in cash and cash equivalents	79,642	(8,243)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	197,648	258,796
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$277,290	$250,553

The accompanying notes are an integral part of these unaudited condensed consolidated financial statements.

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Global Eagle Entertainment Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Note 1. Business

Global Eagle Entertainment Inc. ("GEE"), is a Delaware corporation headquartered in Los Angeles, California. GEE together with its consolidated subsidiaries is referred to as the “Company”. The Company's business is focused on providing Wi-Fi Internet Connectivity and Content to the travel industry.

Connectivity

The Company's Connectivity service offering provides its airline partners and their passengers Wi-Fi connectivity over Ku-band satellite transmissions. The Company's Connectivity segment offers specialized network equipment, media applications and premium content services that allow airline passengers to access in-flight Internet, live television, on-demand content, shopping and travel-related information.

Content

The Company's Content services offering selects, manages, provides lab services, and distributes wholly owned and licensed media content, video and music programming, applications, and video games to airlines, as well as to the maritime and other away from home non-theatrical markets.

The Company's Content operations commenced on January 31, 2013, when the Company acquired 86% of the issued and outstanding shares of Advanced Inflight Alliance AG ("AIA") (the "AIA stock purchase"). In 2013, the Company acquired additional outstanding shares of AIA to increase its ownership of AIA's shares to 94%, and in April 2014, the Company acquired the remaining outstanding shares in AIA.

Note 2. Basis of Presentation and Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies consistently applied in the preparation of the accompanying condensed consolidated financial statements.

Basis of Presentation

The accompanying interim condensed consolidated balance sheet as of March 31, 2015, the condensed consolidated statements of operations, the condensed consolidated statements of comprehensive loss and the condensed consolidated statements of cash flows for the three month periods ended March 31, 2015 and 2014, and the condensed consolidated statement of stockholders' equity for the three month period ended March 31, 2015, are unaudited.

In the opinion of the Company's management, the unaudited interim condensed consolidated financial statements have been prepared on the same basis as the audited consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for the fair presentation of the Company's statement of financial position as of March 31, 2015, and its results of operations and cash flows for the three month periods ended March 31, 2015 and 2014. The results for the three month period ended March 31, 2015 are not necessarily indicative of the results expected for the full year. The consolidated balance sheet as of December 31, 2014 has been derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 17, 2015 (the "2014 Form 10-K").

The interim unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and with the instructions to SEC Form 10-Q and Article 10 of SEC Regulation S-X. They do not include all of the information and footnotes required by GAAP for complete financial statements. Therefore, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the

Company's 2014 Form 10-K.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of the Company and its wholly owned and majority-owned subsidiaries. Acquisitions are included in the Company's condensed consolidated financial statements from the date of the acquisition. The Company's purchase accounting for acquisitions resulted in all assets and liabilities of acquired businesses being recorded at their estimated fair values on the acquisition dates. All intercompany balances and transactions have been eliminated in consolidation.

Investments that the Company has the ability to control, and where it is the primary beneficiary, are consolidated. Any non-controlling interests in a Company's subsidiary earnings or losses, such as in AIA before April 23, 2014, are included in net income attributable to non-controlling interests in the Company's condensed consolidated statements of operations. Any investments in affiliates over which the Company has the ability to exert significant influence, but does not control and it is not the primary beneficiary, such as its historical investment in Allegiant Systems, Inc., were accounted for using the equity method of accounting. Investments in affiliates for which the Company has no ability to exert significant influence are accounted for using the cost method of accounting.

Use of Estimates

The preparation of the Company's unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue (relative selling price of deliverables) and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue, allowance for doubtful accounts, the assigned value of acquired assets and assumed and contingent liabilities associated with business combinations, valuation of media content inventory, useful lives and impairment of property and equipment, intangible assets, goodwill and other assets, the fair value of the Company's equity-based compensation awards and convertible debt instruments, and deferred income tax assets and liabilities. Actual results could differ materially from those estimates. On an ongoing basis, the Company evaluates its estimates compared to historical experience and trends, which form the basis for making judgments about the carrying value of assets and liabilities.

Segments of the Company

The Company reports its operations under two segments, Connectivity and Content. The Company's Connectivity segment provides airline customers and their passengers Wi-Fi connectivity over Ku-band satellite transmissions. The Company's Content segment selects, manages, and distributes owned and licensed media content, video and music programming, applications, and video games to the airline, maritime and non-theatrical markets.

The decision to report two segments is principally based upon how the Company's chief operating decision maker (“CODM”) manages the Company's operations as two segments for purposes of evaluating financial performance and allocating resources. The CODM reviews revenue, cost of sales expense, and contribution profit information separately for the Company's Connectivity and Content businesses. Total segment contribution profit provides the CODM, investors and equity analysts a measure to analyze operating performance of each of the Company's business segments and its enterprise value against historical data and competitors' data, although historical results may not be indicative of future results, as operating performance is highly contingent on many factors, including customer tastes and preferences. All other financial information is reviewed by the CODM on a consolidated basis.

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Global Eagle Entertainment Inc.
Notes to Condensed Consolidated Financial Statements (Unaudited)

Segment revenue, expenses and contribution profit for the three month periods ended March 31, 2015 and 2014 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Three Months Ended March 31,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$71,650	$22,200	$93,850	$63,590	$16,494	$80,084
Equipment	—	6,455	6,455	—	5,884	5,884
Total revenue	71,650	28,655	100,305	63,590	22,378	85,968
Operating expenses:						
Cost of sales						
Licensing and services	50,002	13,698	63,700	46,144	13,722	59,866
Equipment	—	5,726	5,726	—	5,251	5,251
Total Cost of sales	50,002	19,424	69,426	46,144	18,973	65,117
Contribution profit	21,648	9,231	30,879	17,446	3,405	20,851
Other operating expenses			34,909			30,243
Loss from operations			$(4,030)			$(9,392)

Revenue Recognition

The Company recognizes revenue when four basic criteria are met: persuasive evidence of a sales arrangement exists; performance of services has occurred; the sales price is fixed or determinable; and collectability is reasonably assured. The Company considers persuasive evidence of a sales arrangement to be the receipt of a signed contract or standard purchase order. Collectability is assessed based on a number of factors, including transaction history and the credit-worthiness of a customer. If it is determined that the collection is not reasonably assured, revenue is not recognized until collection becomes reasonably assured, which is generally upon receipt of cash. The Company records cash received in advance of revenue recognition as deferred revenue.

For arrangements with multiple deliverables, the Company allocates revenue to each deliverable if the delivered item(s) has value to the customer on a standalone basis and, if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Company. The fair value of the selling price for a deliverable is determined using a hierarchy of (1) Company specific objective and reliable evidence, then (2) third-party evidence, then (3) best estimate of selling price. The Company allocates any arrangement fee to each of the elements based on their relative selling prices.

When the Company enters into revenue sharing arrangements where it acts as the primary obligor, the Company recognizes the underlying revenue on a gross basis. In determining whether to report revenue gross for the amount of fees received from its customers, the Company assesses whether it maintains the principal relationship, whether it bears credit risk and whether it has latitude in establishing prices with the customers, among other factors.

The Company's revenue is principally derived from the following services:

Connectivity

Equipment Revenue. Equipment revenue is recognized when title and risk pass to the buyer, which is generally upon shipment or arrival at destination depending on the contractual arrangement with the customer. In determining whether an arrangement exists, the Company ensures that a binding arrangement is in place, such as a standard purchase order or a fully executed customer-specific agreement. In cases where a customer has the contractual ability to accept or return equipment within a specific time frame, the Company will provide for return reserves when and if necessary, based upon historical experience.

In certain cases where the Company sells its equipment on a stand-alone basis, it may charge a fee for obtaining Supplemental Type Certificates (“STC”) obtained from the Federal Aviation Administration, which allow its equipment to operate on certain model/type of aircraft. To the extent that the Company contracts to charge STC fees in equipment-only sales, the Company will record these fees as revenue. No STC fee revenue was recognized during the three months ended March 31, 2015. Total STC fees recognized as revenue for the three months ended March 31, 2014 was $0.2 million.

Included in equipment revenue are certain deferred obligations that exist pursuant to the Company's contractual arrangements, which typically include, but are not limited to, technical support, regulatory support, network support and installation support. These support-based arrangements are customarily bundled with the Company's contracts and are accounted for as a single unit of account. To the extent that these support services have value on a standalone basis, the Company allocates revenue to each element in the arrangement based upon their relative fair values. Fair value is determined based upon the best estimate of the selling price, and the fair value of undelivered elements is deferred and recognized over the performance or contractual period and is included in equipment revenue. The most significant of the deferred obligations is typically network support, which includes 24/7 operational support for the airlines for which the Company incurs significant and periodic external and internal costs to deliver on a daily basis.

Service Revenue. Connectivity service revenue includes in-flight Wi-Fi Internet services, live television, on-demand content, music streaming, shopping and click-through advertising revenue from travel-related information. Service revenue is recognized after it has been rendered and the customer can use the service, which customarily is in the form of (i) enplanement for boarded passengers, (ii) usage by passengers, depending upon the specific contract, and/or (iii) other revenues such as advertising sponsorship. The Company assesses whether performance criteria have been met and whether its service fees are fixed or determinable based on a reconciliation of the performance criteria and an analysis of the payment terms associated with the transaction. The reconciliation of the performance criteria generally includes a comparison of third-party performance data to the contractual performance obligation and to internal or customer performance data in circumstances where that data is available.

In certain cases, the Company records service revenue based on available and preliminary information from its network operations. Amounts collected on the related receivables may vary from reported information based upon third party refinement of estimated and reported amounts owed that generally occurs typically within thirty days of the period end. For all years presented, the difference between the amounts recognized based on preliminary information and cash collected was not material.

Content

Licensing Revenue. Content licensing revenue is principally generated through the sale or license of media content, video and music programming, applications, and video games to the airlines, maritime and non-theatrical markets, and to a lesser extent through various services such as encoding and editing of media content. Revenue from the sale or license of content is recognized when the content has been delivered and the contractual performance obligations have been fulfilled, generally at the time a customer's license period begins. For arrangements in which the license period commences after the delivery of content, revenue is not recognized until the license period commences even if delivery and performance obligations have already occurred. In certain cases, the Company estimates licensing revenues from airline customers. The Company believes it has the ability to reasonably estimate the amounts that will ultimately be collected such that it recognizes these amounts when earned.

Services Revenue. Content services revenue, such as technical services, the encoding of video products, development of graphical interfaces or the provision of materials, are billed and recognized as services are performed.

Costs of Sales

Connectivity

Connectivity cost of sales consist primarily of equipment fees paid to third party manufacturers, certain revenue recognized by the Company and shared with its customers or partners as a result of its revenue-sharing arrangements, Internet connection and satellite charges and other platform operating expenses associated with the Company's Connectivity business, including depreciation of internally developed software, website development costs, and hardware used to build and operate the Company's Connectivity platform, and personnel costs relating to information technology.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Content

Content cost of sales consist primarily of the costs to license or purchase media content, and direct costs to service content for the airlines. Included in Content cost of sales is amortization expense associated with the purchase of film content libraries acquired in business combinations and in the ordinary course of business of $0.2 million and $1.3 million for the three months ended March 31, 2015 and 2014, respectively.

Product Development

Product research and software development costs, other than certain internal-use software costs qualifying for capitalization, are expensed as incurred. Costs of computer software or websites developed or obtained for internal use that are incurred in the preliminary project and post implementation stages are expensed as incurred. Certain costs of developing internal-use software incurred during the application and development stage, which include employee and outside consulting compensation and related expenses, costs of computer hardware and software, website development costs and costs incurred in developing additional features and functionality of the services, are capitalized. The estimated useful life of costs capitalized is evaluated for each specific project. Capitalized costs are generally amortized using the straight-line method over a three year estimated useful life, beginning in the period in which the software is ready for its intended use. Unamortized amounts are included in property and equipment, net in the accompanying condensed consolidated balance sheets. Capitalized software development costs totaled $0.6 million and $0.6 million for the three months ended March 31, 2015 and 2014, respectively.

The Company's product development expenditures are focused on developing new products and services, and obtaining STCs as required by the Federal Aviation Administration for each model/type of aircraft prior to providing Connectivity services. To the extent that the Company is contracted to obtain STCs, and customers reimburse these costs, the Company will record these reimbursements directly against its product development expenses.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which is the vesting period, on a straight-line basis. The Company uses the Black-Scholes option pricing model to determine the grant date fair value of stock options. This model requires the Company to estimate the expected volatility and the expected term of the stock options which are highly complex and subjective variables. The variables take into consideration, among other things, actual and projected employee stock option exercise behavior. The Company uses a predicted volatility of its stock price during the expected life of the options that is based on the historical performance of the Company's stock price as well as including an estimate using similar companies. Expected term is computed using the simplified method as the Company's best estimate given its lack of actual exercise history. The Company has selected a risk-free rate based on the implied yield available on U.S. Treasury securities with a maturity equivalent to the expected term of the stock. Stock-based awards are comprised principally of stock options and restricted stock units (RSUs").

Stock options issued to non-employees are accounted for at fair value determined using the Black-Scholes option-pricing model. Management believes that the fair value of the stock options is more reliably measured than the fair value of the services received. The fair value of each non-employee stock-based compensation award is re-measured each period until performance is complete, which is generally the vesting date.

Stock and Warrant Repurchases

Shares repurchased by the Company are accounted for when the transaction is settled. Repurchased shares held for future issuance are classified as treasury stock. Shares formally or constructively retired are deducted from common stock at par value and from additional paid in capital for the excess of cash paid over par value. If additional paid in capital has been exhausted, the excess over par value is deducted from retained earnings. Direct costs incurred to acquire the shares are included in the total cost of the repurchased shares.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of 90 days or less to be cash equivalents.

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Notes to Condensed Consolidated Financial Statements (Unaudited)

Restricted Cash

The Company maintains certain letters of credit agreements with its airlines partners, which are secured by the Company's cash for periods of less than one year and up to three years. As of March 31, 2015 and December 31, 2014, the Company had restricted cash of $3.7 million and $3.7 million, respectively. As of March 31, 2015 and December 31, 2014, $1.5 million and $2.2 million of restricted cash is included in other current and other non-current assets, respectively, in the condensed consolidated balance sheets.

Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets with finite useful lives, including its infinite lived intangible assets acquired in business combinations, for impairment when events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable. Such trigger events or changes in circumstances may include: a significant decrease in the market price of a long-lived asset, a significant adverse change in the extent or manner in which a long-lived asset is being used, significant adverse change in legal factors or in the business climate, including those resulting from technology advancements in the industry, the impact of competition or other factors that could affect the value of a long-lived asset, a significant adverse deterioration in the amount of revenue or cash flows we expect to generate from an asset group, an accumulation of costs significantly in excess of the amount originally expected for the acquisition or development of a long-lived asset, current or future operating or cash flow losses that demonstrate continuing losses associated with the use of a long-lived asset, or a current expectation that, more likely than not, a long-lived asset will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The Company performs impairment testing at the asset group level that represents the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. If events or changes in circumstances indicate that the carrying amount of an asset group may not be recoverable and the expected undiscounted future cash flows attributable to the asset group are less than the carrying amount of the asset group, an impairment loss equal to the excess of the asset's carrying value over its fair value is recorded. Fair value is determined based upon estimated discounted future cash flows. Through March 31, 2015, the Company has identified no such impairment loss. Assets to be disposed of would be separately presented on the balance sheets and reported at the lower of their carrying amount or fair value less costs to sell, and would no longer be depreciated or amortized.

Inventory

Equipment inventory. Equipment inventory, which is classified as finished goods, is comprised of individual equipment parts and assemblies and are stated at the lower of cost or market. The Company provides inventory write-downs based on excess and obsolete inventories determined primarily by future demand forecasts. The write-down is measured as the difference between the cost of the inventory and market, based upon assumptions about future demand and charged to the provision for inventory, which is a component of cost of goods sold. At the point of the loss recognition, a new, lower cost basis for that inventory is established, and subsequent changes in facts and circumstances do not result in the restoration or increase in that newly established cost basis.

At March 31, 2015 and December 31, 2014, there was approximately $8.0 million and $7.8 million, respectively, of deferred equipment costs included in inventory and other non-current assets. The deferred equipment costs pertain to certain costs expended in advance of services for one airline, and are being amortized ratably over the underlying term of the agreement through 2020.

The Company is not directly responsible for warranty costs related to equipment it sells to its customers. The vendors that supply each of the individual parts, which comprise the assemblies sold by the Company to customers, are responsible for equipment warranty directly to the customer.

Content Library

The content library acquired in the AIA stock purchase is recorded at fair value. The useful life of licensed film rights within the content library corresponds to the respective period over which the film rights will be licensed and generate revenues, generally a period of one year or less. Licensed film rights are amortized ratably over their expected revenue streams and included in cost of sales. Certain film rights in the Company's portfolio may be used in perpetuity under certain conditions. The content library is tested for impairment periodically, but no less than annually. Considering the marketability of the given film right, an impairment loss is recognized as necessary. If the estimated future cash flows for a given film right are lower than its carrying amount as of the reporting date, an impairment loss is recognized in such period.

Subsequent to the AIA stock purchase, additions to the content library represent minimum guaranteed amounts or flat fees to acquire film rights from film studios. Amounts owed in excess of the capitalized minimum guarantees are expensed and accrued as a liability when the Company's revenues from exploiting the film right have fully recouped the minimum guarantee based on the contractual royalty rates.

Property, Plant, & Equipment, net

Property, plant and equipment is measured at cost less accumulated depreciation and/or impairment losses. Straight-line depreciation is based on the underlying assets' useful lives. The estimated useful life of technical and operating equipment is 3 to 10 years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Buildings are amortized on the straight-line method over 30 years.

Upon the sale or retirement of property or equipment, the cost and related accumulated depreciation or amortization is removed from the Company's financial statements with the resulting gain or loss reflected in the Company's results of operations. Repairs and maintenance costs are expensed as incurred. In the event that property and equipment is no longer in use, the Company will record a loss on disposal of the property and equipment, which is computed as the net remaining value (gross amount of property and equipment less accumulated depreciation expense) of the related equipment at the date of disposal.

In 2013, the Company capitalized the costs of certain Connectivity equipment, which is installed on aircraft of a single customer to facilitate expanded services, on its balance sheet as the Company retains legal title to the equipment over a five-year use period, and is amortizing these costs over their five-year useful life period.

Intangible Assets and Goodwill

The Company performs valuations of assets acquired and liabilities assumed on each acquisition accounted for as a business combination, and allocates the purchase price of each acquired business to its respective net tangible and intangible assets. Acquired intangible assets principally include customer relationships, technology, and content library. The Company determines the appropriate useful life by performing an analysis of expected cash flows based on historical experience of the acquired businesses. Intangible assets are amortized over their estimated useful lives using the straight-line method, which approximates the pattern in which the majority of the economic benefits are expected to be consumed. Amortization of film rights intangible assets with finite useful lives is recognized in the condensed consolidated statements of operations under cost of sales.

Goodwill represents the excess of the cost of an acquired entity over the fair value of the acquired net assets. Goodwill is not amortized, instead it is tested for impairment annually or when events or circumstances change that would indicate that goodwill might be impaired. Events or circumstances that could trigger an impairment review include, but are not limited to, a significant adverse change in legal factors or in the business climate, an adverse action or assessment by a regulator, unanticipated competition, a loss of key personnel, significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business, significant negative industry or economic trends or significant under-performance relative to expected historical or projected future results of operations.

Goodwill is tested for impairment at the reporting unit level, which is one level below or the same as an operating segment. The Company determined that it has two reporting units, Content and Connectivity. When testing goodwill for impairment, the Company first performs a qualitative assessment to determine whether it is necessary to perform step one of a two-step annual goodwill impairment test for each reporting unit. The Company is required to perform step one only if it concludes that it is more likely than not that a reporting unit's fair value is less than its carrying value. Should this be the case, the first step of the two-step process is to identify whether a potential impairment exists by comparing the estimated fair values of the Company's reporting units with their respective book values, including goodwill. If the estimated fair value of the reporting unit exceeds book value, goodwill is considered not to be impaired, and no additional steps are necessary. If, however, the fair value of the reporting unit is less than book value, then the second step is performed to determine if goodwill is impaired and to measure the amount of impairment loss, if any. The amount of the impairment loss is the excess of the carrying amount of the goodwill over its implied fair value. The estimate of implied fair value of goodwill is primarily based on an estimate of the discounted cash flows expected to result from that reporting unit, but may require valuations of certain internally generated and unrecognized intangible assets such as the Company's software, technology, patents and trademarks. If the carrying amount of goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

As of March 31, 2015 and December 31, 2014, goodwill of $52.8 million and $53.0 million was attributed to the Company's Content reporting unit. The Company's most recent annual impairment analysis was performed in the fourth quarter of the year ended December 31, 2014 and indicated that there was no impairment of goodwill at that time. Through March 31, 2015, the Company has identified no impairment loss associated with its goodwill.

Business Acquisitions

On January 31, 2013, the Company completed the acquisition of 86% of the issued and outstanding shares of AIA, a media content distributor to the airline industry with corporate headquarters based in Munich, Germany as part of a business combination transaction between Global Eagle Acquisition Corp, AIA and Row 44, Inc. (the "Business Combination"). On July 9, 2013, the Company acquired substantially all of the assets of Post Modern Edit, LLC and related entities ("PMG"). On October 18, 2013, the Company completed the acquisition of 100% of the issued and outstanding shares of Travel Entertainment Group Equity Limited and subsidiaries ("IFES"). On August 2, 2014, the Company acquired substantially all of the assets of Purple Inflight Entertainment Private, Ltd ("Purple"). All of these acquisitions were accounted for as business combinations.

The Company accounts for acquisitions of businesses using the purchase method of accounting where the cost is allocated to the underlying net tangible and intangible assets acquired, based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of certain acquired assets and liabilities is subjective in nature and often involves the use of significant estimates and assumptions, including, but not limited to, the selection of appropriate valuation methodology, projected revenue, expenses and cash flows, weighted average cost of capital, discount rates, estimates of advertiser and publisher turnover rates and estimates of terminal values. Additionally, any non-controlling interests in an acquired business are recorded at their acquisition date fair values. Business acquisitions are included in the Company's condensed consolidated financial statements as of the date of the acquisition.

Deferred Revenue and Costs

Deferred revenue consists substantially of amounts received from customers in advance of the Company's performance service period and fees deferred for future support services. Deferred revenue is recognized as revenue on a systematic basis that is proportionate to the period that the underlying services are rendered, which in certain arrangements is straight line over the remaining contractual term or estimated customer life of an agreement.

In the event the Company sells its equipment at or below its cost, and a portion of the related equipment revenue was allocated to other elements in the arrangement, the Company will defer an equal amount of such equipment costs on its balance sheets. Deferred costs are amortized to expense concurrent with the recognition of the related revenue and the expense is included in cost of sales.

Net Income (Loss) Per Share

Basic earnings (loss) per share (EPS) is computed using the weighted-average number of common shares outstanding during the period. Diluted earnings (loss) per share are computed using the weighted-average number of common shares and the dilutive effect of contingent shares outstanding during the period. Potentially dilutive contingent shares, which primarily consist of stock options issued to employees and consultants, restricted stock units, warrants issued to third parties and accounted for as equity instruments and convertible senior notes have been excluded from the diluted income (loss) per share calculation because their effect is anti-dilutive. As illustrated in the table below, the change in the fair value of the Company’s warrants, which are assumed to be converted into the Company’s common stock upon exercise, are adjusted to net income for purposes of computing dilutive earnings (loss) per share for the three months ended March 31, 2015. Common shares to be issued upon the exercise of warrant instruments classified as liabilities are included in the calculation of diluted income (loss) per share when dilutive.

The computation for basic and diluted EPS was as follows (in thousands, except per share data):

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	Three Months Ended March 31,	
	2015	2014
Net income (loss) (numerator):		
Net loss	$(3,431)	$(26,149)
Income allocable to non-controlling interests	—	194
Net loss for basic EPS	(3,431)	(26,343)
Less: adjustment for change in fair value on warrants liability for diluted EPS after assumed exercise of warrants liability	954	—
Net loss for dilutive EPS	$(4,385)	$(26,343)
Shares (denominator):		
Weighted-average shares for basic EPS	76,874	71,978
Effect of assumed exercise of warrants liability	1,851	—
Adjusted weighted-average share for diluted EPS	78,725	71,978
Basic loss per share	$(0.04)	$(0.37)
Diluted loss per share	$(0.06)	$(0.37)

Securities not included in the calculation of diluted loss per share were as follow (in thousands):

	Three Months Ended March 31,	
	2015	2014
Stock options	2,708	1,742
Restricted stock units	25	—
Non-employees stock options	3	—
Equity warrants	537	2,904
Liability warrants	—	4,785
Convertible notes	2,026	—

Foreign Currency

The vast majority of the Company's foreign subsidiaries' customers are airlines and major U.S.-based studios. As the standard currency of transacting for service revenue and related costs of the worldwide airline industry is the U.S. Dollar, the Company concluded that the financial position and results of operations of the majority of its foreign subsidiaries are determined using the U.S. dollar currency as the functional currency. Current or liquid assets and liabilities of these subsidiaries are remeasured at the exchange rate in effect at each period end. Long term assets such as goodwill, purchased intangibles and property and equipment are remeasured at historical exchange rates. The vast majority of the income statement accounts are translated at the average rate of exchange prevailing during the period, with the exception of amortization and depreciation expense, which are remeasured using historical exchange rates. Adjustments arising from the fluctuations in exchange rates for the remeasurement of financial statements from period to period are included in the condensed consolidated statements of operations.

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Income Taxes

Deferred income tax assets and liabilities are recognized for temporary differences between the financial statement carrying amounts of assets and liabilities and the amounts that are reported in the income tax returns. Deferred taxes are evaluated for realization on a jurisdictional basis. The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. In making this assessment, management analyzes future taxable income, reversing temporary differences and ongoing tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income. Due to the uncertainty over its ability to realize future taxable income in certain jurisdictions, the Company has recorded a valuation allowance of $56.6 million and $70.9 million against its domestic deferred tax assets as of March 31, 2015 and December 31, 2014, respectively, and $2.9 million and $2.8 million against its foreign deferred tax assets as of March 31, 2015 and December 31, 2014, respectively.

The Company is subject to the accounting guidance for uncertain income tax positions. The Company's policy for recording interest and penalties associated with uncertain tax positions is to record such items as a component of income tax expense.

Fair Value Measurements

The accounting guidance for fair value establishes a framework for measuring fair value and establishes a three-level valuation hierarchy for disclosure of fair value measurement. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

•Level 1: Observable quoted prices in active markets for identical assets and liabilities.

•Level 2: Observable quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

•Level 3: Model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models, and similar techniques.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The assets and liabilities which are fair valued on a recurring basis are described below and contained in the following tables. In addition, the Company may be required to record other assets and liabilities at fair value on a nonrecurring basis. These non-recurring fair value adjustments involve the lower of carrying value or fair value accounting and write downs resulting from impairment of assets.

The following tables summarize the Company's financial assets and liabilities measured at fair value on a recurring basis as of March 31, 2015, and December 31, 2014, respectively (in thousands):

	March 31, 2015	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)

Earn-out liability (1)	$1,710	$—	$—	$1,710
Global Eagle warrants (2)	51,660	51,660	—	—
Total financial liabilities	$53,370	$51,660	$—	$1,710

(1) Includes $1.7 million earn-out liability for Entertainment in Motion, Inc. ("EIM"), a subsidiary of AIA, assumed in the Business Combination.
(2) Includes 10,129,508 public warrants.

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	December 31, 2014	Quotes Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Earn-out liability (1)	$1,710	$—	$—	$1,710
Global Eagle warrants (2)	52,671	52,671	—	—
Total financial liabilities	$54,381	$52,671	$—	$1,710

(1) Includes $1.7 million earn-out liability for EIM, a subsidiary of AIA, assumed in the Business Combination.
(2) Includes 10,148,508 public warrants.

The valuation methodology used to estimate the fair value of the financial instruments in the table above is summarized as follows:

Earn-Out Liability. The fair value of the earn-out liability was largely comprised of an assumed obligation in the AIA stock purchase and is estimated by using the income approach. Based on the respective purchase agreements, management estimated best case, base case, and worst case scenarios and discounted it to a present value. The sum of the discounted weighted average probabilities was used to arrive at the fair value of the earn-out liability.

Derivative Warrants. The fair value of the outstanding warrants issued in our initial public offering ("public warrants"), recorded as derivative warrant liabilities, is determined by the Company using the quoted market prices for the public warrants, which are traded over the counter. On reporting dates where there are no active trades, the Company uses the last reported closing trade price of the public warrants to determine the fair value. The Company recorded an income (loss) from the change in the fair value of these warrants during the three months periods ended March 31, 2015 and 2014 of $1.0 million and $(15.5) million, respectively.

Financial Liabilities. The following table shows both the carrying amounts, which approximate the fair values, of the Company's financial liabilities in the condensed consolidated financial statements at March 31, 2015 and December 31, 2014, respectively (in thousands):

	March 31, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial liabilities:				
Convertible senior notes (1)	$69,564	$81,469	$—	$—
Notes payable	$2,760	$2,760	$3,015	$3,015

(1) The fair value of the Notes is inclusive of the conversion feature, which was originally allocated for reporting purposes at $13.0 million, and is included in the condensed consolidated balance sheets within "Additional paid-in capital" (see Note 11).

Convertible Senior Notes

The estimated fair value of the Notes, which are classified as level 2 financial instruments, was determined based on the quoted bid price of the Notes in an over-the-counter secondary market on March 31, 2015.

Notes Payable

The Company classifies the notes payable within the level 2 of the fair value hierarchy because it uses discount rates for similar credit-rated companies that are publicly available and widely observable as an input to estimate fair value. The fair value presented above is calculated based on the present value of expected principal and interest cash flows given the short term nature of its maturity.

The following table presents the fair value roll-forward reconciliation of level 3 assets and liabilities measured at fair value basis for the period ended March 31, 2015 (in thousands):

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	Earn-Out Liability
Balance, December 31, 2014	$1,710
Change in value	—
Balance, March 31, 2015	$1,710

Reclassification

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

Recent Accounting Pronouncements

In May 2014, a new accounting standard was issued that amends the guidance for the recognition of revenue from contracts with customers to transfer goods and services. This new standard will be effective for interim and annual periods beginning January 1, 2017, and is required to be adopted using either a full retrospective or a modified retrospective approach, and early adoption is not permitted. Management is currently evaluating the impact that this new standard will have on our financial statements.

In April 2015, a new accounting standard was issued that amends the presentation for debt issuance costs. Upon adoption, such costs shall be presented on our consolidated balance sheets as a direct deduction from the carrying amount of the related debt liability and not as a deferred charge presented in Other assets on our consolidated balance sheets. This new standard will be effective for interim and annual periods beginning on January 1, 2016, and is required to be retrospectively adopted. Adoption of this new standard is not expected to have a material impact on our consolidated balance sheets or related disclosures.

Note 3. Goodwill

The following table presents the changes in the Company’s goodwill balance for the periods presented (in thousands).

Balance at December 31, 2014	$53,014
Currency translation adjustment	(258)
Balance at March 31, 2015	$52,756

Goodwill arose from the acquisitions of AIA, PMG, IFES and Purple in 2013 and 2014. No goodwill existed prior to 2013.

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Note 4. Property, Plant, and Equipment, net

At March 31, 2015 and December 31, 2014, property, plant, and equipment, net consisted of the following (in thousands):

	March 31, 2015	December 31, 2014
Leasehold improvements	$2,023	$1,592
Furniture and fixtures	1,932	2,293
Equipment	18,079	17,593
Computer equipment	5,400	4,115
Computer software	5,862	5,950
Automobiles	286	307
Buildings	2,649	2,649
Albatross (aircraft)	425	425
Other	1,040	1,501
Total property, plant, and equipment	37,696	36,425
Accumulated depreciation	(13,292)	(12,774)
Property, plant, and equipment, net	$24,404	$23,651

Depreciation expense for property, plant, and equipment amounted to $2.0 million and $1.6 million for the three months ended March 31, 2015 and 2014 respectively.

Depreciation expense, including software amortization expense, by classification for the three months ended March 31, 2015 and 2014 is shown below (in thousands):

	Three Months Ended March 31,	
	2015	2014
Depreciation expense:		
Cost of sales	$667	$721
Sales and marketing	155	123
Product development	341	170
General and administrative	869	623
Total depreciation expense	$2,032	$1,637

Note 5. Intangible Assets, net

As a result of the Business Combination, the Company acquired definite-lived intangible assets that are primarily amortized on a straight-line basis. The Company's definite-lived intangible assets have assigned useful lives ranging from 1.5 to 8 years (weighted average of 5.7 years).

Intangible assets, net at March 31, 2015, consisted of the following (in thousands):

		March 31, 2015		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:				
Definite life:				
Existing technology - software	7 years	$2,575	$(797)	$1,778
Existing technology - games	5 years	12,331	(5,343)	6,988
Developed technology	8 years	7,317	(1,372)	5,945
Customer relationships	7.2 years	119,879	(35,143)	84,736
Other	2.5 years	7,310	(3,800)	3,510
Content library (acquired post Business Combination)	1.5 years (1)	34,735	(22,278)	12,457
Content library (acquired in the Business Combination)	1.5 years	14,298	(14,298)	—
		$198,445	$(83,031)	$115,414
Currency translation adjustment				(130)
Total intangible assets				$115,284

		December 31, 2014		
	Weighted Average Useful Lives	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Intangible assets:				
Definite life:				
Existing technology - software	7 years	$2,575	$(705)	$1,870
Existing technology - games	5 years	12,331	(4,727)	7,604
Developed technology	8 years	7,317	(1,143)	6,174
Customer relationships	7.2 years	119,879	(30,437)	89,442
Other	2.5 years	7,319	(3,448)	3,871
Content library (acquired in Business Combination)	1.5 years	14,298	(14,148)	150
Content library (acquired post Business Combination)	1.5 years (1)	31,949	(18,586)	13,363
Total intangible assets		$195,668	$(73,194)	$122,474

(1) Useful estimate based upon the content library acquired in the Business Combination, which approximates historical experience.

Content library that is expected to be licensed and generates revenues within the next twelve months is classified as Content library, current, on the Company's condensed consolidated balance sheets as of March 31, 2015 and December 31, 2014. The remainder of content library is classified and included within the intangible asset amount. The Company expects to record amortization of the intangible assets as follows (in thousands):

Year ending December 31,	Amount
2015 (remaining nine months)	$26,927
2016	25,505
2017	19,481
2018	15,874

2019	10,992
Thereafter	16,505
Total	$115,284

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The Company recorded amortization expense, excluding amortization of content library (acquired post business combination) of $6.1 million and $7.8 million for the three months ended March 31, 2015 and 2014, respectively. Amortization expense excludes the amortization of the content library, which is included in cost of sales.

Note 6. Available For Sale (“AFS”) Securities

At March 31, 2014, the Company held $0.6 million of AFS equity securities at an unrealized gain of approximately $0.1 million. During the year ended December 31, 2014, the Company sold this investment for proceeds of approximately $0.6 million and recognized a gain of approximately $0.1 million.

Note 7. Commitments and Contingencies

Movie License and Internet Protocol Television (IPTV) Commitments

In the ordinary course of business and as a result of the Business Combination, the Company has certain long-term commitments including movie license fees and guaranteed minimum payments owed to movie content providers. In addition, the Company has certain long-term arrangements with service and television providers to license and provide content and IPTV services that are subject to future guaranteed minimum payments.

Operating Lease Commitments

Operating lease commitments include payments on outstanding, noncancelable, operating lease obligations. The Company leases its operating facilities under noncancelable operating leases that expire through 2025. The Company also leases certain facilities and vehicles under month-to-month arrangements. Total rent expense for the three months ended March 31, 2015 and 2014 was $0.9 million and $1.1 million, respectively. The Company is responsible for certain operating expenses in connection with these leases.

Satellite Cost Commitments

During the three months ended March 31, 2015 the Company had in place a Master Services Agreement ("MSA") with its satellite service provider to provide for satellite capacity over Russia, the North Atlantic and for expansion of its existing capacity in the U.S. and Europe. As of December 31, 2014, the remaining MSA satellite cost commitments totaled up to $289.8 million through December 31, 2027. The Company expenses these satellite fees in the month the service is provided as a charge to cost of services.

During the year ended December 31, 2014, the Company entered into a satellite service agreement with New Skies Satellites B.V. (“SES”) that will provide global, Ku-band satellite bandwidth to GEE for use in GEE’s in-flight connectivity system. The SES agreement required the Company to make an up-front pre-payment of $4.0 million as well as to make two additional pre-payments each upon the achievement of certain milestones relating to the development by SES of future Capacity Services, with such additional pre-payments being due no earlier than June 30, 2015 and January 1, 2016, respectively. During the three months ended March 31, 2015, the Company entered into an agreement with Hughes Network Systems, LLC (“HNS”) to administer and assume the underlying obligations under the SES agreement, and transferred its $4.0 million SES prepayment to HNS. These pre-payments will be applied to certain service fees as they become due. In the event that the HNS agreement is terminated, HNS will refund the pre-payments, less any amounts applied to services rendered or scheduled to be rendered.

Legal Matters

On May 6, 2014, UMG Recordings, Inc., Capital Records, Universal Music Corp and entities affiliated with the foregoing (collectively, “UMG”) filed suit in the United States District Court for the Central District of California against the Company and Inflight Productions Ltd. (“IFP”) for copyright infringement and related claims and unspecified money damages. IFP is a direct subsidiary of Global Entertainment AG (formally AIA) and an indirect subsidiary of the Company. Based on currently available information, the Company believes it and IFP have strong defenses and intend to defend vigorously against this lawsuit, but the outcome of this matter is inherently uncertain and could have a material adverse effect on the Company’s business, financial condition and results of operations. On July 1, 2014, American Airlines, Inc. (“American”) filed suit in Texas State Court, Tarrant County, against IFP, and filed an amended complaint on October 29, 2014, seeking a declaration that IFP is obligated to defend and indemnify American against claims that UMG may assert against American for copyright infringement insofar as such claims

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arise out of American's use of content provided by IFP during a limited period of time, and for breach of contract. On February 24, 2015, American was added as a defendant in UMG's case against the Company and IFP. The American lawsuit seeks unspecified money damages and liquidated damages, as well as attorney's fees. We participated in a non-binding mediation of the case with UMG on April 1, 2015, which did not result in a settlement. Based on currently available information, the Company believes that IFP has strong defenses and intends to defend vigorously against the UMG and American lawsuits, but the outcome of these matters is inherently uncertain and could have a material adverse effect on the Company's business, financial condition and results of operations. As of March 31, 2015, the potential range of loss related to these matters cannot be determined.

On August 14, 2014, SwiftAir, LLC filed suit against our wholly owned subsidiary Row 44, Inc. and one of its customers for breach of contract, quantum meruit, unjust enrichment and similar claims and unspecified money damages in the Superior Court of California for the Country of Los Angeles. SwiftAir and Row 44 had a contractual relationship, which Row 44 terminated in 2013, with respect to the provision of destination deal content to one of Row 44's connectivity customers. Based on currently available information, the Company believes that Row 44 has strong defenses and intends to defend vigorously against this lawsuit, but the outcome of this matter is inherently uncertain and could have a material adverse effect on the Company's business, financial condition and results of operations. As of March 31, 2015, the potential range of loss related to this matter cannot be determined.

While the resolution of the above matters cannot be predicted with certainty, the Company does not believe, based on current knowledge, that the outcome of the currently pending claims or legal proceedings in which the Company is currently involved will have a material adverse effect on the Company's financial statements.

Other

Operating lease contracts usually have a contract period from 1 to 5 years. The movie license contracts have a contract period of 3 years. Minimum payments for already signed contracts are mainly to be paid within 12 months. Earn-out obligations associated with prior business combinations, including EIM and PMG, were accrued for in full as of December 31, 2014, and will fully be paid down in 2015.

Note 8. Related Party Transactions

Administrative Services

One of the Company's subsidiaries rents office space belonging to a company in which a member of such subsidiary's management has an ownership interest. There were no unpaid lease liabilities as of March 31, 2015 and December 31, 2014. The Company recognized rent expense of $60,000 each for the three month periods ended March 31, 2015 and 2014, respectively.

Office Lease Agreement with Employee

In connection with the acquisition of PMG, the Company acquired an office lease that is currently being occupied and used as part of operations in Irvine, California. This building is majority owned by one of the founding members of PMG, who was an employee of the Company at March 31, 2015. The lease terminates on March 31, 2024. The total rental expense incurred during the three months periods ended March 31, 2015 and 2014 was less than $0.1 million.

PMG Post-Closing Payment

In connection with the Company's purchase of substantially all of the assets of PMG in June 2013, the Company agreed to a post-closing payment based on the fulfillment of certain post-closing employment obligations by certain PMG executives (the "PMG Earn Out"), which the Company is required to account for as compensation to the sellers and is recognized as an expense, over the requisite service period. In June 2014, the Company modified the PMG Earn Out to waive the PMG Earn Out and certain other purchase obligations and PMG seller rights in exchange for cash consideration of $2.5 million (the “Additional PMG Consideration”). Fifty percent of the additional PMG Consideration was payable after 10 days from closing, and the remaining $1.25 million is payable in four quarterly installments through the first half of 2015. At March 31, 2015 and December 31, 2014, the remaining outstanding balance was approximately $0.6 million and $0.9 million, respectively. During the quarter ended March 31, 2015, the Company further modified the PMG Earn Out to accelerate the payment of the remaining $0.6 million payment to April 2015.

AIA Noncontrolling Interests Acquisition

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In April 2014, the Company acquired the remaining outstanding shares in AIA for a total cash consideration of approximately $21.7 million (the "AIA Consideration"). Included in the AIA Consideration was approximately $2.5 million owed to BF Ventures, an entity in which one of our directors owns an indirect stake of approximately 25%, which was paid in full during the year ended December 31, 2014.

AIA Earn-Out

The Company recognized an expense of $1.4 million during the year ended December 31, 2014 as a result of the remeasurement of the fair value of the earn-out liability acquired in the AIA stock acquisition. The earn-out is payable to a former and current employee of EIM, a wholly owned subsidiary. At March 31, 2015 and December 31, 2014, the outstanding balance relating to the earn-out liability was $1.7 million.

Note 9. Stock Options and Warrants

Stock Options

In conjunction with the Business Combination, the Company adopted its 2013 Equity Incentive Plan, as amended (the "Plan"). Under the Plan, the Administrator of the Plan, which is the compensation committee of the Company's board of directors, may grant up to 7,500,000 stock options, restricted stock, restricted stock units and other incentive awards to employees, officers, non-employee directors, and consultants, and such options or awards may be designated as incentive or non-qualified stock options at the discretion of the Administrator. Employee stock option grants made prior to 2015 have 5-year terms and vest 1/4th on the anniversary of the vesting commencement date and 1/36th monthly thereafter, over a 3-year period. During the three months ended March 31, 2015, employee stock options were granted to the Company’s named executive officers that have 5-year terms and vest 1/4th on each anniversary date over a 4-year period. Stock options granted to the Board of Directors prior to 2015 have 5-year terms and vest monthly over two years from the vesting commencement date. During the three months ended March 31, 2015, stock options were granted to the Board of Directors for services in 2014 and over 2015 that have 5-year terms, and for grants made for 2014 services vest immediately and for grants made for 2015 services vest1/4th quarterly through December 31, 2015. Certain stock option awards have accelerated vesting provisions in the event of a change in control and/or termination without cause.

Fair values of the stock options at March 31, 2015 and 2014 were determined using the Black-Scholes model and the following weighted average level 3 assumptions:

	Three Months Ended March 31,			
	2015		2014	
Common stock price on grant date	$13.14		$16.88	
Expected life (in years)	4.0		4.0	
Risk-free interest rate	1.31	%	1.75	%
Expected stock volatility	50	%	65	%
Expected dividend yield	—	%	—	%
Fair value of stock options granted	$5.37		$8.48	

Stock option activity for the three months ended March 31, 2015 is as follows:

Global Eagle Stock Option Plan	Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining	Aggregate Intrinsic Value (in thousands)

			Contractual Term (in years)	
Outstanding at January 1, 2015	5,771	$10.64		
Granted	795	$13.14		
Exercised	(513)	$9.84		
Forfeited	(121)	$12.59		
Outstanding at March 31, 2015	5,932	$11.01	3.73	$14,161
Vested and expected to vest at March 31, 2015	5,122	$10.95	3.64	$12,706
Exercisable at March 31, 2015	1,471	$10.44	2.75	$4,479

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Restricted stock units

The grant date fair value of an RSU equals the closing price of the Company's common stock on the grant date. During the three months ended September 30, 2014, the Company granted certain employees performance units in the form of RSUs. A performance unit gives the recipient the right to receive common stock that is contingent upon achievement of a specified pre-determined performance target for fiscal 2014 and the continuation of employment for a period of one year from the grant date. The number of shares issued totaled 77,687 shares of the Company’s common stock. During the three months ended March 31, 2015, the Company granted 123,000 RSUs to certain employees that vest 1/4th on the grant anniversary date over a 4-year term.

The following summarizes select information regarding our RSUs during the three months ended March 31, 2015:

	Units (in thousands)	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Outstanding at January 1, 2015	59	$12.90	
Granted	123	$13.15	
Forfeited	(6)	$12.90	
Balance nonvested at March 31, 2015	176	$13.07	$2,359
Vested and expected to vest at March 31, 2015	155	$13.07	$2,060

Stock-Based Compensation Expense

Stock-based compensation expense related to all employee and non-employee stock-based awards for the three months ended March 31, 2015 and 2014 were as follow, (in thousands):

	Three Months Ended March 31,	
	2015	2014
Stock-based compensation expense:		
Cost of services	$41	$—
Sales and marketing expenses	26	—
Product development	313	—
General and administrative	2,170	2,616
Total stock-based compensation expense	$2,550	$2,616

Warrants

The following is a summary of non-public warrants outstanding as of March 31, 2015 that the Company assumed in the Business Combination:

	Weighted Average Exercise Price per Warrant	Number of Warrants (as converted) (in thousands)	Weighted Average Remaining Life (in years)
Common stock warrants	$8.79	690	1.97

Series C Preferred stock warrants	$8.74	734	2.19

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Public warrants activity for the three months ended March 31, 2015 is as follows:

Global Eagle Warrants	Number of Warrants (in thousands)	Weighted Average Exercise price	Weighted Average Remaining Contractual Term (in years)
Outstanding at January 1, 2015	10,149	$11.5	
Exercised	(19)	11.5	
Outstanding and exercisable at March 31, 2015	10,130	$11.5	2.84

The Company accounts for 10,129,508 of Global Eagle's warrants as derivative liabilities at March 31, 2015. During the three months ended March 31, 2015 and 2014, the Company recorded approximately $1.0 million of income and $15.5 million of expense, respectively in the condensed consolidated statements of operations as a result of the remeasurement of these warrants at balance sheet date until exercised. The fair value of warrants issued by the Company has been estimated using the warrants' quoted public market price. In the event the Company’s closing stock price is at or above $17.50 for twenty of thirty consecutive trading days, the Company can call the 10,129,508 public warrants and force the holders to exercise their warrants at $11.50 per share, with estimated proceeds of approximately $116.5 million.

During the year ended December 31, 2014, the Company's Board of Directors authorized the Company to repurchase up to $25.0 million of GEE's public warrants. As of March 31, 2015, $23.6 million was available for warrants repurchases under this authorization. The amount the Company spends and the number of warrants repurchased varies based on a variety of factors including the stock price and blackout periods in which we are restricted from repurchasing warrants.

Note 10. Income Taxes

The Company is subject to income taxes in the U.S. and numerous state and foreign jurisdictions in which it operates. The Company computes its annual tax rate based on the statutory tax rates and tax planning opportunities available to it in the various jurisdictions in which it earns income. Tax laws are complex and subject to different interpretations by the taxpayer and respective governmental taxing authorities. Significant judgment is required in determining the Company's tax expense and in evaluating its tax positions including evaluating uncertainties.
The Company records valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. In making this assessment, management analyzes future taxable income, reversing temporary differences and ongoing tax planning strategies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, the Company will adjust related valuation allowances in the period that the change in circumstances occurs, along with a corresponding increase or charge to income.
Income tax (benefit) expense for the three months ended March 31, 2015 and 2014 was $(0.7) million and $1.3 million respectively. The tax benefit for the three months ended March 31, 2015 was driven primarily by benefits realized resulting from internal restructuring during the period.
As of March 31, 2015 and December 31, 2014 the Company has recorded a valuation allowance of $59.5 million and $73.7 million against its domestic and foreign deferred tax assets, respectively, due to the uncertainties over its ability to realize future taxable income in those jurisdictions. As of March 31, 2015, the valuation allowance on domestic and foreign deferred tax assets were $56.6 million and $2.9 million, respectively.

As of March 31, 2015 and December 31, 2014, the Company had federal net operating loss carry-forwards ("NOLs") of $109.9 million and $128.4 million, respectively, and state net operating loss carry-forwards of $61.2 million and $64.8 million, respectively, which losses will begin to expire during the fiscal years ending in December 31, 2028 and 2018, respectively. These NOLs may be used to offset future taxable income, to the extent the Company generates any taxable income, and thereby reduce or eliminate future federal income taxes otherwise payable. Section 382 of the Internal Revenue Code imposes limitations on a corporation's ability to utilize NOLs if it experiences an ownership change as defined in Section 382. In general terms, an ownership change may result from transactions increasing the ownership of certain stockholders in the stock of a corporation by more than 50% over a three year period. In the event that an ownership change has occurred, or were to occur, utilization of the Company's NOLs would be subject to an annual limitation under Section 382 as determined by multiplying the value of the Company's stock at the time of the ownership change by the applicable long-term tax-exempt rate as defined in the Internal Revenue Code. Any unused annual limitation may be carried over to later years. The Company could experience an ownership change under Section 382 as a result of events in the past in combination with events in the future. If so, the use of the Company's NOLs, or a portion thereof, against future taxable income may be subject to an annual limitation under Section 382, which may result in expiration of a portion of the NOLs before utilization. Therefore, the Company could be liable for income taxes sooner than otherwise would be true if the Company were not subject to Section 382 limitations. The Company plans to perform a study to determine the extent of the limitation. Any carry-forwards that expire prior to utilization as a result of such limitations will be removed, if applicable, from deferred tax assets with a corresponding reduction of the valuation allowance. Currently, the Company expects the utilization of our net operating loss and tax credit carry-forwards in the near term to be affected by certain limitations placed on these carry-forwards as a result of our previous ownership changes with PAR Capital.

As of March 31, 2015, the Company intends to reinvest the foreign earnings of its subsidiaries on an indefinite basis. As a result, deferred taxes have not been established for unremitted earnings of foreign subsidiaries.

The Company does not expect its uncertain tax position to materially change during the next twelve months. As of March 31, 2015, the Company has recorded a $5.5 million cumulative liability for uncertain income tax positions largely pertaining to historical tax positions associated with one of its Canadian subsidiaries acquired as part of the AIA acquisition in January 2013, which includes accumulated interest and penalties of approximately $0.9 million.

Note 11. Notes Payable and Bank Debts

Convertible Senior Notes

In February 2015, the Company issued $82.5 million principal amount of convertible senior notes due in 2035 (the “Convertible Notes”) in a private placement. The Convertible Notes were issued at par, pay interest semi-annually in arrears at an annual rate of 2.75% and mature on February 15, 2035, unless earlier repurchased, redeemed or converted. The Convertible Notes are convertible in certain circumstances and subject to certain conditions, based on an initial conversion rate of 53.9084 shares of common stock per $1,000 principal amount of notes (which represents an initial conversion price of approximately $18.55 per share), subject to adjustment. Holders of the Convertible Notes may convert their Convertible Notes at their option at any time prior to the close of business on the business day immediately preceding November 15, 2034, only if one or more of the following conditions has been satisfied: 1) during any calendar quarter beginning after March 31, 2015 if the closing price of the Company's common stock equals or exceeds 130% of the respective conversion price per share during a defined period at the end of the previous quarter, 2) during the five consecutive business day period immediately following any five consecutive trading day period in which the trading price per $1,000 principal amount of Convertible Notes for each trading day was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; 3) if specified corporate transactions occur, or 4) if the Company calls any or all of the Convertible Notes for redemption, at any time prior to the close of business on the second business day immediately preceding the redemption date. On or after November 15, 2034, until the close of business on the second scheduled trading day immediately preceding the maturity date, a holder may convert all or a portion of its Convertible Notes at any time, regardless of the foregoing circumstances.

On February 20, 2022, February 20, 2025 and February 20, 2030 and if the Company undergoes a “fundamental change” (as defined in the indenture governing the Convertible Notes (the “Indenture”)), subject to certain conditions, a holder will have the option to require the Company to repurchase all or a portion of its Convertible Notes for cash at a repurchase price equal to 100% of the principal amount of the Convertible Notes to be repurchased, plus any accrued and unpaid interest, if any, to, but excluding, the relevant repurchase date. In addition, upon the occurrence of a “make-whole fundamental change” (as defined in the Indenture) or if the Company delivers a redemption notice prior to February 20, 2022, the Company will, in certain circumstances, increase the conversion rate for a holder that converts its Convertible Notes in connection with such make-whole fundamental change or redemption notice, as the case may be.

The Company may not redeem the Convertible Notes prior to February 20, 2019. The Company may, at its option, redeem all or part of the Convertible Notes at any time (i) on or after February 20, 2019 if the last reported sale price per share of the Company’s common stock has been at least 130% of the conversion price then in effect for at least 20 trading days during any thirty consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides written notice of redemption and (ii) on or after February 20, 2022 regardless of the sale price condition described in clause (i), in each case, at a redemption price equal to 100% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date. Upon conversion of any Convertible Note, the Company shall pay or deliver to the converting Holder, cash, shares of Common Stock or a combination of cash and shares of the Company's common stock, at the Company's election.

In accounting for the issuance of the Convertible Notes, the Company separated the notes into liability and equity components. The carrying amount of the liability component of $69.5 million was calculated by measuring the fair value of similar liabilities that do not have an associated convertible feature. The carrying amount of the equity component was calculated to be $13.0 million, and represents the conversion option which was determined by deducting the fair value of the liability component from the principal amount of the notes. This difference represents a debt discount that is amortized to interest expense over the term of the Convertible Notes. The equity component is not remeasured as long as it continues to meet the conditions for equity classification.

In accounting for the direct transaction costs (the "issuance costs") related to the Convertible Notes, the Company allocated the total amount of issuance costs incurred to the liability and equity components based on their relative values. The Company recorded issuance costs of $1.8 million and $0.3 million to the liability component and equity component, respectively. Issuance costs, including fees paid to the initial purchasers who acted as intermediaries in the placement of the Convertible Notes, attributable to the liability component are included within "Other non-current assets" in the condensed consolidated balance sheets and are being amortized to interest expense over the term of the Convertible Notes, and the issuance costs attributable to the equity component were netted with the equity component and included within "Additional paid-in capital" in the condensed consolidated balance sheets. Interest cost related to the amortization expense of the issuance costs associated with the liability component was not material during the three months ended March 31, 2015.

As of March 31, 2015, the outstanding Convertible Notes balance, net of discount associated with the equity component, was $69.6 million.

Bank Debt

With the acquisition of PMG in July 2013, the Company assumed approximately $3.3 million of debt in the form a $1.5 million term loan (the “Term Loan”) and a $1.8 million line of credit (the “LOC”) with a bank. The Term Loan and the LOC mature in October 2017, and bear interest at a rate equal to the bank’s reference rate, which was approximately 3.25% during the year ended December 31, 2014, or the bank’s current prime rate. During the year ended December 31, 2014, the Company repaid the outstanding balance of the Term Loan and the LOC in full using a portion of the Citibank Term Loan proceeds described below.

With the acquisition of IFES on October 18, 2013, the Company assumed approximately $1.3 million of debt in the form of two facility letters for a commercial mortgage loan with a bank for $0.2 million and $1.1 million. The mortgage letters mature in October 2014 and 2032, respectively, and bear interest at a rate equal to 1.75% during the three months ended March 31, 2015. Interest is paid on a monthly basis. Accrued interest on the credit facilities was $0.0 million. As of March 31, 2015, there was $0.9 million in borrowings outstanding under the remaining facility letter.

Bank Loan

On December 22, 2014, the Company entered into a Loan and Security Agreement with Citibank, N.A. (the "Credit Agreement") providing for $2.4 million of term loans (the "Citibank Term Loans"), which the Company used to repay in full the Term Loan and LOC, and a revolving line of credit (the "Citibank Revolving Loans") in an amount not to exceed $20.0 million. The Citibank Term Loans bear interest at a floating rate based on LIBOR plus an applicable interest margin per annum and mature on December 22, 2017. A total of $0.2 million of the principal amount of the Citibank Term Loans plus any accrued and unpaid interest is to be repaid at the end of each quarter. The outstanding balance of the Citibank Term Loans may be prepaid in whole or in part at any time without penalty.

Debt issuance costs incurred in connection with the Citibank Term Loans totaled $0.3 million and are being amortized over the respective term of the loans.

At March 31, 2015, there was $2.2 million outstanding under the Citibank Term Loans and $20.0 million available for future borrowings under the Citibank Revolving Loans.

The following is a schedule, by year, of future minimum principal payments required under notes payable and bank debts as of March 31, 2015 (in thousands):

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Years Ending December 31,	Amount
2015 (remaining nine months)	$639
2016	861
2017	861
2018	61
2019	62
Thereafter	83,180
Total	$85,664

Note 12. Concentrations

Concentrations of Credit and Business Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash and cash equivalents and accounts receivable.

At March 31, 2015 and December 31, 2014, the Company's cash and cash equivalents were maintained primarily with major U.S. financial institutions and foreign banks. Deposits with these institutions at times exceed the federally insured limits, which potentially subjects the Company to concentration of credit risk. The Company has not experienced any losses related to these balances and believes that there is minimal risk.

A substantial portion of the Company's revenue is generated through arrangements with one airline customer. The Company may not be successful in renewing these agreements, or if they are renewed, they may not be on terms as favorable as current agreements. The percentage of revenue generated through the customer representing more than 10% of consolidated revenue is as follows:

	Three Months Ended March 31,	
	2015	2014
Southwest Airlines	25 %	14 %

No other customer accounted for revenues greater than 10% for the two periods presented.

Accounts receivable balances from Southwest Airlines represented approximately 17% and 13% of total accounts receivable at March 31, 2015 and December 31, 2014, respectively.

Note 13. Restructuring

The Company records the cost reduction plan activities in accordance with the Accounting Standards Codification (ASC), including ASC 420 Exit or Disposal Cost Obligations, ASC 712 Compensation-Nonretirement Postemployment Benefits and ASC 360 Property, Plant, and Equipment (Impairment or Disposal of Long-Lived Assets).

During the third quarter ended September 30, 2014, the Company implemented a plan to improve operational efficiencies, which included the closure of its German-based operations and facilities, centralization of its international financial operations, and realignment of its international and U.S. tax structure (the "Plan"). During the three months ended March 31, 2015 and in conjunction with the Plan, the Company committed to a reduction in force.

As of September 23, 2014, the Company communicated the reduction to affected employees. The Company anticipates that it will substantially complete the implementation of its Plan by the end of the second quarter of 2015.

The Company estimates that $4.7 million to $5.2 million of restructuring charges will be incurred in connection with the Plan, including:

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(1) The Company estimates that it will incur total expenses relating to employee termination benefits, which primarily include severance and transitional-related expenses, of approximately $2.7 million, all of which represents cash expenditures which were incurred and expensed through March 31, 2015.

(2) In connection with the closure of its German operations pursuant to the Plan, the Company expects disposals of approximately 11,000 square feet of leased facilities in Duisburg and Munich, Germany, representing approximately 6% of its global facilities square footage. The Company incurred an aggregate of approximately $0.4 million of facilities disposal charges pursuant to the Plan through March 31, 2015.

(3) Beginning in the third quarter of 2014 through the first half of 2015, the Company anticipates incurring periodic restructuring expenditures in an aggregate amount of $1.5 to $2.0 million, comprised of legal and professional fees associated with the execution of the Plan. Through March 31, 2015, the Company has incurred and expensed approximately $1.4 million in professional fees in connection with the Plan.

The following table summarizes the charges recorded during the three months ended March 31, 2015 related to the restructuring plan by type of activity (in thousands):

	Termination benefits	Leases and other contractual obligations	Other	Total
Restructuring charges	$238	$64	$—	$302
Total Restructuring charges	$238	$64	$—	$302

The following table summarizes the charges and spending relating to the restructuring plan since inception (in thousands):

	Termination Costs	Leases and other contractual obligations	Other	Total
Expense	$2,726	$386	$1,412	$4,524
Payments	(2,726)	(366)	(810)	(3,902)
Restructuring reserves as of March 31,2015	$—	$20	$602	$622

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As used herein, "Global Eagle Entertainment," "GEE," the "Company," "our," "we," or "us" and similar terms include Global Eagle Entertainment Inc. and it subsidiaries, unless the context indicates otherwise.

Cautionary Note Regarding Forward-Looking Statements

We make forward-looking statements in this Quarterly Report on Form 10-Q and the documents incorporated by reference herein within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements relate to expectations or forecasts for future events, including without limitation our earnings, revenues, expenses or other future financial or business performance or strategies, or the impact of legal or regulatory matters on our business, results of operations or financial condition. These statements may be preceded by, followed by or include the words "may," "might," "will," "will likely result," "should," "estimate," "plan," "project," "forecast," "intend," "ex "anticipate," "believe," "seek," "continue," "target" or similar expressions.

These forward-looking statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q and on our current expectations, forecasts and assumptions, and involve substantial risks and uncertainties. Actual results may vary materially from those expressed or implied by the forward looking statements herein due to a variety of factors, including: our ability to expand our domestic and international business, including our ability to grow our business with current and potential future airline partners and successfully partner with satellite service providers, including Hughes Network Systems and SES S.A.; our ability to grow through acquisitions, and the ability of our management to integrate acquisitions and manage growth profitably; our obligations under the convertible senior notes that we issued in February 2015, and our ability to successfully use the proceeds therefrom; our management's ability to recognize changing trends in the systems, services and business model requirements of our current and potential future customers; our ability to sustain historic levels of revenue from our "TV Flies Free" offering on Southwest Airlines and our ability to replicate this model with other airlines; the ability of our content segment to provide unique content curation and delivery services attractive to non-theatrical customers, including the airlines and studios; the outcome of any legal proceedings pending or that may be instituted against us; changes in laws or regulations that apply to us or our industry; our ability to recognize and timely implement future technologies in the content delivery space, including wireless content delivery, and the satellite connectivity space, including Ku-HTS and other competing satellite technologies, system developments and deployments; our ability to deliver end-to-end connectivity network performance sufficient to meet the increasing demands of our airline customers and their passengers; our ability to generate sufficient service revenues to recover costs associated with equipment subsidies and other start-up expenses that we may incur in connection with sales of our connectivity solution; our ability to obtain and maintain regulatory and international authorizations to operate our connectivity service over the airspace of foreign jurisdictions our customers utilize; our ability to timely and cost-effectively identify and license television, audio and media content that airlines and/or passengers demand and will purchase; general economic and technological circumstances in the satellite transponder market, including access to transponder capacity in limited regions and successful launch of replacement transponder capacity where and when applicable; our ability to obtain and maintain licenses for content used on legacy installed in-flight entertainment systems and next generation in-flight entertainment systems; the loss of, or failure to realize benefits from, agreements with our airline partners; the loss of relationships with original equipment manufacturers or dealers; unfavorable economic conditions in the airline industry and economy as a whole, and in particular arising from sanctions against Russia and the instability in the Middle East; the reliance on third-party satellite service providers and equipment and other suppliers, including single source providers and suppliers; the effects of service interruptions or delays, technology failures, material defects or errors in our software or hardware, damage to our network resources, disruption of our content delivery systems or geopolitical restrictions; the limited operating history of our connectivity and in-flight television and media products; costs associated with defending pending or future intellectual property infringement actions and other litigation or claims and costs associated with other legal matters; increases in our projected capital expenditures due to, among other things, unexpected costs incurred in connection with the roll out of our technology roadmap or our international expansion plans, including managing rapid changes in available competitive technologies and product development of such technologies; fluctuation in our operating results; the demand for in-flight broadband Internet access services and market acceptance for our products and services; and other risks and uncertainties set forth in this report and in our most recent Annual Report on Form 10-K.

The following discussion and analysis of our business and results of operations for the three months ended March 31, 2015, and our financial conditions at that date, should be read in conjunction with the financial statements and the notes thereto included in Item 1 of this Quarterly Report on Form 10-Q and our 2014 Form 10-K.

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Overview of the Company

We are a leading full service provider of connectivity and content to the worldwide airline and maritime industries, as well as the non-theatrical markets in Canada and in the U.S. Our principal operations and decision-making functions are located in North America and Europe. We manage and report our businesses in two operating segments: Connectivity and Content. Our chief operating decision maker regularly reviews our operating results by our Connectivity and Content operating segments, principally to make decisions about how we allocate our resources and to measure our segment and consolidated operating performance. We currently generate a majority of our revenue through the licensing of content and providing our Wi-Fi and Content services to the airline industry, and to a lesser extent through the sale of network equipment to airlines. Our chief operating decision maker regularly reviews revenue and contribution profit on a segment basis, and our results of operations and pre-tax income or loss on a consolidated basis in order to gain more depth and understanding of the key business metrics driving our business. Accordingly, we report revenue and contribution profit for these segments separately.

For the three months ended March 31, 2015 and 2014, we reported revenue of $100.3 million and $86.0 million, respectively. For the three months ended March 31, 2015 and 2014, our Content operating segment accounted for 71% and 74% of our total revenue, respectively, and our Connectivity operating segment accounted for 29% and 26%, respectively. For the three months ended March 31, 2015 and 2014, one airline customer, Southwest Airlines, accounted for 25% and 14% of our consolidated revenues, respectively.

Basis of Presentation

This analysis is presented on a consolidated basis. In addition, a brief description is provided of significant transactions and events that have an impact on the comparability of the results being analyzed.

Opportunities, Challenges and Risks

For the three months ended March 31, 2015 and 2014, we derived the majority of our revenue through the licensing and related services from our Content operating segment, and secondarily from Wi-Fi Internet service and the sale of equipment to airlines from our Connectivity operating segment. For the three months periods ended March 31, 2015 and 2014, the vast majority of our equipment and Wi-Fi Internet service revenues were generated by two airlines, Southwest Airlines and Norwegian Air Shuttle.

We believe our operating results and performance are driven by various factors that affect the commercial airline industry, including general macroeconomic trends affecting the travel industry, trends affecting our target user base, regulatory changes, competition and the rate of passenger adoption of our services, as well as factors that affect Wi-Fi Internet service providers in general. Growth in our Content and Connectivity operating segments is principally dependent upon the number of airlines that implement our services, our ability to negotiate favorable economic terms with our customers and partners, and the number of passengers who use our services. Growth in our margins is dependent on our ability to manage the costs associated with implementing and operating our services, including the costs of licensing and distributing content, equipment and satellite service. Our ability to attract and retain new and existing customers will be highly dependent on our abilities to implement our services on a timely basis and continually improve our network and operations as technology changes and as we experience increased network capacity constraints as we continue to grow.
As technology continues to evolve, we believe that there are opportunities to expand our services by adding more content in a greater variety of formats. Currently, our Content and Connectivity operating segments are separate platforms; however, we believe there is an opportunity to diversify our revenue long-term by cross leveraging these services, including offering a greater variety of premium paid content across our Connectivity platform. For example, we acquired AIA, PMG and IFES in 2013 to accelerate our paid premium content opportunity. During 2014, we

developed a system, WISE™ that enables airlines to provide in-cabin Wi-Fi delivery of content to airline passengers' hand-held personal devices. Our first implementation of WISE™ launched on a commercial airline during the second quarter of 2014. Conversely, the evolution of technology presents an inherent risk to our Content and Connectivity operating segments. Today, we see large opportunities to expand our connectivity services in parts of the world where we will need to make substantial investments to improve our current service offerings. As a result, we recently entered into a long-term development project with QEST to develop new global antenna technologies, and we expect to make significant product development investments to our existing connectivity technology solutions over the next twelve to eighteen months to address these opportunities. Our Connectivity platform also utilizes leading satellite Ku-band systems and equipment today; however, with the introduction and evolution of more competitive technologies such as GSM and Ka-band satellite solutions, our current technology may become obsolete, too expensive and or outdated.
On October 24, 2014, we entered into an agreement with SES for satellite capacity starting in the first half of 2015 and continuing for ten years after the launch of a Ku-HTS satellite. The agreement with SES will provide us with global

satellite coverage and the ability to participate in future technology improvements in Ku-band satellite solutions. In February 2015, we modified the terms of our current agreements with SES and Hughes to formalize a satellite capacity ordering structure whereby the Company will order SES-sourced satellite capacity through Hughes and Hughes will provide satellite performance and satellite coverage evaluation services to the Company. However, there is no guarantee that our existing or future satellite providers or solutions will be adequate to address our competitors, and as a result we may lose customers to our competitors who offer more technologically evolved and or less costly connectivity systems in the future. Lastly, the future growth in our Content operating segment relies heavily on our airline customers continuing to utilize onboard IFE systems for their passengers to watch media content. With the emergence and increased use of hand-held personal devices by airline passengers, our airline customers may decide to decrease the media content onboard IFE systems, and/or discontinue the use of IFE systems indefinitely. This would adversely impact the future growth of our Content operating segment.

The use of our connectivity equipment on our customer’s planes is subject to regulatory approvals, such as a Supplemental Type Certificate, or “STC” that are imposed by agencies such as the Federal Aviation Agency (“FAA”) and the European Aviation Safety Agency (“EASA”). The costs to obtain an STC can be significant, and vary by plane type and customer location. As of December 31, 2014, we have STCs to operate our equipment on several plane types, including Boeing’s 737 next generation family and the Boeing 757 family. In 2014, we began work on obtaining an STC for Air China’s Boeing 777, which we recently obtained, and Air France’s Airbus ("A320"), the costs of which have been in excess of $3.0 million as of March 31, 2015. While we believe we will be successful in obtaining the Air France STC approval, there is a risk that neither the FAA nor EASA will approve this STC on a timely basis, if at all, and as a result, it could negatively impact our growth, relationships, and ability to deploy our future connectivity services with these or other customers. To partially address the risk and costs of obtaining STCs in the future, we recently signed an agreement with Boeing to commence the process for offering our connectivity equipment on a line-fit basis for Boeing’s 737 MAX and 787 models, and recently our Connectivity equipment became provisions offerable on new Boeing 737 airplanes. We also expect to undertake similar line-fit initiatives with other plane manufacturers such as Airbus in the near term. As a result, we expect to incur significant product development expenses over the next twelve to eighteen months as we invest in these long-term line-fit opportunities, which we believe will improve our long term ability to onboard our connectivity equipment on new plane types in a more scalable and cost-effective manner.

We are significantly dependent on certain key suppliers. Through March 31, 2015, our Connectivity operating segment purchased its satellite bandwidth from a single supplier, Hughes, which also provides us with certain equipment and servers required to deliver the satellite stream, rack space at the supplier's data centers to house the equipment and servers and network operations service support. We also purchase radomes, satellite antenna systems and rings from single suppliers. Any interruption in supply from these significant vendors could have a material impact on our ability to provide connectivity services to airline customers.

The growth of our Content segment is based upon a number of factors, including the growth of IFE systems, our customers demand for content and games, the general availability of content to license from our studio partners, pricing from our competitors and our ability to manage the underlying economics of content licensing by studio. Due to the acquisitions of AIA, PMG and IFES throughout 2013, our Content segment revenue growth in 2014 as compared to 2013 was significant and not necessarily comparable between the two periods. As a result, we do not expect our Content segment to grow at the same historical levels in 2015 as compared to 2014. While we do believe that the amount of IFE systems and customer demand for content and games will continue to grow in the foreseeable future, we do expect the overall growth in our Content segment to be more consistent with the overall IFE market growth in the near term.

The growth of our Connectivity segment is based upon a number of factors, including the rates at which we grow the number of installed base of connectivity systems from new and existing customers, customer demand for connectivity services, government regulations and approvals, passenger adoption, growth, take rates, and overall usage of our connectivity services, the general availability and pricing of satellite bandwidth globally, pricing pressures from our competitors, general travel industry trends, new and competing connectivity technologies, and our ability to manage the underlying economics of connectivity services on a global basis. In order to expand our customer base in new and emerging markets, we may finance portions of future connectivity equipment sales. We recently raised capital through a private placement of convertible senior notes in February 2015, a portion of which we may use for potential future equipment financing arrangements. The long term economics of any future agreement involving equipment financing could positively or negatively impact our liquidity, growth, Connectivity margins, relationships, and ability to deploy our future connectivity services with current or future customers.

Our consolidated cost of sales, the largest component of our operating expenses, can vary from period to period, particularly as a percentage of revenue, based upon the mix of the underlying equipment and service revenues we generate. In the near term, we expect that the growth from our Connectivity segment will improve our overall operating margins. As a

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result, we expect that our cost of sales as a percentage of our revenue will continue to improve throughout 2015 as compared to 2014.

In July 2013, our customer Southwest Airlines announced “TV Flies Free” under which Southwest Airlines passengers using Internet-ready personal devices have free access to live television and up to 75 on-demand shows on the airline's more than 400 Wi-Fi-enabled aircraft powered by us. TV Flies Free initially was exclusively sponsored by DISH Network Corporation through December 31, 2014. In 2015, new sponsors including JPMorgan Chase & Co. were obtained for TV Flies Free. A significant amount of the revenue we generate from the TV Flies Free program is indirectly provided by the program’s sponsors. Should sponsorship revenue not be available to Southwest Airlines from third parties, Southwest Airlines is under no contractual obligation to offer free access to live television and on-demand shows to its passengers. As a result, there can be no assurance that we will continue to receive the same level of revenues from Southwest Airlines, and Connectivity service revenue in future periods may fluctuate accordingly.

In 2014, we commenced integration and formal restructuring activities of our 2013 acquisitions of AIA, PMG and IFES to support future growth. In September 2014, we announced and commenced our formal restructuring plan (the “Plan”), and we expect to realize significant cost savings from the Plan throughout 2015. In addition, in the first half of 2015, we expect to initiate further integration savings activities that we believe will help us to further accelerate our operating margin in 2015 and beyond.

For the years ended December 31, 2014 and 2013, a substantial amount of our Connectivity revenue was derived from airlines located in the United States. While our Connectivity revenue is primarily generated through airlines based in the United States today, we believe that there is an opportunity in the longer term for us to significantly expand our Connectivity operating segment's service offerings to airlines based in countries outside of the United States. In 2014, we announced partnerships in Europe with Orange and with China Telecom Communications Co., LTD and IP Star International PTE Limited, an affiliate of Thaicom, to jointly work to expand our Connectivity services within the broader Asia and European markets. We plan to further expand our Connectivity operations internationally to address these opportunities. Moreover, as we expand our business further internationally in places such as the Middle East and Latin America, we may incur significant incremental upfront expenses associated with these growth opportunities.

Key Components of Consolidated Statements of Operations

The following briefly describes certain key components of revenue and expenses as presented in our consolidated statements of operations.

Revenue

Our revenue is derived from our Connectivity and Content operating segments.

Connectivity Segment

We currently generate our Connectivity revenue through the sale of equipment and through our Wi-Fi Internet and related service offerings. Our equipment revenue is based on the sale and corresponding support of our connectivity equipment to our commercial airline customers. Our service revenue is based on the fees paid by airlines and/or airline passengers for the delivery of in-flight services, such as Internet access and live television, and to a lesser extent from revenue sharing arrangements with commercial airlines for Internet based services used by their passengers, such as shopping.

Where we enter into revenue sharing arrangements with our customers, and we act as the primary obligor, we report the underlying revenue on a gross basis and record the revenue-sharing payments to our customers in cost of sales in our consolidated statements of operations. In determining whether to report revenue gross for the amount of fees received from our customers, we assess whether we maintain the principal relationship, bear credit risk and have latitude in establishing prices with the airlines.

Included in our Connectivity service revenue are periodic service level credits, which vary from airline to airline and are based on the contracted service levels we provide over any given period.

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Content Segment

A significant amount of our Content revenue is generated from licensing of acquired and third party media content, video and music programming, applications, and video games to the airline industry, and secondarily from services ranging from selection, purchase, production, customer support and technical adjustment of content in connection with the integration and servicing of in-flight entertainment programs. Our Content licensing revenue is based upon individual licensing agreements with the airlines to deliver and air content over specified terms. Content services revenue, such as technical services, the encoding of video products, development of graphical interfaces or the provision of materials, is priced on specific services contracted for and recognized as services are performed.

Operating Expenses

Operating expenses consist of cost of sales, sales and marketing, product development, general and administrative, amortization of intangible assets and restructuring charges. Included in our operating expenses are stock-based compensation and depreciation expenses associated with our capital expenditures.

Cost of Sales

Connectivity Segment Cost of Sales

Connectivity segment cost of sales consists of the costs of our equipment and services.

Equipment. Equipment cost of sales are substantially comprised of the costs paid to procure our equipment for services. Equipment costs are principally comprised of the costs we pay to third parties to facilitate our equipment orders, and are originally classified as inventory on our balance sheet upon receipt of goods. Upon sale, equipment cost of sales are recorded when title and risk of loss pass to the customer, which is aligned with our equipment revenue recognition. As we near the completion of equipping the Southwest Airlines fleet for our services throughout 2015 and 2016, we expect that equipment sales and the corresponding equipment cost of sales will continue to decline in the near term.

Services. Service cost of sales principally consists of the costs of satellite service and support, revenue recognized by us and shared with others as a result of our revenue-sharing arrangements, Internet connection and co-location charges and other platform operating expenses including depreciation of the systems and hardware used to build and operate our platform; and personnel costs related to our network operations, customer service and information technology. As we continue to build out our Connectivity services platform and expand our satellite coverage globally, including our recent announcement with SES S.A. to expand our existing satellite coverage over the next ten years, we anticipate that our service costs will increase in absolute dollars when compared to historical periods; however, we also expect that our service costs will decrease as a percentage of applicable Connectivity service revenue when compared to historical periods. Our services cost of sales are dependent on a number of factors, including the amount of satellite coverage and bandwidth required to operate our services and the number of partners we share our corresponding revenue with.

Content Segment Cost of Sales

Content segment cost of sales principally consists of licensing fees paid to acquire content rights for the airline industry, and to a lesser extent service and personnel costs to support our Content business.

Sales and Marketing

Sales and marketing expenses consist primarily of sales and marketing personnel costs, sales support, public relations, advertising, marketing and general promotional expenditures. Fluctuations in our sales and marketing expenses are generally the result of our efforts to support the growth in our businesses, including expenses required to support the expansion of our direct sales force. We currently anticipate that our sales and marketing expenses will continue to increase in the near term when compared to 2014 as we continue to grow our sales and marketing organizations and invest in marketing activities to support the growth of our businesses.

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Product Development

Product development expenses consist primarily of expenses incurred in our software engineering, product development and web portal design activities and related personnel costs. Fluctuations in our product development expenses are generally the result of hiring personnel to support and develop our platform, including the costs to further develop our Connectivity segment platform, timing and scope of our STC efforts, new connectivity product offerings, expenses associated with line-fit offerability and network operations. We currently anticipate that our product development expenses will increase significantly in 2015, as we continue to hire more product development personnel and further develop our products and offerings to support the growth of our business. However, in 2015, we expect our product development expense as a percentage of revenue to be comparable to 2014.

General and Administrative

General and administrative expenses consist primarily of personnel costs from our executive, legal, finance, human resources and information technology organizations and facilities related expenditures, as well as third party professional fees, insurance and bad debt expenses. Professional fees are largely comprised of outside legal, accounting, audit and information technology consulting. As we continue to optimize our cost structure, we anticipate general and administrative expenses will decrease in 2015 when compared to historical periods.

Restructuring

During the third quarter ended September 30, 2014, we implemented a plan to improve operational efficiencies, which included the closure of our German-based operations and facilities, centralization of our international financial operations, and realignment of our international and U.S. tax structure (the “Plan”). During the three months ended March 31, 2015 and in conjunction with the Plan, we committed to a reduction in force. As of September 23, 2014, we communicated the reduction to affected employees. We anticipate that we will substantially complete the implementation of the Plan by the end of the second quarter of 2015.

We currently estimate that \$4.7 million to \$5.2 million of restructuring charges will be incurred in connection with the Plan, including:

(1) We estimate that we will incur total expenses relating to employee termination benefits, which primarily include severance and transitional-related expenses, of approximately \$2.7 million, all of which represents cash expenditures which were incurred and expensed through March 31, 2015.

(2) In connection with the closure of our German operations pursuant to the Plan, we expect disposals of approximately 11,000 square feet of leased facilities in Duisburg and Munich, Germany, representing approximately 6% of our global facilities square footage. We incurred an aggregate of approximately \$0.4 million of facilities disposal charges pursuant to the Plan through March 31, 2015.

(3) Beginning in the third quarter of 2014 through the first half of 2015, we anticipate incurring periodic restructuring expenditures in an aggregate amount of \$1.5 to \$2.0 million, comprised of legal and professional fees associated with the execution of the Plan. Through March 31, 2015, we have incurred and expensed approximately \$1.4 million in professional fees in connection with the Plan.

During the three months ended March 31, 2015, we incurred approximately \$0.3 million of restructuring costs. We expect that substantially all remaining restructuring actions, discussed above, will be completed and the related estimated costs incurred through the second quarter of 2015.

Amortization of Intangibles

The Company determines the appropriate useful life of intangible assets by performing an analysis of expected cash flows based on its historical experience of intangible assets of similar quality and value. We expect amortization expense to fluctuate in the near term upon a variety of factors, such as the amounts and mix of our identifiable intangible assets acquired in business combinations.

Stock-Based Compensation

Included in our operating expenses are expenses associated with stock-based compensation, which are allocated and included in cost of sales, sales and marketing, product development and general and administrative expenses as necessary. Stock-based compensation expense is largely comprised of costs associated with stock options granted to employees and certain non-employees.

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We record the fair value of these equity-based awards and expense at their cost ratably over related vesting periods. In addition, stock-based compensation expense includes the cost of options to purchase common stock issued to certain non-employees.

Other Income (Expense)

Other income (expense) principally consists of changes in the fair value of our derivative financial instruments, interest on outstanding debt associated with our notes payable and interest earned on cash balances and short-term investments, interest on our convertible senior notes issued in February 2015, income or loss from our equity-method investments and certain unrealized transaction gains and losses on foreign currency denominated assets and liabilities. We typically invest our available cash balances in money market funds and short-term United States Treasury obligations. We expect our transaction gains and losses will vary depending upon movements in underlying currency exchange rates.

Provision for Income Taxes

Since our inception, we have been subject to income taxes principally in the United States, and more recently with the 2013 acquisitions, in other countries where we have a legal presence, including Germany, the United Kingdom, the Netherlands, Canada, China, India, Hong Kong and the United Arab Emirates. We anticipate that as we continue to expand our operations outside the United States, we will become subject to taxation based on the foreign statutory rates and our effective tax rate could fluctuate accordingly.

Income taxes are computed using the asset and liability method, under which deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

We currently believe that based on the available information, it is more likely than not that some of our deferred tax assets will not be realized, and accordingly we have recorded a valuation allowance against certain of our federal, state and foreign deferred tax assets. As of March 31, 2015 and December 31, 2014, we had approximately $109.9 million and $128.4 million of federal and $61.2 million and $64.8 million, respectively, of state operating loss carry-forwards available to offset future taxable income which expire in varying amounts beginning in 2028 for federal and 2018 for state purposes if unused. Federal and state laws impose substantial restrictions on the utilization of net operating loss and tax credit carry-forwards in the event of an "ownership change," as defined in Section 382 of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code. Currently, we expect the utilization of our net operating loss and tax credit carry-forwards in the near term to be affected by certain limitations placed on these carry-forwards as a result of our previous ownership changes with PAR Capital.

Critical Accounting Policies and Estimates

The preparation of our condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the notes to the financial statements. Some of those judgments can be subjective and complex, and therefore, actual results could differ materially from those estimates under different assumptions or conditions. A summary of our critical accounting policies is presented in Part II, Item 7, of our Annual Report on Form 10-K for the year ended December 31, 2014. There have been no material changes to our critical accounting policies during the three months ended March 31, 2015.

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Results of Operations

The following tables set forth our results of operations for the periods presented. The period-to-period comparison of financial results is not necessarily indicative of future results (in thousands):

	Three Months Ended March 31,	
	2015	2014
Revenue	$100,305	$85,968
Operating expenses:		
Cost of sales	69,426	65,117
Sales and marketing expenses	3,275	2,835
Product development	7,230	3,922
General and administrative	18,119	17,067
Amortization of intangible assets	5,983	6,419
Restructuring charges	302	—
Total operating expenses	104,335	95,360
Loss from operations	(4,030)	(9,392)
Other income (expense):		
Interest expense, net	(245)	(161)
Change in fair value of derivatives	954	(15,538)
Other (expense) income, net	(796)	199
Loss before income taxes	(4,117)	(24,892)
Income tax (benefit) expense	(686)	1,257
Net loss	(3,431)	(26,149)
Net income attributable to non-controlling interests	—	194
Net loss attributable to Global Eagle Entertainment Inc. common stockholders	(3,431)	(26,343)
Net loss per common share - basic	$(0.04)	$(0.37)
Net loss per common share - diluted	$(0.06)	$(0.37)
Weighted average common shares - basic	76,874	71,978
Weighted average common shares - diluted	78,725	71,978

The following table provides the depreciation expense included in the above line items (in thousands):

	Three Months Ended March 31,	
	2015	2014
Cost of sales	667	721
Sales and marketing	155	123
Product development	341	170
General and administrative	869	623
Total depreciation expense	$2,032	$1,637

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The following table provides the stock-based compensation expense included in the above line items (in thousands):

	Three Months Ended March 31,	
Stock-based compensation expense:	2015	2014
Cost of sales	$41	$—
Sales and marketing expenses	26	—
Product development	313	—
General and administrative	2,170	2,616
Total stock-based compensation expense	$2,550	$2,616

The following table provides our results of operations, as a percentage of revenue, for the periods presented:

	Three Months Ended March 31,			
	2015		2014	
Revenue	100	%	100	%
Operating expenses:				
Cost of sales	69	%	76	%
Sales and marketing expenses	3	%	3	%
Product development	7	%	5	%
General and administrative	18	%	20	%
Amortization of intangible assets	6	%	7	%
Restructuring charges	—	%	—	%
Total operating expenses	104	%	111	%
Loss from operations	(4	)%	(11	)%
Other income (expense), net	—	%	(18	)%
Loss before income taxes	(4	)%	(29	)%
Income tax (benefit) expense	(1	)%	1	%
Net loss	(3	)%	(30	)%
Net income attributable to non-controlling interests	—	%	—	%
Net loss attributable to common stockholders	(3	)%	(31	)%

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Three Months Ended March 31, 2015 Compared To Three Months Ended March 31, 2014

Operating Segments

Segment revenue, expenses and contribution profit for the three months ended March 31, 2015 and 2014 derived from the Company's Content and Connectivity segments were as follows (in thousands):

	Three Months Ended March 31,					
	2015			2014		
	Content	Connectivity	Consolidated	Content	Connectivity	Consolidated
Revenue:						
Licensing and services	$71,650	$ 22,200	$ 93,850	$63,590	$ 16,494	$ 80,084
Equipment	—	6,455	6,455	—	5,884	5,884
Total revenue	71,650	28,655	100,305	63,590	22,378	85,968
Operating expenses:						
Cost of sales	50,002	19,424	69,426	46,144	18,973	65,117
Contribution profit	21,648	9,231	30,879	17,446	3,405	20,851
Other operating expenses			34,909			30,243
Loss from operations			$ (4,030)			$ (9,392)

Revenue

Connectivity operating segment revenue was as follows (in thousands):

	Three Months Ended March 31,		% Change
	2015	2014	2015 to 2014
Services	$22,200	$16,494	35 %
Equipment revenue	6,455	5,884	10 %
Total revenue Connectivity segment	$28,655	$22,378	28 %

Connectivity Service Revenue

Connectivity service revenue increased $5.7 million, or 35%, to $22.2 million for the three months ended March 31, 2015, as compared to $16.5 million for the three months ended March 31, 2014. The increase was principally due to the growth in users of our Wi-Fi Internet services on Southwest Airlines, which was driven by a higher number of Southwest planes offering our Connectivity services in the three months ended March 31, 2015 as compared to three months ended March 31, 2014.

Connectivity Equipment Revenue

Connectivity equipment revenue increased by $0.6 million, or 10%, to $6.5 million for the three months ended March 31, 2015, as compared to $5.9 million for the three months ended March 31, 2014. The increase was primarily due to the timing of equipment installations on newly commissioned planes.

Content operating segment revenue was as follows (in thousands):

	Three Months Ended March 31,		% Change
	2015	2014	2015 to 2014
Licensing revenue	$71,650	$63,590	13 %

Content Licensing Revenue

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Content licensing revenue increased $8.1 million, or 13%, to $71.7 million for the three months ended March 31, 2015 as compared to $63.6 million for the three months ended March 31, 2014. The increase was primarily due to the addition of new Content customers late in the first half of 2014, which were not active during the three months ended March 31, 2014.

Cost of Sales

Connectivity operating segment cost of sales was as follows (in thousands):

	Three Months Ended March 3	
	2015	2014
Service cost of sales	$13,698	$13,72
Equipment cost of sales	5,726	5,251

1 at a specified price and time. A public market exists in futures contracts covering a

[1] 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 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.

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.

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 use of futures contracts is subject to applicable regulations of the SEC, the several exchanges upon which they are traded and the Commodity Futures Trading Commission (the CFTC). In addition, the Fund s ability to use futures contracts will be limited by tax considerations. See Certain Federal Income Tax Matters. Pursuant to a claim for exemption filed with the National Futures Association, the Fund was not deemed to be a commodity pool operator or a commodity pool under the Commodity Exchange Act (the CEA) and was not subject to registration or regulation as such under the CEA. However, the registration exclusion was amended in February 2012, and such amendments took effect on April 24, 2012. Under these amendments, if the Fund uses commodity interests (such as futures contracts, options on futures contracts and swaps) other than for bona fide hedging purposes (as defined by the CFTC) the aggregate initial margin and premiums required to establish these positions (after taking into account unrealized profits and unrealized losses on any such positions and excluding the amount by which options that are in-the-money at the time of purchase) may not exceed 5% of a fund s NAV, or alternatively, the aggregate net notional value of those positions, as determined at the time the most recent position was established, may not exceed 100% of the fund s NAV (after taking into account unrealized profits and unrealized losses on any such positions). The Fund is subject to the risk that a change in U.S. law and related regulations will impact the way in which the Fund operates, increase the particular costs of the Fund s operations and/or change the competitive landscape. In this regard, any further amendment to the CEA or its related regulations subjecting the Fund to any additional regulation may have adverse impacts on the Fund s operations and expenses.

The Fund has claimed an exclusion from registration as a commodity pool under the 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 CFTC 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.

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Short Sales

The Fund may attempt to hedge against market risk and to enhance income by selling short against the box, that is: (1) entering into short sales of securities that it currently has the right to acquire through the conversion or exchange of other securities that it owns, or to a lesser extent, entering into short sales of securities that it currently owns; and (2) entering into arrangements with the broker-dealers through which such securities are sold short to receive income with respect to the proceeds of short sales during the period the Fund s short positions remain open. The Fund may make short sales of securities only if at all times when a short position is open the Fund owns an equal amount of such securities or securities convertible into or exchangeable for, without payment of any further consideration, securities of the same issue as, and equal in amount to, the securities sold short.

In a short sale against the box, the Fund does not deliver from its portfolio the securities sold and does not receive immediately the proceeds from the short sale. Instead, the Fund borrows the securities sold short from a broker-dealer through which the short sale is executed, and the broker-dealer delivers such securities, on behalf of the Fund, to the purchaser of such securities. Such broker-dealer is entitled to retain the proceeds from the short sale until the Fund delivers to such broker-dealer the securities sold short. In addition, the Fund is required to pay to the broker-dealer the amount of any dividends paid on shares sold short. Finally, to secure its obligation to deliver to such broker-dealer the securities sold short, the Fund must deposit and continuously maintain in a separate account with the Fund s custodian an equivalent amount of the securities sold short or securities convertible into or exchangeable for such securities without the payment of additional consideration. 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 sale. Because the Fund ordinarily will want to continue to hold securities in its portfolio that are sold short, 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, rather than by delivering portfolio securities.

A short sale works the same way, except that the Fund places in the segregated account cash or U.S. government securities equal in value to the difference between (i) the market value of the securities sold short at the time they were sold short and (ii) any cash or U.S. government securities required to be deposited with the broker as collateral. In addition, so long as the short position is open, the Fund must adjust daily the value of the segregated account so that the amount deposited in it, plus any amount deposited with the broker as collateral, will equal the current market value of the security sold short. However, the value of the segregated account may not be reduced below the point at which the segregated account, plus any amount deposited with the broker, is equal to the market value of the securities sold short at the time they were sold short.

Short sales may protect the Fund against the risk of losses in the value of its portfolio securities because any unrealized losses with respect to such portfolio securities should be wholly or partially offset by a corresponding gain in the short position. However, any potential gains in such portfolio securities should be wholly or partially offset by a corresponding loss in the short position. The extent to which such gains or losses are offset will depend upon the amount of securities sold short relative to the amount the Fund owns, either directly or indirectly, and, in the case where the Fund owns convertible securities, changes in the conversion premium.

Short sale transactions of the Fund involve certain risks. In particular, the imperfect correlation between the price movements of the convertible securities and the price movements of the underlying common stock being sold short creates the possibility that losses on the short sale hedge position may be greater than gains in the value of the portfolio securities being hedged. In addition, to the extent that the Fund pays a conversion premium for a convertible security, the Fund is generally unable to protect against a loss of such premium pursuant to a short sale hedge. In determining the number of shares to be sold short against the Fund s position in the convertible securities, the anticipated fluctuation in the conversion premiums is considered. The Fund will also incur transaction costs in connection with short sales. Certain provisions of the Internal Revenue Code of 1986, as amended (the Code) (and related Treasury regulations thereunder), may limit the degree to which the Fund is able to enter into short sales and other transactions with similar effects without triggering adverse tax consequences, which limitations might impair the Fund s ability to achieve its investment objective. See Certain Federal Income Tax Matters.

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 the Fund 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.

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

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; cash; 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.

Recent Market Conditions

The financial crisis in the U.S. and global economies over the past several years, including the European sovereign debt crisis, has resulted, and may continue to result, in an unusually high degree of volatility in the financial markets and the economy at large. Both domestic and international equity and fixed income markets have been experiencing heightened volatility and turmoil, with issuers that have exposure to the real estate, mortgage and credit markets particularly affected. It is uncertain how long these conditions will continue.

In addition to the recent unprecedented turbulence in financial markets, the reduced liquidity in credit and fixed income markets may negatively affect many issuers worldwide. Illiquidity in these markets may mean there is less money available to purchase raw materials, goods and services, which may, in turn, bring down the prices of these economic staples. It may also result in issuers having more difficulty obtaining financing and ultimately a decline in their stock prices. The values of some sovereign debt and of securities of issuers that hold that sovereign debt have fallen. These events and the potential for continuing market turbulence may have an adverse effect on the Fund. In addition, global economies and financial markets are becoming increasingly interconnected, which increases the possibilities that conditions in one country or region might adversely impact issuers in a different country or region.

The U.S. federal government and certain foreign central banks have acted to calm credit markets and increase confidence in the U.S. and world economies. Certain of these entities have injected liquidity into the markets and taken other steps in an effort to stabilize the markets and grow the economy. The ultimate effect of these efforts is, of course, not yet known. Changes in government policies may exacerbate the market s difficulties and the withdrawal of this support, or other policy changes by governments or central banks, could negatively affect the value and liquidity of certain securities.

The situation in the financial markets has resulted in calls for increased regulation, and the need of many financial institutions for government help has given lawmakers and regulators new leverage. The Dodd-Frank Act initiated a dramatic revision of the U.S. financial regulatory framework that is expected to continue to unfold over several years. The Dodd-Frank Act covers a broad range of topics, including (among many others) a reorganization of federal financial regulators; a process intended to improve financial systemic stability and the resolution of potentially insolvent financial firms; new rules for derivatives trading; the creation of the Consumer Financial Protection Bureau; the registration and additional regulation of hedge and private equity fund managers; and new federal requirements for residential mortgage loans. Instruments in which the Fund may invest, or the issuers of such instruments, may be affected by the new legislation and regulation in ways that may be unforeseen. Much of the implementing regulations have not yet been finalized. Accordingly, the ultimate effect of the Dodd-Frank Act is not yet certain.

The statutory provisions of the Dodd-Frank Act significantly change in several respects the ways in which investment products are marketed, sold, settled or terminated. In particular, the Dodd-Frank Act mandates the elimination of references to credit ratings in numerous securities laws, including the 1940 Act. Derivatives may be mandated for central clearing under the Dodd-Frank Act, which would likely require technological and other changes to Fund operations and the market in which it will trade. Central clearing would also entail the use of assets of the Fund to satisfy margin calls and this may have an effect on the performance of the Fund. Final regulations implementing the Dodd-Frank Act s margin requirements and clearing mandates have not yet been issued by the regulators.

Because the situation in the markets is widespread and largely unprecedented, it may be unusually difficult to identify both risks and opportunities using past models of the interplay of market forces, or to predict the duration of these market conditions.

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 issue senior securities representing 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 generally 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. This limitation does not apply to certain privately placed debt.

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 measured at the time of issuance of the new securities.

The Fund presently has outstanding borrowings pursuant to a Committed Facility Agreement and a Credit Agreement. See the prospectus (under the caption Use of Leverage by the Fund) 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 December 31, 2013, 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 (23 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:

NAME AND AGE	POSITIONS(S) WITH FUND	PORTFOLIOS IN FUND COMPLEX^ OVERSEEN	PRINCIPAL OCCUPATION(S) AND OTHER DIRECTORSHIPS
John P. Calamos, Sr., 73*	Trustee and President (since 1988) Term Expires 2014	23	Chairman, CEO, and Global Co-Chief Investment Officer, Calamos Asset Management, Inc. (CAM), Calamos Investments LLC (CILLC), Calamos Advisors LLC and its predecessor (Calamos Advisors), and Calamos Wealth Management LLC (CWM) and Chief Executive Officer, Calamos Financial Services LLC and its predecessor (CFS) (until 2013); Director, CAM

Trustees Who Are Not Interested Persons of the Fund:

NAME AND AGE	POSITIONS(S) WITH FUND	PORTFOLIOS IN FUND COMPLEX^ OVERSEEN	PRINCIPAL OCCUPATION(S) AND OTHER DIRECTORSHIPS
Weston W. Marsh, 63	Trustee (since 2002) Term Expires 2016	23	Of Counsel and, until December 31, 2005, Partner, Freeborn & Peters LLP (law firm)
John E. Neal, 63	Trustee (since 2001) Term Expires 2015	23	Private investor; Director, Equity Residential (publicly-owned REIT) and Creation Investments (private international microfinance company); Partner, Linden LLC (health care private equity)
William R. Rybak, 62	Trustee (since 2002) Term Expires 2014	23	Private investor; Director, Christian Brothers Investment Services, Inc. (since February 2010); Director, Private Bancorp (since December 2003) formerly, Executive Vice President and Chief Financial Officer, Van Kampen Investments, Inc. and subsidiaries (investment manager); Director, Howe Barnes Hoefer & Arnett (until March 2011) Trustee, JNL Series Trust, JNL Investors Series Trust and JNL Variable Fund LLC**; Trustee, Lewis University (since October 2012)
Stephen B. Timbers, 69	Trustee (since 2004) and Lead Independent Trustee (since 2005) Term Expires 2016	23	Private investor
David D. Tripple, 69	Trustee (since 2006) Term Expires 2015	23	Private investor; Trustee, Century Growth Opportunities Fund (since 2010), Century Shares Trust and Century Small Cap Select Fund (since January 2004)***

* Mr. Calamos is an interested person of the Fund as defined in the 1940 Act because he is an officer of the Fund and an affiliate of Calamos Advisors and CFS.

** Overseeing 104 portfolios in fund complex.

*** Overseeing three portfolios in fund complex.

^ The Fund Complex consists of CALAMOS Investment Trust, CALAMOS Advisors 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.

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

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 December 31, 2013, 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) DURING PAST 5 YEARS
Nimish S. Bhatt, 50	Vice President and Chief Financial Officer (since 2007)	Senior Vice President since 2004, Chief Financial Officer (since May 2011), Head of Fund Administration (since November 2011), CAM, CILLC, Calamos Advisors, CWM; Director, Calamos Global Funds PLC (since 2007); prior thereto Director of Operations (2004-2011)
Robert Behan, 48	Vice President (since September 2013)	Executive Vice President, Head of Global Distribution (since April 2013), CFS; prior thereto Senior Vice President (2009-2013) and Head of US Intermediary Distribution (2010-2013); prior thereto Head of Strategic Partners Team (2010-2010); prior thereto National Accounts/Retirement Services (2009-2010); prior thereto Vice President, Director of Retirement Services (2008-2009)
J. Christopher Jackson, 62	Vice President and Secretary (since 2010)	Senior Vice President, General Counsel and Secretary, CAM, CILLC, Calamos Advisors CWM and CFS (since 2010); Director, Calamos Global Funds PLC (since 2011), Director, Calamos Arista Strategic Master Fund Ltd. and Calamos Arista Strategic Fund Ltd. (since 2013); prior thereto, Director, U.S. Head of Retail Legal and Co-Global Head of Retail Legal of Deutsche Bank AG (2006-2010)
Mark J. Mickey, 62	Chief Compliance Officer (since 2005)	Chief Compliance Officer, Calamos Funds (since 2005)
Curtis Holloway, 46	Treasurer (since 2010), Prior thereto Assistant Treasurer since (2007-2010)	Vice President, Fund Administration (since 2013), Calamos Advisors; Treasurer of Calamos Investment Trust, Calamos Advisors Trust, CHI, CHY, CSQ, CGO and CHW (since June 2010); prior thereto Assistant Treasurer (2007-2010)
Gary Black, 53	Vice President (since Sept 2012)	Executive Vice President, Global Co-Chief Investment Officer (since August 2012), CAM, CILLC, Calamos Advisors and CWM; prior thereto CEO, Chief Investment Officer and Founding Member of Black Capital (2009-2012); prior thereto, CEO of Janus Capital Group (2006-2009)

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 John P. Calamos, Sr. and William R. Rybak will expire at the annual meeting of shareholders in 2014. The terms of John E. Neal and David D. Tripple will expire at the annual meeting of shareholders in 2015. The terms of Weston W. Marsh and Stephen B. Timbers will expire at the annual meeting of shareholders in 2016. 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 four 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. Messrs. Stephen B. Timbers, John E. Neal (Chair), William R. Rybak, Weston W. Marsh and David D. Tripple, each a non-interested Trustee, serve on the Audit Committee.

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 (Chair), 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. John P. Calamos, Sr. 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.

Valuation Committee. David D. Tripple (Chair), 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 standing committee held during the fiscal year ended October 31, 2013.

	Number of Meetings During Fiscal Year Ended October 31, 2013
Board of Trustees	4
Executive Committee(1)	0
Audit Committee	4
Governance Committee	2
Dividend Committee(2)	0
Valuation Committee	4

(1) Although the Dividend 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.

Leadership Structure and Qualifications of the Board of Trustees. The Board of Trustees is responsible for oversight of the Trust. The Trust has engaged Calamos to manage the Funds on a day-to-day basis. The Board of Trustees oversees Calamos and certain other principal service providers in the operations of the Funds. The Board of Trustees is currently composed of six members, five of whom are non-interested trustees. The Board of Trustees meets in-person at regularly scheduled meetings four times throughout the year. In addition, the Board may meet in-person or by telephone at special meetings or on an informal basis at other times. As described above, the Board of Trustees has established five standing committees Audit, Dividend, Executive, Governance and Valuation and may establish ad hoc committees or working groups from time to time, to assist the Board of Trustees in fulfilling its oversight responsibilities. The non-interested trustees also have engaged independent legal counsel to assist them in fulfilling their responsibilities. Such independent legal counsel also serves as counsel to the Trust.

The chairman of the Board of Trustees is an interested person of the Trust (as such term is defined in the 1940 Act). The non-interested trustees have appointed a lead independent trustee. The lead independent trustee serves as a liaison between Calamos and the non-interested trustees and leads the non-interested trustees in all aspects of their oversight of the Funds. Among other things, the lead independent trustee reviews and approves, with the chairman, the agenda for each board and committee meeting and facilitates communication among the Trust s non-interested trustees. The Trustees believe that the Board s leadership structure is appropriate given the characteristics and circumstances of the Trust. The Trustees also believe that this structure facilitates the exercise of the Board s independent judgment in fulfilling its oversight function and efficiently allocates responsibility among committees.

The Board of Trustees has concluded that, based on each Trustee s experience, qualifications, attributes or skills on an individual basis and in combination with those of the other Trustees, each Trustee should serve as a member of the Board. In making this determination, the Board has taken into account the actual service of the Trustees during their tenure in concluding that each should continue to serve. The Board also has considered each Trustee s background and experience. Set forth below is a brief discussion of the specific experience qualifications, attributes or skills of each Trustee that led the Board to conclude that he should serve as a Trustee.

Each of Messrs. Calamos, Marsh, Neal and Rybak has served as a Trustee since the inception of the Trust. In addition, each of Messrs. Calamos, Neal, Rybak, Timbers and Tripple has more than 25 years of experience in the financial services industry. Mr. Marsh has over 30 years of experience as a practicing attorney, counseling corporations and litigating commercial disputes. Each of Messrs. Calamos, Neal, Rybak, Timbers and Tripple has experience serving on boards of other entities, including other investment companies. Each of Messrs. Calamos, Marsh, Neal, Rybak and Timbers has earned a Masters of Business Administration degree, and each of Messrs. Marsh and Tripple has earned a Juris Doctor degree.

Risk Oversight. The operation of a registered investment company, including its investment activities, generally involves a variety of risks. As part of its oversight of the Funds, the Board of Trustees oversees risk through various regular board and committee activities. The Board of Trustees, directly or through its committees, reviews reports from, among others, Calamos, the Trust s Compliance Officer, the Trust s independent registered public accounting firm, independent outside legal counsel, and internal auditors of Calamos or its affiliates, as appropriate, regarding risks faced by the Funds and the risk management programs of Calamos and certain service providers. The actual day-to-day risk management with respect to the Funds resides with Calamos and other service providers to the Funds. Although the risk management policies of Calamos and the service providers are designed to be effective, there is no guarantee that they will anticipate or mitigate all risks. Not all risks that may affect the Funds can be identified, eliminated or mitigated and some risks simply may not be anticipated or may be beyond the control of the Board of Trustees or Calamos, its affiliates or other service providers.

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, 2013 to each of the current non-interested trustees and the one officer compensated by the Fund.

Name of Trustee	Estimated Aggregate Compensation From Fund	Total Compensation From Calamos Fund Complex[1]*
John P. Calamos Sr.	$ 0	$ 0
Weston W. Marsh[1]	$ 7,401	$ 142,000
John E. Neal[1]	$ 8,443	$ 162,000
William R. Rybak	$ 7,631	$ 146,000
Steve B. Timbers	$ 9,486	$ 182,000
David D. Tripple	$ 7,922	$ 152,000
Mark J. Mickey	$ 7,944	$ 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, 2013, the values of the deferred compensation accounts of each of Messrs. Marsh and Neal were $1,741,879 and $1,400,520, respectively.

* 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 and High Income Fund, Calamos Strategic Total Return Fund and Calamos Global Dynamic Income Fund.

The compensation paid to the non-interested trustees of the Calamos Funds for their services consists of an annual retainer fee in the amount 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 standing committee. Each non-interested trustee 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 attended in person or by telephone 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.

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, 2013. 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	$50,001 $100,000	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. 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.

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 and (2) without charge, upon request, by calling 1-800-582-6959.

You may obtain a copy a Calamos Policies by calling 1-800-582-6959, by visiting the Fund s website at 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.

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 subject to the oversight of the Board, Calamos intends to use leverage only when it believes it will serve the best interests of the Fund s shareholders.

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 NASOAQ or any other national stock exchange.

For the fiscal years ended October 31, 2011, October 31, 2012 and October 31, 2013 the Fund incurred $8,439,812 and $8,901,657 and $9,431,051, respectively, in advisory fees.

The investment management agreement had an initial term ending August 1, 2003 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.

Calamos Advisors is an indirect subsidiary of Calamos Asset Management, Inc., whose voting shares are majority-owned by Calamos Family Partners, Inc., which is controlled by John P. Calamos, Sr. and the Calamos family. John P. Calamos, Sr. is an affiliated person of the Funds and their advisor by virtue of his position as Trustee and President and CEO of the Trust and Chairman, CEO and Global Co-Chief Investment Officer of Calamos Advisors. Gary D. Black, Nimish S. Bhatt, Robert F. Behan, Curtis Holloway and J. Christopher Jackson are affiliated persons of the Funds and their advisor by virtue of their positions as Vice President; Vice President and Chief Financial Officer; Vice President; Treasurer; and Vice President and Secretary of the Trust; respectively, and as Executive Vice President and Global Co-Chief Investment Officer; Senior Vice President and Chief Financial Officer; Executive Vice President, Head of Global Distribution; Vice President, Fund Administration; and Senior Vice President, General Counsel and Secretary of Calamos Advisors, respectively.

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, 2013.

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 its name to remove that reference if Calamos ceases to act as investment adviser to the Fund.

Portfolio Managers

Calamos Advisors employs a team approach to portfolio management, led by the Global Co-Chief Investment Officers (Global Co-CIOs) and comprised generally of the Global Co-CIOs and Co-Portfolio Managers. The Global Co-CIOs and Co-Portfolio Managers are supported by and lead a team of investment professionals whose valuable contributions create a synergy of expertise that can be applied across many different investment strategies. Co-Portfolio Managers are supported by a team of sector analysts making recommendations based upon rigorous fundamental research.

CALAMOS ADVISORS has an Investment Committee (Investment Committee) that performs the following functions:

- Establishment of top-down global macroeconomic views
- Discussion of sector, thematic and geographic positioning across strategies
- Oversight of risk management across strategies

Monitoring and evaluation of investment performance

Evaluation and recommendation of enhancements to the investment process

The Investment Committee operates as a team and consists of our Global Co-CIOs, who will lead the Committee, and a select group of senior investment professionals. Other members of the investment team will also participate in Committee meetings in connection with specific investment related issues or topics as deemed appropriate. Membership of the Investment Committee may be modified to ensure we adapt to dynamic economic, capital market and investment environments as well as incorporate diverse views into our investment process.

John P. Calamos, Sr. and Gary D. Black, Global Co-CIOs of CALAMOS ADVISORS, generally focus on firm-wide risk management and the top-down approach of diversification by country and industry sector and macro-level investment themes. As Global Co-CIOs, Messrs. John P. Calamos, Sr. and Gary D. Black direct the team s focus on the 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 Global Co-CIOs and the Co-Portfolio Managers. John P. Calamos, Sr. and Gary D. Black, are responsible for the day-to-day management of the team, bottom-up research efforts and strategy implementation. Nick Niziolek, Jon Vacko, Jeff Scudieri, Dennis Cogan, John Hillenbrand, Jeremy Hughes, Steve Klouda, Christopher Langs, and Eli Pars are each Co-Portfolio Managers. The Global Co-CIOs and Co-Portfolio Managers are referred to collectively as Team Leaders.

For over 20 years, the Calamos portfolio management team has managed money for their clients in convertible, high yield and global strategies. Furthermore, Calamos has extensive experience investing in foreign markets through its convertible securities and high yield securities strategies. Such experience has included investments in established as well as emerging foreign markets. The Fund s statement of additional information provides additional information about the Team Leaders, including other accounts they manage, their ownership in the Calamos Family of Funds and their compensation.

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:

	REGISTERED INVESTMENT COMPANIES		OTHER POOLED INVESTMENT VEHICLES		OTHER ACCOUNTS	
	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS
John P. Calamos Sr.	25	21,948,608,473	9	1,515,303,502	2,014	3,429,331,234
Gary D. Black	25	21,948,608,473	10	1,544,295,915	2,014	3,429,331,234
John Hillenbrand	20	18,478,813,675	9	1,515,303,502	2,014	3,429,331,234
Steve Klouda	20	18,478,813,675	9	1,515,303,502	2,014	3,429,331,234
Jeff Scudieri	18	18,045,911,858	8	1,503,271,030	2,014	3,429,331,234
Jon Vacko	18	18,045,911,858	8	1,503,271,030	2,014	3,429,331,234
Dennis Cogan	18	18,045,911,858	8	1,503,271,030	2,014	3,429,331,234
Nick Niziolek	18	18,045,911,858	8	1,503,271,030	2,014	3,429,331,234
Eli Pars	10	11,520,058,232	1	130,334,094	2,014	3,429,331,234
Jeremy Hughes	7	6,599,296,612	1	12,032,472	0	
Christopher Langs	7	6,599,296,612	1	12,032,472	0	

	NUMBER OF ACCOUNTS AND ASSETS FOR WHICH ADVISORY FEE IS PERFORMANCE BASED AS OF OCTOBER 31, 2013					
	REGISTERED INVESTMENT COMPANIES		OTHER POOLED INVESTMENT VEHICLES		OTHER ACCOUNTS	
	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS	ACCOUNTS	ASSETS
John P. Calamos Sr.	3	1,354,547,241	0		0	
Gary D. Black	3	1,354,547,241	1	28,992,412	0	
John Hillenbrand	3	1,354,547,241	0		0	
Steve Klouda	3	1,354,547,241	0		0	
Jeff Scudieri	3	1,354,547,241	0		0	
Jon Vacko	3	1,354,547,241	0		0	
Dennis Cogan	3	1,354,547,241	0		0	
Nick Niziolek	3	1,354,547,241	0		0	
Eli Pars	0		0		0	
Jeremy Hughes	0		0		0	
Christopher Langs	0		0		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 both the Fund and other accounts, including separate accounts and funds not required to be registered under the 1940 Act.

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.

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 December 31, 2013, John P. Calamos, Sr. and Gary D. Black, our Global Co-CIOs, as well as John P. Calamos, Jr., receive all of their compensation from Calamos Advisors. 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 as a percentage of the respective base salary. Similarly, there is a target for Long-Term Incentive (LTI) awards and that target is also set at a percentage of the respective base salaries.

As of December 31, 2013, Nick Niziolek, Jeff Scudieri, Jon Vacko, Dennis Cogan, John Hillenbrand, Jeremy Hughes, Steve Klouda, Christopher Langs and Eli Pars 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 LTI awards. Each of these individuals has a bonus range of opportunity which is expressed as a percentage of base salary. Each of these individuals is also eligible for discretionary LTI awards based on individual and collective performance, however these awards are not guaranteed from year to year. LTI 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 annually 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 Advisors. All Team Leaders are eligible to receive annual equity awards in shares of Calamos Asset Management, Inc. under an incentive compensation plan.

Historically, the annual equity awards granted under the incentive compensation plan have been comprised of stock options and restricted stock units which vest over periods of time. Unless terminated early, the stock options have a ten-year term. Grants of restricted stock units and stock options must generally be approved by the Compensation Committee of the Board of Directors of Calamos Asset Management, Inc.

The compensation structure described above is also impacted by additional corporate objectives set by the Board of Directors of Calamos Asset Management, Inc., which for 2013 included investment performance, as measured annually by risk-adjusted performance of the investment strategies managed by Calamos Advisors over a blended short- and long-term measurement period; distribution effectiveness, as measured by redemption rates and net sales in products that are open to new investors; and financial performance, as measured by operating earnings and margin.

At October 31, 2013, each portfolio manager beneficially owned (as determined pursuant to Rule 16a-1a(a)(2) under the Exchange Act) shares of the Fund having value within the indicated dollar ranges.

Portfolio Manager	Registrant
John P. Calamos Sr.	$100,001-$500,000
Gary Black	None
Nick Niziolek	None
Jeff Scudieri	None
Jon Vacko	$1-$10,000
Dennis Cogan	None
John Hillenbrand	None
Jeremy Hughes	None
Steve Klouda	None
Christopher Langs	None
Eli Pars	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 the 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 January 31, 2014, the following persons were known to own beneficially or of record more than 5% of the outstanding securities of the Fund:

Class of Shares	Name and Address of Beneficial Owner	Number of Shares Owned	Percent of Class
Common			
	Merrill Lynch Pierce Fenner & Smith Attn: Earl Weeks 4804 Deer Lake Dr. E. Jacksonville, FL 32246	9,459,120	13.98%
	Bank of New York Mellon Attn: Jennifer May 525 William Penn Place Suite 153-0400 Pittsburgh, PA 15259	8,610,154	12.73%
	Morgan Stanley Smith Barney LLC Attn: David Safran 2000 Westchester Avenue Purchase, NY 10577	6,688,683	9.89%
	National Financial Services LLC Attn: Sean Cole 499 Washington Blvd. Jersey City, NJ 07310	5,498,315	8.13%
	First Clearing LLC Attn: Matt Buettner 2801 Market Street H0006-09B	4,890,768	7.23%

	St. Louis, MO 63103		
	Charles Schwab & Co., Inc. Attn: Mimi O Sullivan 2423 E. Lincoln Drive Phoenix, AZ 85016-1215	4,474,147	6.61%
	Pershing LLC Attn: Joseph Lavara 1 Pershing Plaza Jersey City, NY 07399	3,638,464	5.38%
	UBS Financial Services Inc. Attn: Jane Flood 1200 Harbor Blvd Weehawken, NJ 07086	3,626,474	5.36%

At January 31, 2014, 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.

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.

Calamos does not guarantee any broker the placement of a predetermined amount of securities transactions in return for the research or brokerage services it provides. Calamos does, however, have internal procedures for allocating transactions in a manner consistent with its execution policies to brokers that it has identified as providing research, research-related products or services, or execution-related services of a particular benefit to its clients. Calamos has entered into client commission agreements (CCAs) with certain broker-dealers under which the broker-dealers may use a portion of their commissions to pay third parties or other broker-dealers that provide Calamos with research or brokerage services, as permitted under Section 28(e) of the Exchange Act. CCAs allow Calamos to direct broker-dealers to pool commissions that are generated from orders executed at that broker-dealer, and then periodically direct the broker-dealer to pay third parties or other broker-dealers for research or brokerage services. All uses of CCAs by Calamos are subject to applicable law and their best execution obligations. Brokerage and research products and services furnished by brokers may be used in servicing any or all of the clients of Calamos and such research may not necessarily be used by Calamos in connection with the accounts which paid commissions to the broker providing such brokerage and research products and services. As permitted by Section 28(e) of the 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 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, 2013, October 31, 2012, and October 31, 2011, 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, 2012 and October 31, 2013 the portfolio turnover rate was 56%, and 62% 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 NYSE (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 NASDAQ, 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 NASDAQ, (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 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 did 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 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. 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 20%. 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. Ordinary income of noncorporate tax payers is taxed at a maximum rate of 39.6%. 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 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 reported 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 report 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 report 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 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 20%) than net short-term capital gain or ordinary income (currently a maximum rate of 39.6%). 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. For taxable years beginning before January 1, 2014, the Fund 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) reported 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 reported by the Fund. In addition, under legislation commonly known as the Foreign Account Tax Compliance Act (FATCA), a 30% withholding tax may apply to certain payments to non-U.S. shareholders that fail to meet certain certification or information reporting requirements. 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 original issue discount and 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 20%) than net short-term capital gain or ordinary income (currently a maximum rate of 39.6%). 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 you purchase debt securities at an original issue price that is less than their stated redemption price at maturity by at least the statutory de minimis amount, the debt securities will be treated as being issued with original issue discount (OID) for U.S. federal income tax purposes. The stated redemption price at maturity includes all payments on the debt securities other than qualified stated interest, which is generally interest that is unconditionally payable at least annually at a fixed or qualified floating rate. If the debt securities are issued with OID, you will be required to include such OID in gross income (as ordinary income) as it accrues over the term of the debt securities on a constant-yield basis, in advance of the receipt of cash attributable to that income and regardless of your regular method of accounting for U.S. federal income tax purposes.

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 maintain in the U.S. or the holder has a tax home in the United States.

Under FATCA, the Fund will be required to withhold 30% of the ordinary dividends and other distributions it pays after June 30, 2014, and certain capital gain dividends it pays after December 31, 2016, to shareholders that fail to meet prescribed information reporting or certification requirements. In general, no such withholding will occur with respect to a non-U.S. Holder who is an individual and satisfies the certification requirements described above. To avoid withholding under FATCA, a foreign financial institution generally must enter into an information sharing agreement with the IRS in which it agrees to report certain information with respect to its U.S. account holders, and a non-financial foreign entity may need to identify its U.S. owners. Such non-U.S. shareholders also may fall into certain exempt, excepted or deemed compliant categories as established by regulations and other guidance. A non-U.S. shareholder resident or doing business in a country that has entered into an intergovernmental agreement with the U.S. to implement FATCA will be exempt from FATCA withholding provided that the shareholder and the applicable foreign government comply with the terms of such agreement. Non-U.S. holders should consult their own tax advisers regarding the impact of these requirements on their investment in the Fund.

Medicare Tax on Certain Investment Income. Certain noncorporate taxpayers are subject to an additional tax of 3.8% with respect to the lesser of (1) their net investment income or (2) the excess of their modified adjusted gross income over a threshold amount ($250,000 for married persons filing jointly and $200,000 for single taxpayers). For this purpose, net investment income includes interest, dividends (including dividends paid with respect to shares), annuities, royalties, rent, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, exchange or other taxable disposition of shares) and certain other income, but will be reduced by any deductions properly allocable to such income or net gain.

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 Computershare Shareowner Services LLC, P.O. Box 358016, Pittsburgh, PA 15252-8016.

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.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Calamos Convertible Opportunities and Income Fund (the Fund) as of October 31, 2013, 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, 2013, by correspondence with the Fund s custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. 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, 2013, the results of its operations and its 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 16, 2013

Statement of Assets and Liabilities October 31, 2013

ASSETS	
Investments in securities, at value (cost $1,146,643,172)	$ 1,218,040,231
Cash with custodian (interest bearing)	158,625
Receivables:	
Accrued interest and dividends	14,265,811
Investments sold	15,582,153
Prepaid expenses	11,399
Other assets	185,169
Total assets	1,248,243,388
LIABILITIES	
Unrealized depreciation on interest rate swaps	1,995,478
Payables:	
Note payable	350,000,000
Investments purchased	3,580,284
Affiliates:	
Investment advisory fees	835,678
Deferred compensation to trustees	185,169
Financial accounting fees	12,012
Trustees fees and officer compensation	10,023
Other accounts payable and accrued liabilities	274,804
Total liabilities	356,893,448
NET ASSETS	$ 891,349,940
COMPOSITION OF NET ASSETS	
Common stock, no par value, unlimited shares authorized 67,547,533 shares issued and outstanding	$ 851,659,701
Undistributed net investment income (loss)	(13,987,651)
Accumulated net realized gain (loss) on investments, foreign currency transactions, written options and interest rate swaps	(15,724,614)
Unrealized appreciation (depreciation) of investments, foreign currency translations and interest rate swaps	69,402,504
NET ASSETS	$ 891,349,940
Net asset value per common shares based upon 67,547,533 shares issued and outstanding	$ 13.20

 See accompanying Notes to Financial Statements

Statement of Operations Year Ended October 31, 2013

INVESTMENT INCOME	
Interest	$ 54,752,300
Dividends	8,960,220
Securities lending income	118,574
Dividend taxes withheld	(49,898)
Total investment income	63,781,196
EXPENSES	
Investment advisory fees	9,431,051
Interest expense and related fees	2,795,188
Printing and mailing fees	143,855
Financial accounting fees	135,353
Accounting fees	75,759
Audit fees	62,614
Trustees fees and officer compensation	59,660
Custodian fees	43,481
Transfer agent fees	21,420
Registration fees	7,758
Other	74,317
Total expenses	12,850,456
NET INVESTMENT INCOME (LOSS)	50,930,740
REALIZED AND UNREALIZED GAIN (LOSS)	
Net realized gain (loss) from:	
Investments, excluding purchased options	35,391,783
Purchased options	6,556,913
Foreign currency transactions	(45,357)
Written options	(177,246)
Interest rate swaps	(2,553,544)
Change in net unrealized appreciation/(depreciation) on:	
Investments, excluding purchased options	37,223,792
Purchased options	(2,109,575)
Foreign currency translations	748
Interest rate swaps	2,482,763
NET GAIN (LOSS)	76,770,277
NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS	$ 127,701,017

See accompanying Notes to Financial Statements

Statements of Changes in Net Assets

	YEAR ENDED OCTOBER 31,	
	2013	**2012**
OPERATIONS		
Net investment income (loss)	$ 50,930,740	$ 54,602,343
Net realized gain (loss)	39,172,549	15,353,184
Change in unrealized appreciation/(depreciation)	37,597,728	15,801,779
Net increase (decrease) in net assets applicable to shareholders resulting from operations	127,701,017	85,757,306
DISTRIBUTIONS FROM		
Net investment income	(77,004,188)	(76,707,494)
CAPITAL STOCK TRANSACTIONS		
Proceeds from shares sold		1,995,482
Offering costs on shares	(84,120)	(113,053)
Reinvestment of distributions resulting in the issuance of stock		2,465,836
Net increase (decrease) in net assets from capital stock transactions	(84,120)	4,348,265
TOTAL INCREASE (DECREASE) IN NET ASSETS	50,612,709	13,398,077
NET ASSETS		
Beginning of year	$ 840,737,231	$ 827,339,154
End of year	891,349,940	840,737,231
Undistributed net investment income (loss)	$ (13,987,651)	$ (25,507,907)

See accompanying Notes to Financial Statements

Statement of Cash Flows Year Ended October 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase/(decrease) in net assets from operations	$ 127,701,017
Adjustments to reconcile net increase/(decrease) in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(783,003,537)
Net proceeds from disposition of short term investments	10,778,527
Proceeds paid on closing written options	(266,561)
Proceeds from disposition of investment securities	736,672,773
Premiums received from written options	89,315
Amortization and accretion of fixed-income securities	(1,750,609)
Net realized gains/losses from investments, excluding purchased options	(35,391,783)
Net realized gains/losses from purchased options	(6,556,913)
Net realized gains/losses from written options	177,246
Change in unrealized appreciation or depreciation on investments, excluding purchased options	(37,223,792)
Change in unrealized appreciation or depreciation on purchased options	2,109,575
Change in unrealized appreciation or depreciation on interest rate swaps	(2,482,763)
Net change in assets and liabilities:	
(Increase)/decrease in assets:	
Accrued interest and dividends receivable	1,147,233
Prepaid expenses	(1,651)
Other assets	(8,470)
Increase/(decrease) in liabilities:	
Payables to affiliates	103,293
Other accounts payable and accrued liabilities	154,033
Net cash provided by/(used in) operating activities	$ 12,246,933
CASH FLOWS FROM FINANCING ACTIVITIES:	
Offering costs related to shares sold	(84,120)
Distributions to shareholders	(77,004,188)
Proceeds from note payable	65,000,000
Net cash provided by/(used in) financing activities	$ (12,088,308)
Net increase/(decrease) in cash	$ 158,625
Cash at beginning of year	$
Cash at end of year	$ 158,625
Supplemental disclosure	
Cash paid for interest and related fees	$ 2,722,163

See accompanying Notes to Financial Statements

Notes to Financial Statements

Note 1 Organization and Significant Accounting Policies

Organization. Calamos Convertible Opportunities and Income Fund (the Fund) was organized as a Delaware statutory trust on April 17, 2002 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 June 26, 2002. 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 investments 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 official closing price, which is the last current reported sales price on its principle exchange at the time each 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 on its principle exchange 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, certain convertible preferred securities, and non-exchange traded derivatives are normally valued by independent pricing services or by dealers or brokers who make markets in such securities. Valuations of such fixed income securities, certain convertible preferred securities, and non-exchange traded derivatives consider yield or price of equivalent securities 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 institutional traders, a computerized matrix system, or appraisals derived from information concerning the securities or similar securities received from recognized dealers in those securities.

Notes to Financial Statements

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 as of October 31, 2013. 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.

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

The Fund recognized no liability for uncertain tax positions. 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 2009 2012 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.

Notes to Financial Statements

Note 2 Investment Adviser 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.

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). 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 of $185,169 is included in Other assets on the Statement of Assets and Liabilities at October 31, 2013. 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, 2013.

Note 3 Investments

The cost of purchases and proceeds from sale of long-term investments for the year ended October 31, 2013 were as follows:

Cost of purchases	$ 744,106,797
Proceeds from sales	704,525,845

The following information is presented on a federal income tax basis as of October 31, 2013. 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, 2013 was as follows:

Cost basis of investments	$ 1,168,567,117
Gross unrealized appreciation	77,650,235
Gross unrealized depreciation	(28,177,121)
Net unrealized appreciation (depreciation)	$ 49,473,114

Note 4 Income Taxes

For the fiscal year ended October 31, 2013, the Fund recorded the following permanent reclassifications to reflect tax character. The results of operations and net assets were not affected by these reclassifications.

Paid-in capital	$ (26,718,977)
Undistributed net investment income/(loss)	37,593,704
Accumulated net realized gain/(loss) on investments	(10,874,727)

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. 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:

	YEAR ENDED OCTOBER 31, 2013	YEAR ENDED OCTOBER 31, 2012
Distributions paid from:		
Ordinary income	$ 77,004,188	$ 76,707,494

As of October 31, 2013, the components of accumulated earnings/(loss) on a tax basis were as follows:

Undistributed ordinary income	$
Undistributed capital gains	
Total undistributed earnings	
Accumulated capital and other losses	(7,643,233)
Net unrealized gains/(losses)	47,478,559
Total accumulated earnings/(losses)	39,835,326
Other	(145,087)
Paid-in capital	851,659,701
Net assets applicable to common shareholders	$ 891,349,940

The Regulated Investment Company Modernization Act of 2010 (the Act) modernized various tax rules for regulated investment companies, and was effective for taxable years beginning after the enactment date of December 22, 2010. One significant change is to the treatment of capital loss carryforwards. Now, any capital losses recognized will retain their character as either short-term or long-term capital losses, will be utilized before the pre-Act capital loss carryforwards, and will be carried forward indefinitely, until applied in offsetting future capital gains.

As of October 31, 2013, the Fund had pre-Act capital loss carryforwards which, if not used, will expire as follows:

2018	$ (1,243,566)
2019	(6,399,667)

Notes to Financial Statements

Note 5 Common Shares

There are unlimited common shares of beneficial interest authorized and 67,547,533 shares outstanding at October 31, 2013. Calamos Advisors owned 20,512 of the outstanding shares at October 31, 2013. Transactions in common shares were as follows:

	YEAR ENDED OCTOBER 31, 2013	YEAR ENDED OCTOBER 31, 2012
Beginning shares	67,547,533	67,188,511
Shares sold		159,957
Shares issued through reinvestment of distributions		199,065
Ending shares	67,547,533	67,547,533

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

The Fund also may offer and sell common shares from time to time at an offering price equal to or in excess of the net asset value per share of the Fund s common shares at the time such common shares are initially sold.

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 forward 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. The Fund realizes a gain or loss when a position is closed or upon settlement of the contracts. There were no open forward foreign currency contracts at October 31, 2013.

Equity Risk. The Fund engages in option transactions and in doing so achieves 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. 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.

Notes to Financial Statements

As of October 31, 2013, the Fund had outstanding purchased options and/or written options as listed on the Schedule of Investments. For the year ended October 31, 2013, the Fund had the following transactions in options written:

	NUMBER OF CONTRACTS	PREMIUMS RECEIVED
Options outstanding at October 31, 2012		$
Options written	195	89,315
Options closed	(118)	(54,047)
Options exercised	(77)	(35,268)
Options expired		
Options outstanding at October 31, 2013		$

Interest Rate Risk. The Fund engages in interest rate swaps primarily to hedge the interest rate risk on the Fund s borrowings (see Note 7 Borrowings). An interest rate swap is a contract that involves the exchange of one type of interest rate for another type of interest rate. 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) on interest rate swaps 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 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 of the Fund.

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, 2013, the Fund had outstanding interest rate swap agreements as listed on the Schedule of Investments.

As of October 31, 2013, the Fund had outstanding derivative contracts which are reflected on the Statement of Assets and Liabilities as follows:

	ASSET DERIVATIVES FAIR VALUE
Options purchased[1]	$ 13,077,027

	LIABILITY DERIVATIVES FAIR VALUE

Interest rate swaps[2]	$	1,995,478

(1) Generally, the statement of assets and liabilities location for Options purchased is Investments in securities.

(2) Generally, the statement of assets and liabilities location for Interest rate swaps is Unrealized appreciation (depreciation) on interest rate swaps.

For the year ended October 31, 2013, the volume of derivative activity for the Fund is reflected below:*

	DERIVATIVE ACTIVITY
Options purchased	21,662
Options written	195

* Activity during the year is measured by opened number of contracts for options purchased or written.

Notes to Financial Statements

Note 7 Borrowings

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 BNP Agreement) with BNP Paribas Prime Brokerage International Ltd. (BNP) that allows the Fund to borrow up to $200.0 million and a lending agreement, as defined below. In addition, the financing package also includes a Credit Agreement (the SSB Agreement) with State Street Bank and Trust Company (SSB) that allows the Fund to borrow up to an initial limit of $200.0 million, and a related securities lending authorization agreement (Authorized Agreement). Borrowings under the BNP Agreement and the SSB Agreement are secured by assets of the Fund that are held with the Fund s custodian in a separate account (the pledged collateral). BNP and SSB share an equal claim on the pledged collateral, subject to any adjustment that may be agreed upon between the lenders. Interest on the BNP agreement is charged at the three month LIBOR (London Inter-bank Offered Rate) plus .65% on the amount borrowed and .55% on the undrawn balance. Interest on the SSB agreement is charged on the drawn amount at the rate of Overnight LIBOR plus .80% and .10% on the undrawn balance (if the undrawn amount is more than 75% of the borrowing limit, the commitment fee is .20%). For the year ended October 31, 2013, the average borrowings under the Agreements were $318.3 million. For the year ended October 31, 2013, the average interest rate was 0.79%. As of October 31, 2013, the amount of total outstanding borrowings was $350.0 million, which approximates fair value. The interest rate applicable to the borrowings on October 31, 2013 was 0.70%.

The Lending Agreement with BNP 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 BNP 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 with BNP, 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.

Under the terms of the Authorized Agreement with SSB, all securities lent through SSB must be secured continuously by collateral received in cash, cash equivalents, or U.S. Treasury bills and maintained on a current basis at an amount at least equal to the market value of the securities loaned. Cash collateral held by SSB on behalf of the Fund may be credited against the amounts borrowed under the SSB Agreement. Any amounts credited against the SSB Agreement would count against the Fund s leverage limitations under the 1940 Act, unless otherwise covered in accordance with SEC release IC-10666. Under the terms of the Authorized Agreement with SSB, SSB will return the value of the collateral to the borrower upon the return of the lent securities, which will eliminate the credit against the SSB Agreement and will cause the amount drawn under the SSB Agreement to increase in an amount equal to the returned collateral. Under the terms of the securities Authorized Agreement with SSB, the Fund will make a variable net income payment related to any collateral credited against the SSB Agreement which will be paid to the securities borrower, less any payments due to the Fund or SSB under the terms of the Authorized Agreement. As of October 31, 2013, the Fund used approximately

$151.9 million of its cash collateral to offset the SSB Agreement, representing 12.2% of managed assets, and was required to pay a net income payment equal to an interest rate at October 31, 2013 of 0.45%, which can fluctuate depending on interest rates.

Note 8 Fair Value Measurements

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 Prices are determined using inputs from unadjusted quoted prices from active markets (including securities actively traded on a securities exchange) for identical assets.

Level 2 Prices are determined using significant observable market inputs other than unadjusted quoted prices, including quoted prices of similar securities, fair value adjustments to quoted foreign securities, interest rates, credit risk, prepayment speeds, and other relevant data.

Level 3 Prices reflect unobservable market inputs (including the Fund s own judgments about assumptions market participants would use in determining fair value) when observable inputs are unavailable.

Debt securities are valued based upon evaluated prices received from an independent pricing service or from a dealer or broker who makes markets in such securities. Pricing services utilize various observable market data and as such, debt securities are generally categorized as Level 2. The levels are not necessarily an indication of the risk or liquidity of the Fund s investments. Transfers between the levels for investment securities or other financial instruments are measured at the end of the reporting period.

The following is a summary of the inputs used in valuing the Fund s holdings at fair value:

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:				
Corporate Bonds	$	$ 530,506,055	$	$ 530,506,055
Convertible Bonds		399,639,483		399,639,483
U.S. Government and Agency Security		2,919,321		2,919,321
Synthetic Convertible Securities (Corporate Bonds)		88,602,819		88,602,819
Synthetic Convertible Securities (U.S. Government and Agency Security)		394,666		394,666
Synthetic Convertible Securities (Purchased Options)	13,077,027			13,077,027
Convertible Preferred Stocks	90,227,272	76,672,988		166,900,260
Common Stock	715,353			715,353
Short Term Investment	15,285,247			15,285,247
Total	$ 119,304,899	$ 1,098,735,332	$	$ 1,218,040,231
Liabilities:				
Interest Rate Swaps	$	$ 1,995,478	$	$ 1,995,478

Total	$	$ 1,995,478	$	$ 1,995,478

Financial Highlights

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

	Year Ended October 31,				
	2013	**2012**	**2011**	**2010**	**2009**
Net asset value, beginning of year	$12.45	$12.31	$12.84	$11.83	$8.26
Income from investment operations:					
Net investment income (loss)*	0.75	0.81	0.83	0.91	0.84
Net realized and unrealized gain (loss)	1.14	0.47	(0.23)	1.22	3.88
Distributions to preferred shareholders from:					
Net investment income (common share equivalent basis)					(0.01)
Total from investment operations	1.89	1.28	0.60	2.13	4.71
Less distributions to common shareholders from:					
Net investment income	(1.14)	(1.14)	(0.84)	(1.00)	(0.94)
Net realized gains					(0.02)
Return of capital			(0.30)	(0.14)	(0.18)
Total distributions	(1.14)	(1.14)	(1.14)	(1.14)	(1.14)
Capital charge resulting from issuance of common and preferred shares and related offering costs(a)					
Premiums from shares sold in at the market offerings		(a)	0.01	0.02	
Net asset value, end of year	$13.20	$12.45	$12.31	$12.84	$11.83
Market value, end of year	$13.09	$12.51	$12.09	$13.09	$11.40
Total investment return based on:(b)					
Net asset value	16.08%	11.05%	4.92%	19.12%	62.00%
Market value	14.56%	13.62%	1.08%	26.02%	41.70%
Net assets, end of year (000)	$891,350	$840,737	$827,339	$801,354	$651,707
Ratios to average net assets applicable to common shareholders:					
Net expenses(c)	1.49%	1.57%	1.55%	1.67%	2.87%
Gross expenses prior to expense reductions and earnings credits(c)	1.49%	1.57%	1.55%	1.71%	2.98%
Net expenses, excluding interest expense	1.17%	1.17%	1.19%	1.19%	2.36%
Net investment income (loss)(c)	5.92%	6.60%	6.56%	7.48%	8.79%
Preferred share distributions	%	%	%	%	0.10%
Net investment income (loss), net of preferred share distributions from net investment income	5.92%	6.60%	6.56%	7.48%	8.69%
Portfolio turnover rate	62%	56%	44%	37%	30%
Average commission rate paid	$0.0295	$0.0230	$0.0222	$	$
Asset coverage per $1,000 of loan outstanding(d)	$3,547	$3,950	$3,903	$5,152	$4,377

* 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 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, 2013

PRINCIPAL AMOUNT		VALUE
CORPORATE BONDS (59.5%)		
	Consumer Discretionary (10.2%)	
2,255,000	Bon-Ton Department Stores, Inc.^ 8.000%, 06/15/21	$ 2,126,747
308,000	Brunswick Corp.µ* 4.625%, 05/15/21	294,140
255,000	Claire s Stores, Inc.^* 7.750%, 06/01/20	254,363
951,000	Cogeco Cable, Inc.µ* 4.875%, 05/01/20	927,225
1,647,000	Continental Rubber of America Corp.µ* 4.500%, 09/15/19	1,732,438
5,383,000	Cooper Tire & Rubber Companyµ 8.000%, 12/15/19	5,554,583
	Dana Holding Corp.µ	
4,741,000	6.750%, 02/15/21	5,158,801
1,255,000	5.375%, 09/15/21	1,288,728
4,810,000	DISH Network Corp.µ 7.875%, 09/01/19	5,603,650
3,524,000	Dufry Finance, SCAµ* 5.500%, 10/15/20	3,605,492
6,167,000	Goodyear Tire & Rubber Companyµ 8.250%, 08/15/20	6,972,564
2,088,000	Hasbro, Inc.µ 6.600%, 07/15/28	2,251,824
2,079,000	Icahn Enterprises, LP^* 6.000%, 08/01/20	2,119,281
4,405,000	Jaguar Land Rover Automotive, PLC^* 8.125%, 05/15/21	5,013,441
	L Brands, Inc.µ	
2,643,000	7.600%, 07/15/37	2,715,682
599,000	6.950%, 03/01/33	600,123
590,000	Lear Corp.µ* 4.750%, 01/15/23	572,669
1,241,000	Liberty Interactive, LLCµ 8.250%, 02/01/30	1,312,358
	Meritage Homes Corp.µ	
2,026,000	4.500%, 03/01/18	2,013,338
1,681,000	7.000%, 04/01/22	1,779,759
881,000	7.150%, 04/15/20	952,031
1,647,000	NCL Corp., Ltd. - Class C* 5.000%, 02/15/18	1,668,617
	Neiman Marcus Group, Inc.*	
542,000	8.750%, 10/15/21	557,244
432,000	8.000%, 10/15/21	443,070
2,489,000	Netflix, Inc.µ* 5.375%, 02/01/21	2,545,002
5,021,000	Outerwall, Inc.* 6.000%, 03/15/19	4,895,475
943,000	Quiksilver, Inc. / QS Wholesale, Inc.µ* 7.875%, 08/01/18	1,012,546

PRINCIPAL AMOUNT		VALUE

3,405,000	Royal Caribbean Cruises, Ltd.^ 7.500%, 10/15/27	$ 3,651,862
	Ryland Group, Inc.µ	
4,845,000	6.625%, 05/01/20	5,144,784
1,313,000	5.375%, 10/01/22	1,280,175
	Sally Holdings, LLC / Sally Capital, Inc.µ	
1,647,000	5.750%, 06/01/22	1,715,968
846,000	5.500%, 11/01/23	856,046
	Service Corp. Internationalµ	
3,083,000	7.500%, 04/01/27	3,304,591
2,141,000	5.375%, 01/15/22*	2,170,439
2,572,000	Six Flags Entertainment Corp.µ* 5.250%, 01/15/21	2,525,382
2,641,000	Taylor Morrison Communities, Inc.µ* 5.250%, 04/15/21	2,571,674
3,348,000	Viking Cruises, Ltd.* 8.500%, 10/15/22	3,764,407
		90,956,519
	Consumer Staples (2.8%)	
3,215,000	Fidelity & Guaranty Life Holdings, Inc.^*µ 6.375%, 04/01/21	3,359,675
4,377,000	JBS USA, LLCµ* 7.250%, 06/01/21	4,532,931
4,757,000	Land O Lakes, Inc.µ* 6.000%, 11/15/22	4,965,119
	Post Holdings, Inc.µ	
6,656,000	7.375%, 02/15/22	7,105,280
379,000	7.375%, 02/15/22*	405,530
2,775,000	Smithfield Foods, Inc. 6.625%, 08/15/22	2,924,156
1,568,000	Wells Enterprises, Inc.µ* 6.750%, 02/01/20	1,620,920
		24,913,611
	Energy (12.9%)	
2,943,000	Atwood Oceanics, Inc.µ 6.500%, 02/01/20	3,154,528
2,202,000	Berry Petroleum Companyµ 6.375%, 09/15/22	2,272,189
5,608,000	Bristow Group, Inc.µ 6.250%, 10/15/22	5,923,450
1,982,000	Calfrac Holdings, LPµ* 7.500%, 12/01/20	2,011,730
	Calumet Specialty Products, LPµ	
3,524,000	9.375%, 05/01/19	3,909,437
1,321,000	9.625%, 08/01/20	1,484,474
	Carrizo Oil & Gas, Inc.µ	
3,894,000	7.500%, 09/15/20	4,263,930
2,876,000	8.625%, 10/15/18	3,156,410
1,462,000	Chesapeake Oilfield Finance, Inc.µ 6.625%, 11/15/19	1,533,273
5,286,000	Cimarex Energy Companyµ 5.875%, 05/01/22	5,626,286

See accompanying Notes to Schedule of Investments CALAMOS CONVERTIBLE OPPORTUNITIES AND INCOME FUND ANNUAL REPORT

Schedule of Investments October 31, 2013

PRINCIPAL AMOUNT		VALUE
6,167,000	Drill Rigs Holdings, Inc.µ* 6.500%, 10/01/17	$ 6,490,767
1,850,000	EPL Oil & Gas, Inc.^ 8.250%, 02/15/18	1,986,437
370,000	Forum Energy Technologies, Inc.µ* 6.250%, 10/01/21	386,881
4,845,000	Gulfmark Offshore, Inc.µ 6.375%, 03/15/22	4,899,506
5,620,000	Gulfport Energy Corp.µ 7.750%, 11/01/20	5,978,275
2,643,000	Holly Energy Partners, LPµ 6.500%, 03/01/20	2,780,106
881,000	Hornbeck Offshore Services, Inc.µ 5.875%, 04/01/20	910,734
4,845,000	Laredo Petroleum, Inc.µ 7.375%, 05/01/22	5,259,853
	Linn Energy, LLCµ	
4,405,000	8.625%, 04/15/20	4,716,103
1,762,000	7.000%, 11/01/19*	1,757,595
1,321,000	7.750%, 02/01/21	1,364,758
881,000	6.500%, 05/15/19	879,348
	Oasis Petroleum, Inc.µ	
3,691,000	6.500%, 11/01/21	4,004,735
1,101,000	6.875%, 01/15/23	1,203,531
2,000,000	Pacific Drilling, SA* 5.375%, 06/01/20	2,007,500
1,260,000	Parker Drilling Companyµ 9.125%, 04/01/18	1,348,988
2,422,000	Petroleum Geo-Services, ASAµ* 7.375%, 12/15/18	2,586,999
1,520,000	Pioneer Energy Services Corp.µ 9.875%, 03/15/18	1,635,900
2,290,000	Samson Investment Company^* 10.250%, 02/15/20	2,478,925
4,405,000	SEACOR Holdings, Inc.µ 7.375%, 10/01/19	4,743,634
2,202,000	SESI, LLCµ 7.125%, 12/15/21	2,446,973
1,586,000	SM Energy Companyµ 6.500%, 11/15/21	1,703,959
2,995,000	Swift Energy Companyµ 8.875%, 01/15/20	3,133,519
2,423,000	Tesoro Logistics, LP / Tesoro Logistics Finance Corp.µ 5.875%, 10/01/20	2,480,546
3,171,000	Trinidad Drilling, Ltd.^* 7.875%, 01/15/19	3,404,861
8,193,000	W&T Offshore, Inc.^ 8.500%, 06/15/19	8,843,319
2,449,000	Western Refining, Inc.µ 6.250%, 04/01/21	2,464,306
		115,233,765
	Financials (2.9%)	

PRINCIPAL AMOUNT		VALUE
1,868,000	Ally Financial, Inc.µ 4.750%, 09/10/18	1,949,725
2,115,000	AON Corp.µ 8.205%, 01/01/27	$ 2,619,343
1,145,000	DuPont Fabros Technology, LPµ* 5.875%, 09/15/21	1,172,194
1,744,000	iStar Financial, Inc.µ 4.875%, 07/01/18	1,710,210
3,744,000	Jefferies Finance, LLCµ* 7.375%, 04/01/20	3,842,280
2,555,000	Michael Baker International, LLC / CDL Acquisition Company, Inc.µ* 8.250%, 10/15/18	2,607,697
2,017,000	Nationstar Mortgage, LLC / Nationstar Capital Corp.µ 6.500%, 07/01/21	1,976,660
4,845,000	Neuberger Berman Group LLCµ* 5.875%, 03/15/22	4,963,097
	Nuveen Investments, Inc.*	
2,599,000	9.500%, 10/15/20^	2,483,669
2,599,000	9.125%, 10/15/17	2,530,776
		25,855,651
	Health Care (6.3%)	
2,841,000	Alere, Inc. 6.500%, 06/15/20	2,928,006
9,162,000	Community Health Systems, Inc.µ 7.125%, 07/15/20	9,648,731
	Endo Health Solutions, Inc.µ	
6,607,000	7.000%, 12/15/20	7,065,361
881,000	7.000%, 07/15/19	942,670
	HCA Holdings, Inc.µ	
2,643,000	7.750%, 05/15/21^	2,895,737
1,709,000	6.250%, 02/15/21	1,799,791
7,048,000	HCA, Inc.µ 5.875%, 05/01/23	7,136,100
5,070,000	Hologic, Inc.µ 6.250%, 08/01/20	5,396,381
4,845,000	Teleflex, Inc.µ 6.875%, 06/01/19	5,099,362
5,418,000	Tenet Healthcare Corp.^ 6.750%, 02/01/20	5,631,334
5,462,000	Valeant Pharmaceuticals International, Inc.µ* 7.000%, 10/01/20	5,905,787
	VPII Escrow Corp.µ*	
846,000	7.500%, 07/15/21	939,060
837,000	6.750%, 08/15/18	915,992
		56,304,312
	Industrials (8.5%)	
4,140,000	ACCO Brands Corp.µ 6.750%, 04/30/20	4,178,813
7,048,000	Belden, Inc.µ* 5.500%, 09/01/22	7,052,405
2,537,000	Digitalglobe, Inc.µ* 5.250%, 02/01/21	2,451,376

Schedule of Investments October 31, 2013

PRINCIPAL AMOUNT		VALUE
4,814,000	Dycom Investments, Inc.µ 7.125%, 01/15/21	$ 5,126,910
3,700,000	Edgen Murray Corp.µ* 8.750%, 11/01/20	4,280,438
3,135,000	General Cable Corp.µ* 5.750%, 10/01/22	3,125,203
2,489,000	GrafTech International, Ltd.^ 6.375%, 11/15/20	2,529,446
4,013,000	H&E Equipment Services, Inc.µ 7.000%, 09/01/22	4,369,154
3,083,000	Manitowoc Company, Inc.^ 8.500%, 11/01/20	3,499,205
1,260,000	Meritor, Inc.^ 6.750%, 06/15/21	1,275,750
2,643,000	Navistar International Corp. 8.250%, 11/01/21	2,705,771
1,589,000	Nortek, Inc. 8.500%, 04/15/21	1,746,907
5,770,000	Rexel, SAµ* 6.125%, 12/15/19	6,076,531
2,757,000	RR Donnelley & Sons Company^ 7.875%, 03/15/21	3,051,654
	Terex Corp.µ	
4,281,000	6.000%, 05/15/21	4,484,347
388,000	6.500%, 04/01/20	416,858
1,784,000	Titan International, Inc.* 6.875%, 10/01/20	1,837,520
	TransDigm, Inc.	
2,070,000	5.500%, 10/15/20	2,085,525
1,229,000	7.750%, 12/15/18µ	1,318,103
1,762,000	Triumph Group, Inc.µ 4.875%, 04/01/21	1,716,849
2,026,000	United Continental Holdings, Inc.^ 6.375%, 06/01/18	2,108,306
	United Rentals North America, Inc.µ	
4,845,000	7.625%, 04/15/22	5,438,512
4,757,000	6.125%, 06/15/23	4,905,656
		75,781,239
	Information Technology (7.9%)	
2,819,000	Activision Blizzard, Inc.µ* 5.625%, 09/15/21	2,917,665
	Amkor Technology, Inc.µ	
2,898,000	6.375%, 10/01/22	2,874,454
827,000	6.625%, 06/01/21	830,101
759,000	ConvaTec Finance International, SAµ* 8.250%, 01/15/19	783,193
1,762,000	Equinix, Inc.µ 5.375%, 04/01/23	1,752,089
5,726,000	Hughes Satellite Systems Corp.µ 7.625%, 06/15/21	6,273,549
5,286,000	iGATE Corp.µ 9.000%, 05/01/16	5,685,754

PRINCIPAL AMOUNT		VALUE
3,524,000	J2 Global, Inc.µ 8.000%, 08/01/20	$ 3,819,135
5,013,000	Lender Processing Services, Inc.µ 5.750%, 04/15/23	5,238,585
2,643,000	Magnachip Semiconductor, Inc.µ* 6.625%, 07/15/21	2,649,607
7,409,000	Nuance Communications, Inc.µ* 5.375%, 08/15/20	7,353,432
	NXP BV*	
2,114,000	5.750%, 03/15/23	2,160,244
1,762,000	5.750%, 02/15/21	1,843,492
5,700,000	Sanmina Corp.µ* 7.000%, 05/15/19	6,070,500
	Seagate Technology, PLC	
3,110,000	6.875%, 05/01/20µ	3,411,281
3,083,000	4.750%, 06/01/23^*	2,994,364
3,969,000	Sungard Data Systems, Inc.µ 6.625%, 11/01/19	4,147,605
2,995,000	ViaSat, Inc.µ 6.875%, 06/15/20	3,135,391
4,845,000	Viasystems, Inc.µ* 7.875%, 05/01/19	5,172,037
1,586,000	WEX, Inc.µ* 4.750%, 02/01/23	1,469,033
		70,581,511
	Materials (4.2%)	
1,057,000	Ardagh Packaging Finance, PLC* 7.000%, 11/15/20	1,054,358
1,264,000	Chemtura Corp.µ 5.750%, 07/15/21	1,282,960
6,607,000	FMG Resources^* 8.250%, 11/01/19	7,342,029
2,335,000	FQM (Akubra), Inc.µ* 8.750%, 06/01/20	2,580,175
3,885,000	Greif, Inc.µ 7.750%, 08/01/19	4,416,759
1,938,000	INEOS Group Holdings, SA^* 6.125%, 08/15/18	1,963,436
	New Gold, Inc.µ*	
3,524,000	7.000%, 04/15/20	3,651,745
969,000	6.250%, 11/15/22	949,620
2,070,000	PH Glatfelter Companyµ 5.375%, 10/15/20	2,088,112
	Sealed Air Corp.µ*	
1,810,000	6.500%, 12/01/20	1,967,244
995,000	5.250%, 04/01/23	976,344
1,321,000	Steel Dynamics, Inc.µ 6.375%, 08/15/22	1,440,716
5,021,000	Trinseo Op/ Trinseo Finance, Inc.^* 8.750%, 02/01/19	5,039,829
2,467,000	United States Steel Corp.^µ 6.875%, 04/01/21	2,571,847
		37,325,174

Schedule of Investments October 31, 2013

PRINCIPAL AMOUNT		VALUE
	Telecommunication Services (2.5%)	
4,074,000	Brightstar Corp.µ*	
	7.250%, 08/01/18	$ 4,448,299
2,451,000	Frontier Communications Corp.µ	
	7.625%, 04/15/24	2,593,464
	Intelsat, SA*	
4,933,000	7.750%, 06/01/21^	5,210,481
352,000	8.125%, 06/01/23	372,460
4,140,000	MetroPCS Wireless, Inc.µ*	
	6.625%, 04/01/23	4,334,063
2,070,000	SBA Communications Corp.µ	
	5.625%, 10/01/19	2,126,925
	Sprint Corp.µ*	
2,238,000	7.875%, 09/15/23	2,426,831
573,000	7.250%, 09/15/21	617,766
		22,130,289
	Utilities (1.3%)	
2,643,000	AES Corp.µ	
	7.375%, 07/01/21	2,996,501
4,369,000	AmeriGas Finance Corp.µ	
	7.000%, 05/20/22	4,710,328
	Calpine Corp.µ*	
2,973,000	7.875%, 07/31/20	3,253,577
428,000	7.500%, 02/15/21	463,578
		11,423,984
	TOTAL CORPORATE BONDS	
	(Cost $510,337,115)	530,506,055
CONVERTIBLE BONDS (44.8%)		
	Consumer Discretionary (10.9%)	
12,200,000	Ctrip.com International, Ltd.*	
	1.250%, 10/15/18	12,691,233
	Iconix Brand Group, Inc.	
5,600,000	1.500%, 03/15/18*	7,251,496
2,000,000	2.500%, 06/01/16	2,611,620
507,000	International Game Technology^	
	3.250%, 05/01/14	556,113
	Jarden Corp.*µ	
6,000,000	1.500%, 06/15/19	6,920,130
5,198,000	1.875%, 09/15/18^	6,905,777
2,350,000	KB Home^	
	1.375%, 02/01/19	2,322,388
16,850,000	Liberty Interactive, LLC (Time Warner Cable, Inc., Time Warner, Inc.)^*§µ	
	0.750%, 03/30/43	20,194,556
5,050,000	Liberty Media Corp.*	
	1.375%, 10/15/23	5,344,971
10,500,000		12,741,382

PRINCIPAL AMOUNT		VALUE
	MGM Resorts Internationalµ 4.250%, 04/15/15	
6,027,000	Priceline.com, Inc.^µ 1.000%, 03/15/18	8,005,935
2,900,000	Ryland Group, Inc.^ 0.250%, 06/01/19	2,701,336
2,800,000	Shutterfly, Inc.^* 0.250%, 05/15/18	$ 2,986,536
4,800,000	Standard Pacific Corp.^µ 1.250%, 08/01/32	5,945,208
		97,178,681
	Energy (2.1%)	
8,500,000	Chesapeake Energy Corp.µ 2.250%, 12/15/38	8,027,400
3,444,000	Exterran Holdings, Inc.µ 4.250%, 06/15/14	4,406,684
5,500,000	Hornbeck Offshore Services, Inc. 1.625%, 11/15/26	6,259,275
		18,693,359
	Financials (3.6%)	
	Ares Capital Corp.µ	
7,300,000	4.750%, 01/15/18*	7,461,622
4,027,000	5.750%, 02/01/16	4,344,488
2,850,000	Health Care REIT, Inc.µ 3.000%, 12/01/29	3,642,699
3,500,000	IAS Operating Partnership, LPµ* 5.000%, 03/15/18	3,302,670
1,215,000	Jefferies Group, Inc.µ 3.875%, 11/01/29	1,283,259
3,047,000	Portfolio Recovery Associates, Inc.* 3.000%, 08/01/20	3,528,350
4,800,000	ProLogis, LP^ 3.250%, 03/15/15	5,613,288
2,900,000	Starwood Property Trust, Inc.µ 4.550%, 03/01/18	3,105,697
		32,282,073
	Health Care (9.5%)	
	BioMarin Pharmaceutical, Inc.	
3,541,000	0.750%, 10/15/18^	3,674,744
2,908,000	1.500%, 10/15/20	3,015,916
12,250,000	Cubist Pharmaceuticals, Inc.µ* 1.875%, 09/01/20	13,190,310
4,100,000	Gilead Sciences, Inc.µ 1.625%, 05/01/16	12,840,975
4,800,000	Hologic, Inc.µ 2.000%, 12/15/37	5,647,344
2,644,000	Illumina, Inc.* 0.250%, 03/15/16	3,295,191
1,800,000	Medicines Company* 1.375%, 06/01/17	2,428,110
5,689,000	Medidata Solutions, Inc.^* 1.000%, 08/01/18	6,965,014
1,798,000	Merrimack Pharmaceuticals, Inc. 4.500%, 07/15/20	1,369,779
5,745,000	Molina Healthcare, Inc.* 1.125%, 01/15/20	5,856,855
5,450,000	Salix Pharmaceuticals, Ltd. 1.500%, 03/15/19	7,142,552

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PRINCIPAL AMOUNT		VALUE
2,850,000	Vivus, Inc.* 4.500%, 05/01/20	$ 2,613,806
12,700,000	WellPoint, Inc.^* 2.750%, 10/15/42	16,539,718
		84,580,314
	Industrials (2.7%)	
4,237,000	Air Lease Corp.^ 3.875%, 12/01/18	5,483,017
3,650,000	Alliant Techsystems, Inc.µ 3.000%, 08/15/24	5,261,603
10,500,000	Trinity Industries, Inc.^µ 3.875%, 06/01/36	13,589,467
		24,334,087
	Information Technology (13.3%)	
6,400,000	Concur Technologies, Inc.µ* 0.500%, 06/15/18	7,572,000
3,450,000	Cornerstone OnDemand, Inc.^* 1.500%, 07/01/18	3,906,556
759,000	Electronic Arts, Inc.^ 0.750%, 07/15/16	841,458
2,750,000	Ixiaµ 3.000%, 12/15/15	3,056,515
8,600,000	JDS Uniphase Corp.^* 0.625%, 08/15/33	8,920,135
11,944,000	Linear Technology Corp.µ 3.000%, 05/01/27	12,806,894
14,250,000	Mentor Graphics Corp. 4.000%, 04/01/31	18,128,422
7,313,000	Micron Technology, Inc. 1.875%, 06/01/14	9,387,954
6,400,000	Netsuite, Inc.^* 0.250%, 06/01/18	7,098,016
1,900,000	Nuance Communications, Inc.^ 2.750%, 08/15/27	1,996,112
3,600,000	Salesforce.com, Inc.µ* 0.250%, 04/01/18	3,944,898
25,000,000	SanDisk Corp.^* 0.500%, 10/15/20	25,468,750
6,700,000	Take-Two Interactive Software, Inc.µ 1.000%, 07/01/18	7,439,747
	Workday, Inc.µ*	
3,450,000	1.500%, 07/15/20	4,003,880
3,450,000	0.750%, 07/15/18	3,901,709
		118,473,046
	Materials (2.7%)	
7,700,000	Cemex SAB de CV^ 4.875%, 03/15/15	8,930,999

PRINCIPAL AMOUNT		VALUE
5,200,000	Glencore Finance Europe, SAµ 5.000%, 12/31/14	6,154,743
	RTI International Metals, Inc.	
2,800,000	1.625%, 10/15/19^	3,029,334
2,600,000	3.000%, 12/01/15	3,036,891
2,600,000	Steel Dynamics, Inc.µ 5.125%, 06/15/14	$ 2,945,956
		24,097,923
	TOTAL CONVERTIBLE BONDS (Cost $366,520,117)	399,639,483
U.S. GOVERNMENT AND AGENCY SECURITY (0.3%)		
2,907,000	United States Treasury Note~ 1.750%, 01/31/14 (Cost $2,918,334)	2,919,321
SYNTHETIC CONVERTIBLE SECURITIES (11.6%) ¤		
Corporate Bonds (10.0%)		
	Consumer Discretionary (2.1%)	
305,000	Bon-Ton Department Stores, Inc.^ 8.000%, 06/15/21	287,653
42,000	Brunswick Corp.µ* 4.625%, 05/15/21	40,110
35,000	Claire s Stores, Inc.^* 7.750%, 06/01/20	34,913
129,000	Cogeco Cable, Inc.µ* 4.875%, 05/01/20	125,775
223,000	Continental Rubber of America Corp.µ* 4.500%, 09/15/19	234,568
728,000	Cooper Tire & Rubber Companyµ 8.000%, 12/15/19	751,205
	Dana Holding Corp.µ	
641,000	6.750%, 02/15/21	697,488
170,000	5.375%, 09/15/21	174,569
	DISH Network Corp.µ	
6,760,000	5.125%, 05/01/20	6,852,950
650,000	7.875%, 09/01/19	757,250
476,000	Dufry Finance, SCAµ* 5.500%, 10/15/20	487,007
833,000	Goodyear Tire & Rubber Companyµ 8.250%, 08/15/20	941,811
282,000	Hasbro, Inc.µ 6.600%, 07/15/28	304,126
281,000	Icahn Enterprises, LP^* 6.000%, 08/01/20	286,444
595,000	Jaguar Land Rover Automotive, PLCµ* 8.125%, 05/15/21	677,184
	L Brands, Inc.µ	
357,000	7.600%, 07/15/37	366,818
81,000	6.950%, 03/01/33	81,152
80,000	Lear Corp.µ* 4.750%, 01/15/23	77,650
168,000	Liberty Interactive, LLCµ 8.250%, 02/01/30	177,660
	Meritage Homes Corp.µ	
274,000	4.500%, 03/01/18	272,288
227,000	7.000%, 04/01/22	240,336
119,000	7.150%, 04/15/20	128,594

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PRINCIPAL AMOUNT		VALUE
223,000	NCL Corp., Ltd. - Class C* 5.000%, 02/15/18	$ 225,927
	Neiman Marcus Group, Inc.*	
73,000	8.750%, 10/15/21	75,053
58,000	8.000%, 10/15/21	59,486
336,000	Netflix, Inc.µ* 5.375%, 02/01/21	343,560
679,000	Outerwall, Inc.* 6.000%, 03/15/19	662,025
127,000	Quiksilver, Inc. / QS Wholesale, Inc.µ* 7.875%, 08/01/18	136,366
460,000	Royal Caribbean Cruises, Ltd.^ 7.500%, 10/15/27	493,350
	Ryland Group, Inc.µ	
655,000	6.625%, 05/01/20	695,528
177,000	5.375%, 10/01/22	172,575
	Sally Holdings, LLC / Sally Capital, Inc.µ	
223,000	5.750%, 06/01/22	232,338
114,000	5.500%, 11/01/23	115,354
	Service Corp. Internationalµ	
417,000	7.500%, 04/01/27	446,972
289,000	5.375%, 01/15/22*	292,974
348,000	Six Flags Entertainment Corp.µ* 5.250%, 01/15/21	341,693
357,000	Taylor Morrison Communities, Inc.µ* 5.250%, 04/15/21	347,629
452,000	Viking Cruises, Ltd.* 8.500%, 10/15/22	508,217
		19,146,598
	Consumer Staples (0.4%)	
435,000	Fidelity & Guaranty Life Holdings, Inc.^* 6.375%, 04/01/21	454,575
591,000	JBS USA, LLCµ* 7.250%, 06/01/21	612,054
643,000	Land O Lakes, Inc.µ* 6.000%, 11/15/22	671,131
	Post Holdings, Inc.µ	
899,000	7.375%, 02/15/22	959,683
51,000	7.375%, 02/15/22*	54,570
375,000	Smithfield Foods, Inc. 6.625%, 08/15/22	395,156
212,000	Wells Enterprises, Inc.µ* 6.750%, 02/01/20	219,155
		3,366,324
	Energy (1.8%)	
398,000	Atwood Oceanics, Inc.µ 6.500%, 02/01/20	426,606
298,000	Berry Petroleum Companyµ 6.375%, 09/15/22	307,499

PRINCIPAL AMOUNT		VALUE
758,000	Bristow Group, Inc.µ 6.250%, 10/15/22	800,637
268,000	Calfrac Holdings, LPµ* 7.500%, 12/01/20	$ 272,020
	Calumet Specialty Products, LPµ	
476,000	9.375%, 05/01/19	528,063
179,000	9.625%, 08/01/20	201,151
	Carrizo Oil & Gas, Inc.µ	
526,000	7.500%, 09/15/20	575,970
389,000	8.625%, 10/15/18	426,928
198,000	Chesapeake Oilfield Finance, Inc.µ 6.625%, 11/15/19	207,653
714,000	Cimarex Energy Companyµ 5.875%, 05/01/22	759,964
833,000	Drill Rigs Holdings, Inc.µ* 6.500%, 10/01/17	876,732
250,000	EPL OIl & Gas, Inc.^ 8.250%, 02/15/18	268,438
50,000	Forum Energy Technologies, Inc.µ* 6.250%, 10/01/21	52,281
655,000	Gulfmark Offshore, Inc.µ 6.375%, 03/15/22	662,369
760,000	Gulfport Energy Corp.µ 7.750%, 11/01/20	808,450
357,000	Holly Energy Partners, LPµ 6.500%, 03/01/20	375,519
119,000	Hornbeck Offshore Services, Inc.µ 5.875%, 04/01/20	123,016
655,000	Laredo Petroleum, Inc.µ 7.375%, 05/01/22	711,084
	Linn Energy, LLCµ	
595,000	8.625%, 04/15/20	637,022
238,000	7.000%, 11/01/19*	237,405
179,000	7.750%, 02/01/21	184,929
119,000	6.500%, 05/15/19	118,777
	Oasis Petroleum, Inc.µ	
499,000	6.500%, 11/01/21	541,415
149,000	6.875%, 01/15/23	162,876
270,000	Pacific Drilling, SA* 5.375%, 06/01/20	271,013
170,000	Parker Drilling Companyµ 9.125%, 04/01/18	182,006
327,000	Petroleum Geo-Services, ASAµ* 7.375%, 12/15/18	349,277
205,000	Pioneer Energy Services Corp.µ 9.875%, 03/15/18	220,631
310,000	Samson Investment Companyµ* 10.250%, 02/15/20	335,575
595,000	SEACOR Holdings, Inc.µ 7.375%, 10/01/19	640,741
298,000	SESI, LLCµ 7.125%, 12/15/21	331,153
214,000	SM Energy Companyµ 6.500%, 11/15/21	229,916

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PRINCIPAL AMOUNT		VALUE
405,000	Swift Energy Companyµ 8.875%, 01/15/20	$ 423,731
327,000	Tesoro Logistics, LP / Tesoro Logistics Finance Corp.µ 5.875%, 10/01/20	334,766
429,000	Trinidad Drilling, Ltd.*^ 7.875%, 01/15/19	460,639
1,107,000	W&T Offshore, Inc.^ 8.500%, 06/15/19	1,194,868
331,000	Western Refining, Inc.µ 6.250%, 04/01/21	333,069
		15,574,189
	Financials (0.4%)	
252,000	Ally Financial, Inc.µ 4.750%, 09/10/18	263,025
286,000	AON Corp.µ 8.205%, 01/01/27	354,200
155,000	DuPont Fabros Technology, LPµ* 5.875%, 09/15/21	158,681
236,000	iStar Financial, Inc.µ 4.875%, 07/01/18	231,428
506,000	Jefferies Finance, LLCµ* 7.375%, 04/01/20	519,282
345,000	Michael Baker International, LLC / CDL Acquisition Company, Inc.µ* 8.250%, 10/15/18	352,116
273,000	Nationstar Mortgage, LLC / Nationstar Capital Corp.µ 6.500%, 07/01/21	267,540
655,000	Neuberger Berman Group LLCµ* 5.875%, 03/15/22	670,966
	Nuveen Investments, Inc.*	
351,000	9.500%, 10/15/20^	335,424
351,000	9.125%, 10/15/17	341,786
		3,494,448
	Health Care (0.8%)	
384,000	Alere, Inc. 6.500%, 06/15/20	395,760
1,238,000	Community Health Systems, Inc.µ 7.125%, 07/15/20	1,303,769
	Endo Health Solutions, Inc.µ	
893,000	7.000%, 12/15/20	954,952
119,000	7.000%, 07/15/19	127,330
	HCA Holdings, Inc.	
357,000	7.750%, 05/15/21^	391,138
231,000	6.250%, 02/15/21µ	243,272
952,000	HCA, Inc.µ 5.875%, 05/01/23	963,900
685,000	Hologic, Inc.µ 6.250%, 08/01/20	729,097
655,000	Teleflex, Inc.µ 6.875%, 06/01/19	689,388

PRINCIPAL AMOUNT		VALUE
732,000	Tenet Healthcare Corp.^ 6.750%, 02/01/20	$ 760,822
738,000	Valeant Pharmaceuticals International, Inc.µ* 7.000%, 10/01/20	797,962
	VPII Escrow Corp.µ*	
114,000	7.500%, 07/15/21	126,540
113,000	6.750%, 08/15/18	123,664
		7,607,594
	Industrials (2.2%)	
560,000	ACCO Brands Corp.µ 6.750%, 04/30/20	565,250
952,000	Belden, Inc.µ* 5.500%, 09/01/22	952,595
2,575,000	Clean Harbors, Inc.µ 5.125%, 06/01/21	2,615,234
6,200,000	Deluxe Corp.µ 6.000%, 11/15/20	6,420,875
343,000	Digitalglobe, Inc.µ* 5.250%, 02/01/21	331,424
651,000	Dycom Investments, Inc.µ 7.125%, 01/15/21	693,315
500,000	Edgen Murray Corp.µ* 8.750%, 11/01/20	578,438
424,000	General Cable Corp.µ* 5.750%, 10/01/22	422,675
336,000	GrafTech International, Ltd.^ 6.375%, 11/15/20	341,460
542,000	H&E Equipment Services, Inc.µ 7.000%, 09/01/22	590,103
417,000	Manitowoc Company, Inc.^ 8.500%, 11/01/20	473,295
170,000	Meritor, Inc.^ 6.750%, 06/15/21	172,125
357,000	Navistar International Corp. 8.250%, 11/01/21	365,479
215,000	Nortek, Inc. 8.500%, 04/15/21	236,366
780,000	Rexel, SAµ* 6.125%, 12/15/19	821,437
373,000	RR Donnelley & Sons Company^ 7.875%, 03/15/21	412,864
	Terex Corp.µ	
579,000	6.000%, 05/15/21	606,502
52,000	6.500%, 04/01/20	55,868
241,000	Titan International, Inc.* 6.875%, 10/01/20	248,230
	TransDigm, Inc.	
280,000	5.500%, 10/15/20	
166,000	7.750%, 12/15/18µ	282,100 178,035
	Triumph Group, Inc.µ	
238,000	4.875%, 04/01/21	231,901
274,000	United Continental Holdings, Inc.^ 6.375%, 06/01/18	285,131

See accompanying Notes to Schedule of Investments

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PRINCIPAL AMOUNT		VALUE
	United Rentals North America, Inc.µ	
655,000	7.625%, 04/15/22	$ 735,237
643,000	6.125%, 06/15/23	663,094
		19,279,033
	Information Technology (1.2%)	
970,000	ACI Worldwide, Inc.µ* 6.375%, 08/15/20	1,014,863
381,000	Activision Blizzard, Inc.µ* 5.625%, 09/15/21	394,335
	Amkor Technology, Inc.µ	
392,000	6.375%, 10/01/22	388,815
112,000	6.625%, 06/01/21	112,420
103,000	ConvaTec Finance International, SAµ* 8.250%, 01/15/19	106,283
238,000	Equinix, Inc.µ 5.375%, 04/01/23	236,661
774,000	Hughes Satellite Systems Corp.µ 7.625%, 06/15/21	848,014
714,000	iGATE Corp.µ 9.000%, 05/01/16	767,996
476,000	J2 Global, Inc.µ 8.000%, 08/01/20	515,865
677,000	Lender Processing Services, Inc.µ 5.750%, 04/15/23	707,465
357,000	Magnachip Semiconductor, Inc.µ* 6.625%, 07/15/21	357,893
1,001,000	Nuance Communications, Inc.µ* 5.375%, 08/15/20	993,492
	NXP BV*	
286,000	5.750%, 03/15/23	292,256
238,000	5.750%, 02/15/21	249,008
770,000	Sanmina Corp.µ* 7.000%, 05/15/19	820,050
	Seagate Technology, PLC	
420,000	6.875%, 05/01/20µ	460,688
417,000	4.750%, 06/01/23^*	405,011
536,000	Sungard Data Systems, Inc.µ 6.625%, 11/01/19	560,120
405,000	ViaSat, Inc.µ 6.875%, 06/15/20	423,984
655,000	Viasystems, Inc.µ* 7.875%, 05/01/19	699,212
214,000	WEX, Inc.µ* 4.750%, 02/01/23	198,218
		10,552,649
	Materials (0.6%)	
143,000	Ardagh Packaging Finance, PLC* 7.000%, 11/15/20	142,643
171,000		173,565

PRINCIPAL AMOUNT		VALUE
	Chemtura Corp.µ 5.750%, 07/15/21	
893,000	FMG Resources^* 8.250%, 11/01/19	992,346
315,000	FQM (Akubra), Inc.µ* 8.750%, 06/01/20	$ 348,075
525,000	Greif, Inc.µ 7.750%, 08/01/19	596,859
262,000	INEOS Group Holdings, SA^* 6.125%, 08/15/18	265,439
	New Gold, Inc.µ*	
476,000	7.000%, 04/15/20	493,255
131,000	6.250%, 11/15/22	128,380
280,000	PH Glatfelter Companyµ 5.375%, 10/15/20	282,450
	Sealed Air Corp.µ*	
245,000	6.500%, 12/01/20	266,284
135,000	5.250%, 04/01/23	132,469
179,000	Steel Dynamics, Inc.µ 6.375%, 08/15/22	195,222
679,000	Trinseo Op/ Trinseo Finance, Inc.^* 8.750%, 02/01/19	681,546
333,000	United States Steel Corp.^µ 6.875%, 04/01/21	347,153
		5,045,686
	Telecommunication Services (0.3%)	
551,000	Brightstar Corp.µ* 7.250%, 08/01/18	601,623
331,000	Frontier Communications Corp.µ 7.625%, 04/15/24	350,239
	Intelsat, SA*	
667,000	7.750%, 06/01/21µ	704,519
48,000	8.125%, 06/01/23	50,790
560,000	MetroPCS Wireless, Inc.µ* 6.625%, 04/01/23	586,250
280,000	SBA Communications Corp.µ 5.625%, 10/01/19	287,700
	Sprint Corp.µ*	
302,000	7.875%, 09/15/23	327,481
77,000	7.250%, 09/15/21	83,016
		2,991,618
	Utilities (0.2%)	
357,000	AES Corp.µ 7.375%, 07/01/21	404,749
591,000	AmeriGas Finance Corp.µ 7.000%, 05/20/22	637,172
	Calpine Corp.µ*	
402,000	7.875%, 07/31/20	439,938
58,000	7.500%, 02/15/21	62,821
		1,544,680
	TOTAL CORPORATE BONDS	88,602,819
U.S. Government And Agency Security (0.1%)		
393,000	United States Treasury Note~ 1.750%, 01/31/14	394,666

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NUMBER OF CONTRACTS		VALUE
Purchased Options (1.5%)#		
	Consumer Discretionary (0.1%)	
1,775	Lennar Corp. Call, 01/17/15, Strike $37.00	$ 971,812
	Energy (0.2%)	
736	Continental Resources, Inc. Call, 01/17/15, Strike $105.00	1,799,520
	Financials (0.1%)	
2,700	Citigroup, Inc. Call, 01/18/14, Strike $50.00	383,400
	Health Care (0.7%)	
560	Celgene Corp. Call, 01/17/15, Strike $135.00	1,778,000
2,816	Gilead Sciences, Inc. Call, 01/17/15, Strike $72.50	2,661,120
190	Regeneron Pharmaceuticals, Inc. Call, 01/17/15, Strike $250.00	1,600,750
		6,039,870
	Information Technology (0.4%)	
	Apple, Inc.	
320	Call, 01/18/14, Strike $545.00	446,400
200	Call, 01/17/15, Strike $500.00	1,436,000
180	Google, Inc. Call, 01/17/15, Strike $1,020.00	1,997,100
390	VMware, Inc. - Class A Call, 01/18/14, Strike $110.00	2,925
		3,882,425
	TOTAL PURCHASED OPTIONS	13,077,027
	TOTAL SYNTHETIC CONVERTIBLE SECURITIES (Cost $101,968,076)	102,074,512

NUMBER OF SHARES		VALUE
CONVERTIBLE PREFERRED STOCKS (18.7%)		
	Consumer Staples (0.7%)	
54,000	Bunge, Ltd.µ 4.875%	5,936,625
	Energy (3.2%)	
	Chesapeake Energy Corp.*	
19,133	5.750%^	22,469,317
4,744	5.750%µ	5,613,931

NUMBER OF SHARES		VALUE
		28,083,248
	Financials (5.9%)	
350,000	Affiliated Managers Group, Inc.µ 5.150%	21,153,125
539,000	MetLife, Inc.^ 5.000%	15,485,470
9,100	Wells Fargo & Companyµ 7.500%	10,364,900
103,333	Weyerhaeuser Company^ 6.375%	$ 5,698,815
		52,702,310
	Industrials (5.6%)	
58,200	Genesee & Wyoming, Inc.^ 5.000%	7,833,429
91,966	Stanley Black & Decker, Inc.^µ 4.750%	11,744,058
480,000	United Technologies Corp.^µ 7.500%	30,374,400
		49,951,887
	Telecommunication Services (2.0%)	
93,000	Crown Castle International Corp.^ 4.500%	9,521,340
161,000	Intelsat, SAµ 5.750%	8,726,200
		18,247,540
	Utilities (1.3%)	
	NextEra Energy, Inc.	
185,000	5.799%^	9,322,150
46,000	5.599%µ	2,656,500
		11,978,650
	TOTAL CONVERTIBLE PREFERRED STOCKS (Cost $148,991,033)	166,900,260
COMMON STOCK (0.1%)		
	Financials (0.1%)	
13,850	American International Group, Inc.µ (Cost $623,250)	715,353
SHORT TERM INVESTMENT (1.7%)		
15,285,247	Fidelity Prime Money Market Fund - Institutional Class (Cost $15,285,247)	15,285,247
TOTAL INVESTMENTS (136.7%) (Cost $1,146,643,172)		1,218,040,231

LIABILITIES, LESS OTHER ASSETS (-36.7%)		(326,690,291)
NET ASSETS (100.0%)	$	891,349,940

NOTES TO SCHEDULE OF INVESTMENTS

^ Security, or portion of security, is on loan.

µ Security, or portion of security, is held in a segregated account as collateral for note payable aggregating a total value of $721,937,776. $163,137,307 of the collateral has been re-registered by one of the counterparties (see Note 7 Borrowings).

Schedule of Investments October 31, 2013

* 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.

§ Securities exchangeable or convertible into securities of one or more entities that are different than the issuer. Each entity is identified in the parenthetical.

Variable rate or step bond security. The rate shown is the rate in effect at October 31, 2013.

~ Security, or portion of security, is segregated as collateral for swaps. The aggregate value of such securities is $2,334,854.

¤ The synthetic convertible securities strategy combines separate securities that together possess the economic characteristics similar to a convertible security.

Non-income producing security.

INTEREST RATE SWAPS

COUNTERPARTY	FIXED RATE (FUND PAYS)	FLOATING RATE (FUND RECEIVES)	TERMINATION DATE	NOTIONAL AMOUNT	UNREALIZED APPRECIATION/ (DEPRECIATION)
BNP Paribas, SA	2.430% quarterly	3 month LIBOR	04/14/14	$ 80,000,000	$ (880,101)
BNP Paribas, SA	1.160% quarterly	3 month LIBOR	04/19/17	55,000,000	(620,625)
BNP Paribas, SA	1.140% quarterly	3 month LIBOR	03/14/17	40,000,000	(494,752)
					$ (1,995,478)

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.

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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.

APPENDIX B DESCRIPTION OF RATINGS[1]

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

[1] 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.

_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.

r: 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.

PART C OTHER INFORMATION

ITEM 25: FINANCIAL STATEMENTS AND EXHIBITS

1. Financial Statements:

The Registrant s audited statement of assets and liabilities, statement of operations, statement of changes in net assets, statement of cash flows, financial highlights and schedule of investments as of and for the year ended October 31, 2013, notes to such statements and report of independent public accountants thereon are filed herewith.

2. Exhibits:

a.1.	Agreement and Declaration of Trust. (7)
a.2.	Certificate of Trust. (2)
b.	By-laws. (4)
c.	None.
d.1	Form of Common Share Certificate. (3)
d.2	Form of Preferred Share Certificate. (5)
d.3	Form of Note. (1)
d.4	Indenture of Trust. (1)
d.5	Form of Supplemental Indenture of Trust. (1)
e.	Terms and Conditions of the Dividend Reinvestment Plan. (4)
f.	None.
g.	Investment Management Agreement with Calamos Advisors LLC. (7)
h.1	Form of Underwriting Agreement relating to Common Shares. (4)
h.2	Form of Master Agreement Among Underwriters relating to Common Shares. (3)
h.3	Form of Master Selected Dealers Agreement relating to Common Shares. (3)
h.4	Form of Underwriting Agreement relating to Preferred Shares. (4)
h.5	Form of Underwriting Agreement relating to Notes. (1)
h.6	Sales Agreement, dated as of June 6, 2011, among Registrant, Calamos Advisors LLC and JonesTrading Institutional Services LLC. (8)
h.7	First Amendment to Sales Agreement dated July 2, 2012 (9)
i.	None.
j.1	Custody Agreement. (6)
j.2	Amendment to Appendix A to Custody Agreement. (7)
k.1	Stock Transfer Agency Agreement. (7)
k.2	Amended and Restated Financial Accounting Services Agreement. (7)
k.3	Master Services Agreement. (4)
k.4	Amendment to Appendix A to Master Services Agreement. (7)
k.5	Form of Auction Agency Agreement relating to Preferred Shares. (5)
k.6	Form of Broker - Dealer Agreement relating to Preferred Shares. (5)
k.7	Form of Auction Agency Agreement relating to Notes. (1)
k.8	Form of Broker - Dealer Agreement relating to Notes. (1)
k.9	Form of DTC Representations Letter relating to Preferred Shares and Notes. (4)
l.1	Opinion of K&L Gates LLP regarding Common Shares. (8)
l.2	Opinion of Morris, Nichols, Arsht and Tunnell LLP regarding Common Shares. (8)
l.3	Opinion of Morris, Nichols, Arsht and Tunnell LLP regarding shelf registration. (8)
m.	None.
n.	Consent of Auditors. (10)
o.	Not applicable.
p.	Subscription Agreement. (7)
q.	None.
r.1	Code of Ethics. (6)
s.	Powers of Attorney. (10)

(1) To be filed by post-effective amendment.

(2) Incorporated by reference to Registrant s initial Registration Statement on Form N-2 (1933 Act File No. 333-86678) as filed with the Securities and Exchange Commission (the SEC) on April 22, 2002.

(3) Incorporated by reference to Registrant s Registration Statement on Form N-2 (1933 Act File No. 333-86678) as filed with the Commission on June 21, 2002.

(4) Incorporated by reference to Pre-Effective Amendment No. 2 to Registrant s Registration Statement on Form N-2 (1933 Act File No. 333-146945) as filed with the SEC on February 22, 2008.

(5) Incorporated by reference to Pre-Effective Amendment No. 1 to Registrant s Registration Statement on Form N-2 (1933 Act File No. 333-96997) as filed with the SEC on September 9, 2002.

(6) Incorporated by reference to Post-Effective Amendment No. 5 to Registrant s Registration Statement on Form N-2 (1933 Act File No. 333-146945) as filed with the SEC on March 9, 2010.

(7) Incorporated by reference to Registrant s initial Registration Statement on Form N-2 (1933 Act File No. 333-173767) as filed with the SEC on April 29, 2011.

(8) Incorporated by reference to Post-Effective Amendment No. 1 to Registrant s Registration Statement (1933 Act File No. 333-173767) as filed with the Commission on June 6, 2011.

(9) Incorporated by reference to Post-Effective Amendment No. 3 to Registrant s Registration Statement (1933 Act File No. 333-173767) as filed with the Commission on February 15, 2013.

(10) Filed herewith.

ITEM 26: MARKETING ARRANGEMENTS

The information contained under Plan of Distribution on Page S-8 of the prospectus supplement for common shares filed pursuant to Rule 497(c) on June 6, 2011 is incorporated herein by reference.

ITEM 27: OTHER OFFERING EXPENSES AND DISTRIBUTION
The following table sets forth the estimated expenses to be incurred in connection with all offerings described in this Registration Statement:

Printing (other than certificates)	$ 26,000
Accounting fees and expenses	10,000
Legal fees and expenses	71,000
Other	23,000
Total	$ 130,000(*)

(*) These expenses will be borne by the Fund unless otherwise specified in a prospectus supplement.
The following table sets forth the estimated expenses to be incurred in connection with the offering of common shares described in the prospectus supplement filed herewith.

Printing (other than certificates)	$ 26,000
Accounting fees and expenses	10,000
Legal fees and expenses	71,000
Other	23,000
Total	130,000(*)

(*) These expenses will be borne by the Fund.

ITEM 28. PERSONS CONTROLLED BY OR UNDER COMMON CONTROL
None.

ITEM 29. NUMBER OF HOLDERS OF SECURITIES
As of January 31, 2014, the number of record holders of each class of securities of the Registrant was

TITLE OF CLASS	NUMBER OF RECORD HOLDERS
Common shares (no par value)	100

ITEM 30. INDEMNIFICATION
The Registrant s Amended and Restated Agreement and Declaration of Trust (the Declaration), dated September 13, 2006, provides that every person who is, or has been, a Trustee or an officer, employee or agent of the Registrant (including any individual who serves at its request as director, officer, partner, employee, Trustee, agent or the like of another organization in which it has any interest as a shareholder, creditor or otherwise (Covered Person) shall be indemnified by the Registrant or the appropriate series of the Registrant to the fullest extent permitted by law against liability and against all expenses reasonably incurred or paid by him in connection with any claim, action, suit or proceeding in which he becomes involved as a party or otherwise by virtue of his being or having been a Covered Person and against amounts paid or incurred by him in the settlement thereof; provided that no indemnification shall be provided to a

Covered Person (i) who shall have been adjudicated by a court or body before which the proceeding was brought (A) to be liable to the Registrant or its shareholders by reason of willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office, or (B) not to have acted in good faith and in a manner the person reasonably believed to be or not opposed to the best interest of the Registrant; or (ii) in the event of a settlement, unless there has been a determination that such Covered Person did not engage in willful misfeasance, bad faith, gross negligence or reckless disregard of the duties involved in the conduct of his office; (A) by the court or other body approving the settlement; (B) by at least a majority of those Trustees who are neither Interested Persons of the Trust nor are parties to the matter based upon a review of readily available facts (as opposed to a full trial-type inquiry); (C) by written opinion of independent legal counsel based upon a review of readily available facts (as opposed to a full trial-type inquiry) or (D) by a vote of a majority of the Outstanding Shares entitled to vote (excluding any Outstanding Shares owned of record or beneficially by such individual).

The Declaration also provides that if any shareholder or former shareholder of the Registrant shall be held personally liable solely by reason of his being or having been a shareholder and not because of his acts or omissions or for some other reason, the shareholder or former shareholder (or his heirs, executors, administrators or other legal representatives or in the case of any entity, its general successor) shall be entitled out of the assets belonging to the Registrant to be held harmless from and indemnified against all loss and expense arising from such liability. The Registrant shall, upon request by such shareholder, assume the defense of any claim made against such shareholder for any act or obligation of the series and satisfy any judgment thereon from the assets of the series.

The Registrant, its Trustees and officers, its investment adviser, the other investment companies advised by the adviser and certain persons affiliated with them are insured, within the limits and subject to the limitations of the insurance, against certain expenses in connection with the defense of actions, suits or proceedings, and certain liabilities that might be imposed as a result of such actions, suits or proceedings. The insurance expressly excludes coverage for any Trustee or officer whose personal dishonesty, fraudulent breach of trust, lack of good faith, or intention to deceive or defraud has been finally adjudicated or may be established or who willfully fails to act prudently.

Section 9 of the Amended and Restated Sales Agreement previously filed as Exhibit h.6 to this Registration Statement provides for each of the parties thereto, including the Registrant and the underwriters, to indemnify the others, their Trustees, directors, certain of their officers, Trustees, directors and persons who control them against certain liabilities in connection with the offering described herein, including liabilities under the federal securities laws.

Insofar as indemnification for liability arising under the Securities Act of 1933, as amended (the 1933 Act), may be available to Trustees, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the 1933 Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant s expenses incurred or paid by a Trustee, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such Trustee, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the 1933 Act and will be governed by the final adjudication of such issue.

ITEM 31. BUSINESS AND OTHER CONNECTIONS OF INVESTMENT ADVISER

The information in the Statement of Additional Information under the caption Management of the Fund Trustees and Officers is incorporated by reference.

ITEM 32. LOCATION OF ACCOUNTS AND RECORDS

All such accounts, books, and other documents are maintained at the offices of the Registrant, at the offices of the Registrant s investment manager, Calamos Advisors LLC 2020 Calamos Court, Naperville, Illinois 60563, at the offices of the Custodian and Accounting Agent, 200 Clarendon Street, P.O. Box 9130, Boston, Massachusetts 02117-9130 or at the offices of the Transfer Agent, P.O. Box 358016, Pittsburgh, PA 15252-8016.

ITEM 33. MANAGEMENT SERVICES

Not applicable.

ITEM 34. UNDERTAKINGS

1. The Registrant undertakes to suspend the offering of shares until the prospectus is amended if (1) subsequent to the effective date of its registration statement, the net asset value declines more than ten percent from its net asset value as of the effective date of the registration statement or (2) the net asset value increases to an amount greater than its net proceeds as stated in the prospectus.

2. Not applicable.

3. Not applicable.

4. The securities being registered will be offered on a delayed or continuous basis in reliance on Rule 415 under the 1933 Act. Accordingly, the Registrant undertakes:

(a) to file a post-effective amendment to this registration statement, during any period in which offers or sales are being made, in accordance with no action relief granted to the Registrant on February 14, 2011:

(1) to include any prospectus required by Section 10(a)(3) of the 1933 Act;

(2) to reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in the registration statement; and

(3) to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement.

(b) that, for the purpose of determining any liability under the 1933 Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of those securities at that time shall be deemed to be the initial bona fide offering thereof; and

(c) to remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering;

(d) that, for the purpose of determining liability under the 1933 Act to any purchaser, if the Registrant is subject to Rule 430C: each prospectus filed pursuant to Rule 497(b), (c), (d) or (e) under the 1933 Act as part of this registration statement relating to an offering, other than prospectuses filed in reliance on Rule 430A under the 1933 Act, shall be deemed to be part of and included in this registration statement as of the date it is first used after effectiveness. Provided, however, that no statement made in this registration statement or prospectus that is part of this registration statement or made in a document incorporated or deemed incorporated by reference into this registration or prospectus that is part of this registration statement will, as to a purchaser with a time of contract of sale prior to such first use, supersede or modify any statement that was made in this registration statement or prospectus that was part of this registration statement or made in any such document immediately prior to such date of first use.

(e) that for the purpose of determining liability of the Registrant under the 1933 Act to any purchaser in the initial distribution of securities:

The undersigned Registrant undertakes that in a primary offering of securities of the undersigned Registrant pursuant to this registration statement, regardless of the underwriting method used to sell the securities to the purchaser, if the securities are offered or sold to such purchaser by means of any of the following communications, the undersigned Registrant will be a seller to the purchaser and will be considered to offer or sell such securities to the purchaser:

(1) any preliminary prospectus or prospectus of the undersigned Registrant relating to the offering required to be filed pursuant to Rule 497 under the 1933 Act;

(2) the portion of any advertisement pursuant to Rule 482 under the 1933 Act relating to the offering containing material information about the undersigned Registrant or its securities provided by or on behalf of the undersigned Registrant; and

(3) any other communication that is an offer in the offering made by the undersigned Registrant to the purchaser.

5. (a) For the purposes of determining any liability under the 1933 Act, the information omitted from the form of prospectus filed as part of a registration statement in reliance upon Rule 430A and contained in the form of prospectus filed by the Registrant under Rule 497(h) under the 1933 Act shall be deemed to be part of the Registration Statement as of the time it was declared effective.

(b) For the purpose of determining any liability under the 1933 Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of the securities at that time shall be deemed to be the initial bona fide offering thereof.

6. The Registrant undertakes to send by first class mail or other means designed to ensure equally prominent delivery within two business days of receipt of a written or oral request the Registrant s statement of additional information.

7. Upon each issuance of securities pursuant to this Registration Statement, the Registrant undertakes to file a form of prospectus and/or form of prospectus supplement pursuant to Rule 497 and a post-effective amendment to the extent required by the 1933 Act and the rules and regulations thereunder, including, but not limited to a post-effective amendment pursuant to Rule 462(c) or Rule 462(d) under the 1933 Act.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933 (1933 Act) and the Investment Company Act of 1940, the Registrant certifies that it meets all of the requirements for effectiveness of this registration statement under Rule 486(b) under the 1933 Act, as applied by no-action relief granted by the staff of the U.S. Securities and Exchange Commission on February 14, 2011, and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in this City of Naperville and State of Illinois, on the 27th day of February, 2014.

CALAMOS CONVERTIBLE OPPORTUNITIES
AND INCOME FUND

By: /s/ John P. Calamos, Sr.

John P. Calamos, Sr.
Trustee and President

Pursuant to the requirements of the 1933 Act, this registration statement has been signed by the following persons in the capacities and on the date(s) indicated.

Name	Title		Date
/s/ John P. Calamos, Sr. John P. Calamos, Sr.	Trustee and President (principal executive officer)	)	February 27, 2014
/s/ Weston W. Marsh* Weston W. Marsh	Trustee	)	
/s/ John E. Neal* John E. Neal	Trustee	)	
/s/ William Rybak* William Rybak	Trustee	)	
/s/ Stephen Timbers* Stephen B. Timbers	Trustee	)	
/s/ David D. Tripple* David D. Tripple	Trustee	)	
/s/ Nimish S. Bhatt Nimish S. Bhatt	Vice President and Chief Financial Officer	)	February 27, 2014

* John P. Calamos, Sr. signs this document pursuant to powers of attorney filed herewith.

By: /s/ John P. Calamos, Sr.

John P. Calamos, Sr.
Attorney-In-Fact
February 27, 2014