

CALAMOS CONVERTIBLE & HIGH INCOME FUND

Form 497

March 01, 2012

Prospectus Supplement

(To Prospectus dated February 29, 2012)

Calamos Convertible and High Income Fund

Up to 6,232,167 Common Shares

Calamos Convertible and High Income Fund (the Fund, we, or our) has entered into a sales agreement dated September 30, 2011 (the Sales Agreement) with JonesTrading Institutional Services LLC (JonesTrading) relating to the common shares of beneficial interest (common shares) offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the Sales Agreement, we may offer and sell up to 6,232,167 of our common shares, no par value per share, from time to time through JonesTrading as our agent for the offer and sale of the common shares. As of December 31, 2011, the Fund had offered and sold 3,767,833 common shares pursuant to prior sales agreements with JonesTrading. Under the Investment Company Act of 1940, as amended (the 1940 Act), the Fund may not sell any common shares at a price below the current net asset value of such common shares, exclusive of any distributing commission or discount. The Fund is a diversified, closed-end management investment company which commenced investment operations in May 2003. Our investment objective is to provide total return through a combination of capital appreciation and current income.

Our common shares are listed on the New York Stock Exchange under the symbol CHY. As of December 31, 2011, the last reported sale price for our common shares on the New York Stock Exchange was \$11.56 per share.

Sales of our common shares, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the Securities Act of 1933, as amended (the 1933 Act), including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange.

JonesTrading will be entitled to compensation of 100 to 250 basis points of the gross sales price per share for any common shares sold under the Sales Agreement, with the exact amount of such compensation to be mutually agreed upon by the Fund and JonesTrading from time to time. In connection with the sale of the common shares on our behalf, JonesTrading may be deemed to be an underwriter within the meaning of the 1933 Act and the compensation of JonesTrading may be deemed to be underwriting commissions or discounts.

Investing in our securities involves certain risks. You could lose some or all of your investment. See Risk Factors beginning on page 30 of the accompanying prospectus. You should consider carefully these risks together with all of the other information contained in this prospectus supplement and the accompanying prospectus before making a decision to purchase our securities.

The Securities and Exchange Commission has not approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus Supplement dated February 29, 2012

This prospectus supplement, together with the accompanying prospectus, sets forth concisely the information that you should know before investing. You should read the accompanying prospectus and prospectus supplement, which contain important information, before deciding whether to invest in our securities. You should retain the accompanying prospectus and prospectus supplement for future reference. A statement of additional information, dated February 29, 2012, as supplemented from time to time, containing additional information, has been filed with the Securities and Exchange Commission (Commission) and is incorporated by reference in its entirety into this prospectus supplement and the accompanying prospectus. This prospectus supplement, the accompanying prospectus and the statement of additional information are part of a shelf registration statement that we filed with the Commission. This prospectus supplement describes the specific details regarding this offering, including the method of distribution. If information in this prospectus supplement is inconsistent with the accompanying prospectus or the statement of additional information, you should rely on this prospectus supplement. You may request a free copy of the statement of additional information, the table of contents of which is on page 65 of the accompanying prospectus, request a free copy of our annual and semi-annual reports, request other information or make shareholder inquiries, by calling toll-free 1-800-582-6959 or by writing to the Fund at 2020 Calamos Court, Naperville, Illinois 60563. The Fund's annual and semi-annual reports also are available on our website at www.calamos.com, which also provides a link to the Commission's website, as described below, where the Fund's statement of additional information can be obtained. Information included on our website does not form part of this prospectus supplement or the accompanying prospectus. You can review and copy documents we have filed at the Commission's Public Reference Room in Washington, D.C. Call 1-202-551-8090 for information. The Commission charges a fee for copies. You can get the same information free from the Commission's website (<http://www.sec.gov>). You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the Commission's Public Reference Section, Washington, D.C. 20549-0102.

Our securities do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus in making your investment decisions. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction where the offer or sale is not permitted. The information appearing in this prospectus supplement and in the accompanying prospectus is accurate only as of the dates on their covers. Our business, financial condition and prospects may have changed since such dates. We will advise investors of any material changes to the extent required by applicable law.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the statement of additional information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar, and the negative of such terms. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the Commission. Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors sections of the accompanying prospectus. We urge you to review carefully those sections for a more detailed discussion of the risks of an investment in our securities.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors sections of the accompanying prospectus. All forward-looking statements contained or incorporated by reference in this prospectus supplement or the accompanying prospectus are made as of the date of this prospectus supplement or the accompanying prospectus, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this prospectus supplement, the accompanying prospectus and the statement of additional information are excluded from the safe harbor protection provided by section 27A of the 1933 Act.

PROSPECTUS SUPPLEMENT SUMMARY

The following summary contains basic information about us and our securities. It is not complete and may not contain all of the information you may want to consider. You should review the more detailed information contained in this prospectus supplement and in the accompanying prospectus and in the statement of additional information, especially the information set forth under the heading "Risk Factors" beginning on page 30 of the accompanying prospectus.

The Fund

The Fund is a diversified, closed-end management investment company, with total managed assets of \$1,206,955,505 as of December 31, 2011.

Managed assets means the total assets of the Fund (including any assets attributable to any leverage that may be outstanding) minus the sum of liabilities (other than debt representing financial leverage). We commenced operations in June 2002 following our initial public offering. Our investment objective is to provide total return through a combination of capital appreciation and current income.

Investment Adviser

Calamos Advisors LLC (the Adviser or Calamos) serves as our investment adviser. Calamos is responsible on a day-to-day basis for investment of the Fund's portfolio in accordance with its investment objective and policies. Calamos makes all investment decisions for the Fund and places purchase and sale orders for the Fund's portfolio securities. As of December 31, 2011, Calamos managed approximately \$32.8 billion in assets of individuals and institutions. Calamos is a wholly-owned subsidiary of Calamos Investments LLC and an indirect subsidiary of Calamos Asset Management, Inc., a publicly traded holding company.

The Fund pays Calamos an annual fee, payable monthly, for its investment management services equal to 0.80% of the Fund's average weekly managed assets. See "Management of the Fund" on page 38 of the accompanying prospectus.

The principal business address of the Adviser is 2020 Calamos Court, Naperville, Illinois 60563.

The Offering

The Fund and Calamos entered into the Sales Agreement with JonesTrading Institutional Services LLC (JonesTrading) relating to the common shares offered by this prospectus supplement and the accompanying prospectus. In accordance with the terms of the Sales Agreement, we may offer and sell up to 6,232,167 of our common shares, no par value per share, from time to time through JonesTrading as our agent for the offer and sale of the common shares. As of December 31, 2011, the Fund had offered and sold 3,767,833 common shares pursuant to prior sales agreements with JonesTrading, resulting in proceeds (net of all fees, expenses and commissions) of \$42,792,625.

Our common shares are listed on the New York Stock Exchange under the symbol CHY. As of December 31, 2011, the last reported sale price for our common shares was \$11.56.

Sales of our common shares, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. See "Plan of Distribution" in this prospectus supplement. Our common shares may not be sold through agents, underwriters or dealers without delivery or deemed delivery of a prospectus and a prospectus supplement describing the method and terms of the offering of our securities. Under the 1940 Act, the Fund may not sell any common shares at a price below the current net asset value of such common shares, exclusive of any distributing commission or discount.

Use of Proceeds

Unless otherwise specified in this prospectus supplement, we currently intend to use the net proceeds from the sale of our common shares in this offering primarily to invest in accordance with our investment objective and policies (as described under **Investment Objective and Principal Investment Strategies**, beginning on page 19 of the accompanying prospectus) within approximately three months of receipt of such proceeds. We may also use proceeds from the sale of our securities to retire all or a portion of any short-term debt we incur in pursuit of our investment objective and policies, and for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for this purpose. Reduction of the leverage employed by the Fund will reduce our assets available for investment, and may have a negative impact on the Fund. See **Leverage**, beginning on page 25 of the accompanying prospectus, and **Risk Factors** **Reduction of Leverage Risk** on page 37 of the accompanying prospectus.

CAPITALIZATION

Pursuant to the Sales Agreement with JonesTrading, we may offer and sell up to 6,232,167 of our common shares, no par value per share, from time to time through JonesTrading as our agent for the offer and sale of the common shares under this prospectus supplement and the accompanying prospectus. There is no guaranty that there will be any sales of our common shares pursuant to this prospectus supplement and the accompanying prospectus. The table below shows our capitalization as of October 31, 2011 (the end of our most recently completed fiscal year) and the estimated capitalization of the Fund assuming the sale of the remaining common shares that are subject to the Sales Agreement as of December 31, 2011. Actual sales, if any, of our common shares, and the actual application of the proceeds thereof, under this prospectus supplement and the accompanying prospectus may be different than as set forth in the table below. In addition, the price per share of any such sale may be greater or less than \$11.56 depending on the market price of our common shares at the time of any such sale. To the extent that the market price per share of our common shares on any given day is less than the net asset value per share on such day, we will instruct JonesTrading not to make any sales on such day.

The following table sets forth our capitalization at October 31, 2011:

on a historical basis;

on a pro forma as adjusted basis to reflect (1) the assumed sale of 6,232,167 of our common shares at \$11.56 per share (the last reported sale price for our common shares on the New York Stock Exchange on December 31, 2011), in an offering under this prospectus supplement and the accompanying prospectus, and (2) the investment of net proceeds assumed from such offerings in accordance with our investment objective and policies, after deducting the assumed aggregate commission of \$720,439 (representing an estimated commission paid to JonesTrading of 1% of the gross sales price per share in connection with sales of common shares effected by JonesTrading in each offering) and offering costs payable by us of \$85,000;

| | Actual | As Adjusted for this Offering |
|--|------------------|-------------------------------------|
| Loan | \$ 314,000,000 | \$ 314,000,000 |
| Shareholders Equity | | |
| Common shares, no par value per share, unlimited shares authorized, 72,148,383 shares outstanding (actual) and 78,380,550 shares outstanding (as adjusted) | 1,009,053,014 | 1,080,291,426 |
| Undistributed net investment income (loss) | (20,024,785) | (20,024,785) |
| Accumulated net realized gain (loss) on investments, foreign currency transactions and interest rate swaps | (87,733,740) | (87,733,740) |
| Net unrealized appreciation (depreciation) on investments, foreign currency translations and interest rate swaps | 16,244,359 | 16,244,359 |
| Net assets applicable to common shareholders | 917,538,848 | 988,777,260 |
| Total Capitalization | \$ 1,231,538,848 | \$ 1,302,777,260 |

SUMMARY OF FUND EXPENSES

The following table and example contain information about the costs and expenses that common shareholders will bear directly or indirectly. In accordance with SEC requirements, the table below shows our expenses, including leverage costs, as a percentage of our average net assets as of October 31, 2011, and not as a percentage of gross assets or managed assets. By showing expenses as a percentage of average net assets, expenses are not expressed as a percentage of all of the assets we invest. The table and example are based on our capital structure as of October 31, 2011. As of December 31, 2011, we had \$314,000,000 in borrowings outstanding, representing 26.0% of managed assets.

As of October 31, 2011, and as of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding, representing 25.5%, and 26.0% of managed assets, respectively.

Shareholder Transaction Expenses

| | |
|---|----------|
| Sales Load (as a percentage of offering price) | 1.00%(1) |
| Offering Expenses Borne by the Fund (as a percentage of offering price) | 0.12% |
| Dividend Reinvestment and Cash Purchase Plan Fees(2) | None |

| | Percentage of Average Net Assets Attributable to Common Shareholders |
|------------------------------|---|
| Annual Expenses | |
| Management Fee(3) | 1.05 |
| Leverage Costs(4) | 0.51 |
| Other Expenses(5) | 0.07 |
| Acquired Fees and Expenses | 0.01 |
| Total Annual Expenses | 1.64 |

Example:

The following example illustrates the expenses that common shareholders would pay on a \$1,000 investment in common shares, assuming (1) net annual expenses of 1.64% of net assets attributable to common shares; (2) a 5% annual return; and (3) all distributions are reinvested at net asset value:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|-----------|------------|------------|-------------|
| Total Expenses Paid by Common Shareholders(6) | \$ 27 | \$ 62 | \$ 99 | \$ 202 |

The example should not be considered a representation of future expenses. Actual expenses may be greater or less than those assumed. Moreover, our actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

(1) Represents the estimated commission with respect to our common shares being sold in this offering, which we will pay to JonesTrading in connection with sales of common shares effected by JonesTrading in this offering. While JonesTrading is entitled to a commission of 1% to 2.5% of the gross sales price for common shares sold, with the exact amount to be agreed upon by the parties, we have assumed, for purposes of this offering, that JonesTrading will receive a commission of 1% of such gross sales price. This is the only sales load to be paid in connection with this offering. There is no guaranty that there will be any sales of our common shares pursuant to this prospectus supplement and the accompanying prospectus. Actual sales of our common shares under this prospectus supplement and the accompanying prospectus, if any, may be less than as set forth in the table. In addition, the price per share of any such sale may be greater or less than the price set forth in the table, depending on the market price of our common shares at the time of any such sale.

(2)

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Shareholders will pay a transaction fee plus brokerage charges if they direct the Plan Agent to sell common shares held in a Plan account. In addition, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends or distributions. If a participant elects to have the Plan Agent sell part or all of his or her common shares and remit the proceeds, such participant will be charged his or her pro rata share of brokerage commissions on the shares sold. See Automatic Dividend Reinvestment Plan on page 52 of the accompanying prospectus.

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- (3) The Fund pays Calamos an annual management fee, payable monthly, for its investment management services in an amount equal to 0.80% of the Fund's average weekly managed assets. In accordance with the requirements of the Commission, the table above shows the Fund's management fee as a percentage of average net assets attributable to common shares. By showing the management fee as a percentage of net assets, the management fee is not expressed as a percentage of all of the assets the Fund intends to invest. For purposes of the table, the management fee has been converted to 1.05% of the Fund's average weekly net assets as of October 31, 2011 by dividing the total dollar amount of the management fee by the Fund's average weekly net assets (managed assets less outstanding leverage).
- (4) Reflects estimated interest expense on \$314,000,000 in borrowings under the Committed Facility Agreement described in the prospectus under "Prospectus Summary - Use of Leverage by the Fund".
- (5) Other Expenses are based on estimated amounts for the current fiscal year.
- (6) The example includes the sales load and estimated offering costs. The purpose of the table and the example above is to help investors understand the fees and expenses that they, as common shareholders, would bear directly or indirectly. For additional information with respect to our expenses, see "Management of the Fund" on page 38 of the accompanying prospectus.

MARKET AND NET ASSET VALUE INFORMATION

Our common shares are listed on the New York Stock Exchange (NYSE) under the symbol CHY. Our common shares commenced trading on the NYSE in May 2003.

Our common shares have traded both at a premium and a discount to net asset value or NAV. We cannot predict whether our shares will trade in the future at a premium or discount to NAV. The provisions of the 1940 Act generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common stock (calculated within 48 hours of pricing). Our issuance of common shares may have an adverse effect on prices in the secondary market for our common shares by increasing the number of common shares available, which may put downward pressure on the market price for our common shares. Shares of common stock of closed-end investment companies frequently trade at a discount from NAV. See "Risk Factors - Additional Risks to Common Shareholders - Market Discount Risk" on page 37 of the accompanying prospectus.

The following table sets forth for each of the periods indicated the high and low closing market prices for our common shares on the NYSE, the NAV per share and the premium or discount to NAV per share at which our common shares were trading. NAV is determined on the last business day of each month. See "Net Asset Value" on page 48 of the accompanying prospectus for information as to the determination of our NAV.

| Quarter Ended | Market Price(1) | | Net Asset Value(2) | Premium/ (Discount) to Net Asset Value(3) | |
|------------------|------------------|-------|--------------------|---|----------|
| | High | Low | | High | Low |
| | January 31, 2009 | 9.41 | | 5.77 | 8.52 |
| April 30, 2009 | 9.14 | 6.37 | 9.51 | (1.40)% | (19.06)% |
| July 31, 2009 | 11.09 | 9.29 | 11.01 | 2.50% | (2.42)% |
| October 31, 2009 | 11.76 | 10.46 | 11.92 | (2.65)% | (4.82)% |
| January 31, 2010 | 12.19 | 11.18 | 12.22 | (3.25)% | (6.21)% |
| April 30, 2010 | 13.00 | 11.14 | 12.83 | 0.85% | (7.17)% |
| July 31, 2010 | 13.05 | 11.38 | 12.33 | 1.56% | (3.07)% |
| October 31, 2010 | 13.19 | 12.33 | 13.03 | 1.23% | (0.64)% |
| January 31, 2011 | 13.49 | 12.11 | 13.21 | 2.82% | (6.70)% |
| April 30, 2011 | 13.82 | 13.12 | 13.55 | 2.60% | 0.31% |
| July 31, 2011 | 13.79 | 12.45 | 13.09 | 1.77% | (4.89)% |
| October 31, 2011 | 12.68 | 10.66 | 12.72 | (3.06)% | (8.65)% |

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| | | | | | |
|------------------|-------|-------|-------|---------|---------|
| January 31, 2012 | 12.52 | 11.13 | 12.86 | (2.64)% | (8.62)% |
|------------------|-------|-------|-------|---------|---------|

Source: Bloomberg Financial and Fund Accounting Records.

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(1) Based on high and low closing market price during the respective quarter.

(2) Based on the NAV calculated on the close of business on the last business day of each calendar quarter.

(3) Based on the Fund's computations on the day of each of the high and low closing market prices during the respective quarter.

The last reported sale price, NAV per common share and percentage discount to NAV per common share on January 31, 2012 were \$12.52, \$12.86 and (2.64)%, respectively. As of January 31, 2012, we had 72,148,383 common shares outstanding and managed assets of approximately \$1,241,947,892.

The following table provides information about our outstanding securities as of January 31, 2012:

| Title of Class | Amount Authorized | Amount Held by the Fund or for its Account | Amount Outstanding |
|-----------------------|--------------------------|---|---------------------------|
| Common Shares | Unlimited | 0 | 72,148,383 |

USE OF PROCEEDS

Sales of our common shares, if any, under this prospectus supplement and the accompanying prospectus may be made in negotiated transactions or transactions that are deemed to be at the market as defined in Rule 415 under the 1933 Act, including sales made directly on the New York Stock Exchange or sales made to or through a market maker other than on an exchange. There is no guaranty that there will be any sales of our common shares pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common shares under this prospectus supplement and the accompanying prospectus may be less than as set forth below in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth below in this paragraph, depending on the market price of our common shares at the time of any such sale. As a result, the actual net proceeds we receive may be more or less than the amount of net proceeds estimated in this prospectus supplement. Assuming the sale of the 6,232,167 common shares under the Sales Agreement at the last reported sale price of \$11.56 per share for our common shares on the New York Stock Exchange as of December 31, 2011, we estimate that the net proceeds of this offering will be approximately \$71,238,412 after deducting the estimated JonesTrading commissions and our estimated offering expenses. The estimated net proceeds do not take into account any actual sales that may have occurred between December 31, 2011 and the date of this prospectus supplement. We currently intend to use the net proceeds from the sale of our common shares in this offering primarily to invest in accordance with our investment objective and policies within approximately three months of receipt of such proceeds. We may also use proceeds from the sale of our securities to retire all or a portion of any short-term debt we incur in pursuit of our investment objective and policies, and for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for this purpose. Pending such use of proceeds, we anticipate that we will invest the proceeds in securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations.

PLAN OF DISTRIBUTION

Under the Sales Agreement among the Fund, Calamos and JonesTrading, upon written instructions from the Fund, JonesTrading will use its commercially reasonable efforts consistent with its sales and trading practices, to sell, as our sales agent, the common shares under the terms and subject to the conditions set forth in the Sales Agreement. JonesTrading's solicitation will continue until we instruct JonesTrading to suspend the solicitations and offers. We will instruct JonesTrading as to the amount of common shares to be sold by JonesTrading. We may instruct JonesTrading not to sell common shares if the sales cannot be effected at or above the price designated by the Fund in any instruction. We or JonesTrading may suspend the offering of common shares upon proper notice and subject to other conditions.

JonesTrading will provide written confirmation to the Fund not later than the opening of the trading day on the New York Stock Exchange following the trading day on which common shares are sold under the Sales Agreement. Each confirmation will include the number of shares sold on the preceding day, the net proceeds to us and the compensation payable by the Fund to JonesTrading in connection with the sales.

We will pay JonesTrading commissions for its services in acting as agent in the sale of common shares. JonesTrading will be entitled to compensation of 100 to 250 basis points of the gross sales price per share of any common shares sold under the Sales Agreement, with the exact amount of such compensation to be mutually agreed upon by the Fund and JonesTrading from time to time. There is no guaranty that there will be any sales of our common shares pursuant to this prospectus supplement and the accompanying prospectus. Actual sales, if any, of our common shares under this prospectus supplement and the accompanying prospectus may be less than as set forth in this paragraph. In addition, the price per share of any such sale may be greater or less than the price set forth in this paragraph, depending on the market price of our common shares at the time of any such sale. Assuming 6,232,167 of our common shares offered hereby are sold at a market price of \$11.56 per share (the last reported sale price for our common shares on the New York Stock Exchange on December 31, 2011), we estimate that the total expenses for the offering, excluding compensation payable to JonesTrading under the terms of the sales agreement, would be approximately \$85,000. The estimated net proceeds do not take into account any actual sales that may have occurred between December 31, 2011 and the date of this prospectus supplement.

Settlement for sales of common shares will occur on the third trading day following the date on which such sales are made, or on some other date that is agreed upon by the Fund and JonesTrading in connection with a particular transaction, in return for payment of the net proceeds to the Fund. There is no arrangement for funds to be received in an escrow, trust or similar arrangement.

In connection with the sale of the common shares on our behalf, JonesTrading may, and will with respect to sales effected in an offering, be deemed to be an underwriter within the meaning of the 1933 Act, and the compensation of JonesTrading may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to JonesTrading against certain civil liabilities, including liabilities under the 1933 Act. We have also agreed to reimburse JonesTrading for other specified expenses, as set forth in the Sales Agreement.

The offering of our common shares pursuant to the Sales Agreement will terminate upon the earlier of (1) the sale of all common shares subject the sales agreement or (2) termination of the Sales Agreement. The Sales Agreement may be terminated by us in our sole discretion at any time by giving notice to JonesTrading. In addition, JonesTrading may terminate the Sales Agreement under the circumstances specified in the Sales Agreement and in its sole discretion at any time following a period of 12 months from the date of the Sales Agreement by giving notice to us.

The principal business address of JonesTrading is 780 Third Avenue, 3rd Floor, New York, New York 10017.

LEGAL MATTERS

K&L Gates LLP (K&L Gates), Chicago, Illinois and Washington, DC, which is serving as counsel to the Fund in connection with the offering, has opined on the legality of the issuance of the common shares offered hereby. K&L Gates may rely on the opinion of Morris, Nichols, Arsht & Tunnell LLP, Wilmington, Delaware with respect to certain matters of Delaware law.

EXPERTS

The financial highlights appearing herein and the financial statements and financial highlights as of and for the year ended October 31, 2011, appearing in the statement of additional information, which is incorporated by reference in its entirety into this prospectus supplement, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report on the statement of financial position as of October 31, 2011, the statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the five years then ended, appearing in the Fund's 2011 annual report to shareholders and in the statement of additional information. Such financial statements and financial highlights are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act) and the 1940 Act and are required to file reports, including annual and semi-annual reports, proxy statements and other information with the Commission. These documents are available on the Commission's EDGAR system and can be inspected and copied for a fee at the Commission's public reference room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Additional information about the operation of the public reference room facilities may be obtained by calling the Commission at (202) 551-5850.

This prospectus supplement and the accompanying prospectus do not contain all of the information in our registration statement, including amendments, exhibits, and schedules. Statements in this prospectus supplement and the accompanying prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about us can be found in our registration statement (including amendments, exhibits, and schedules) on Form N-2 filed with the Commission. The Commission maintains a web site (<http://www.sec.gov>) that contains our registration statement, other documents incorporated by reference, and other information we have filed electronically with the Commission, including proxy statements and reports filed under the Exchange Act.

Base Prospectus

\$250,000,000

Calamos Convertible and High Income Fund

Common Shares

Preferred Shares

Debt Securities

Calamos Convertible and High Income Fund (the Fund, we or our) is a diversified, closed-end management investment company that commenced investment operations in May 2003. Our investment objective is to provide total return through a combination of capital appreciation and current income.

We may offer, on an immediate, continuous or delayed basis, up to \$250,000,000 aggregate initial offering price of our common shares (no par value per share), preferred shares (no par value per share) or debt securities, which we refer to in this prospectus collectively as our securities, in one or more offerings. We may offer our common shares, preferred shares and debt securities separately or together, in amounts, at prices and on terms set forth in a prospectus supplement to this prospectus. You should read this prospectus and the related prospectus supplement carefully before you decide to invest in any of our securities.

We may offer our securities directly to one or more purchasers, through agents that we or they designate from time to time, or to or through underwriters or dealers. The prospectus supplement relating to the particular offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and such agents or underwriters or among the underwriters or the basis upon which such amount may be calculated. For more information about the manner in which we may offer our securities, see Plan of Distribution. Our securities may not be sold through agents, underwriters or dealers without delivery or deemed delivery of a prospectus supplement and a prospectus.

Our common shares are listed on the New York Stock Exchange under the symbol CHY. As of December 31, 2011, the last reported sale price for our common shares was \$11.56.

Investing in our securities involves certain risks. You could lose some or all of your investment. See Risk Factors beginning on page 30 of this prospectus. Shares of closed-end investment companies frequently trade at a discount to their net asset value and this may increase the risk of loss of purchasers of our securities. You should consider carefully these risks together with all of the other information contained in this prospectus and any prospectus supplement before making a decision to purchase our securities.

The Securities and Exchange Commission has not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Prospectus dated February 29, 2012

This prospectus, together with the current and any other prospectus supplement, sets forth concisely the information that you should know before investing. You should read the prospectus and prospectus supplement, which contain important information, before deciding whether to invest in our securities. You should retain the prospectus and prospectus supplement for future reference. A statement of additional information, dated the same date as this prospectus, as supplemented from time to time, containing additional information, has been filed with the Securities and Exchange Commission (Commission) and is incorporated by reference in its entirety into this prospectus. You may request a free copy of the statement of additional information, the table of contents of which is on page 65 of this prospectus, request a free copy of our annual and semi-annual reports, request other information or make shareholder inquiries, by calling toll-free 1-800-582-6959 or by writing to the Fund at 2020 Calamos Court, Naperville, Illinois 60563. The Fund's annual and semi-annual reports also are available on our website, free of charge, at www.calamos.com, which also provides a link to the Commission's website, as described below, where the Fund's statement of additional information can be obtained. Information included on our website does not form part of this prospectus. You can review and copy documents we have filed at the Commission's Public Reference Room in Washington, D.C. Call 1-202-551-8090 for information. The Commission charges a fee for copies. You can get the same information free from the Commission's website (<http://www.sec.gov>). You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the Commission's Public Reference Section, Washington, D.C. 20549-0102.

Our securities do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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You should rely only on the information contained or incorporated by reference in this prospectus and any related prospectus supplement in making your investment decisions. We have not authorized any other person to provide you with different or inconsistent information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus and any prospectus supplement do not constitute an offer to sell or solicitation of an offer to buy any securities in any jurisdiction where the offer or sale is not permitted. The information appearing in this prospectus and in any prospectus supplement is accurate only as of the dates on their covers. Our business, financial condition and prospects may have changed since such dates. We will advise investors of any material changes to the extent required by applicable law.

CAUTIONARY NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, any accompanying prospectus supplement and the statement of additional information contain forward-looking statements. Forward-looking statements can be identified by the words may, will, intend, expect, estimate, continue, plan, anticipate, and similar the negative of such terms. Such forward-looking statements may be contained in this prospectus as well as in any accompanying prospectus supplement. By their nature, all forward-looking statements involve risks and uncertainties, and actual results could differ materially from those contemplated by the forward-looking statements. Several factors that could materially affect our actual results are the performance of the portfolio of securities we hold, the price at which our shares will trade in the public markets and other factors discussed in our periodic filings with the Commission. Currently known risk factors that could cause actual results to differ materially from our expectations include, but are not limited to, the factors described in the Risk Factors section of this prospectus. We urge you to review carefully that section for a more detailed discussion of the risks of an investment in our securities.

Although we believe that the expectations expressed in our forward-looking statements are reasonable, actual results could differ materially from those projected or assumed in our forward-looking statements. Our future financial condition and results of operations, as well as any forward-looking statements, are subject to change and are subject to inherent risks and uncertainties, such as those disclosed in the Risk Factors section of this prospectus. All forward-looking statements contained or incorporated by reference in this prospectus or any accompanying prospectus supplement are made as of the date of this prospectus or the accompanying prospectus supplement, as the case may be. Except for our ongoing obligations under the federal securities laws, we do not intend, and we undertake no obligation, to update any forward-looking statement. The forward-looking statements contained in this prospectus, any accompanying prospectus supplement and the statement of additional information are excluded from the safe harbor protection provided by section 27A of the Securities Act of 1933, as amended (the 1933 Act).

PROSPECTUS SUMMARY

The following summary contains basic information about us and our securities. It is not complete and may not contain all of the information you may want to consider. You should review the more detailed information contained in this prospectus and in any related prospectus supplement and in the statement of additional information, especially the information set forth under the heading "Risk Factors" beginning on page 30 of this prospectus.

The Fund

The Fund is a diversified, closed-end management investment company. We commenced operations in May 2003 following our initial public offering. As of December 31, 2011, we had \$1,206,955,505 of total managed assets and \$314,000,000 of outstanding borrowings under a Committed Facility Agreement, as described below. Managed assets means the total assets of the Fund (including any assets attributable to any leverage that may be outstanding) minus the sum of liabilities (other than debt representing financial leverage). Net assets does not include any assets attributable to any leverage that may be outstanding, or other debt representing financial leverage. Our fiscal year ends on October 31. Our investment objective is to provide total return through a combination of capital appreciation and current income.

Investment Adviser

Calamos Advisors LLC (the Adviser or Calamos) serves as our investment adviser. Calamos is responsible on a day-to-day basis for investment of the Fund's portfolio in accordance with its investment objective and policies. Calamos makes all investment decisions for the Fund and places purchase and sale orders for the Fund's portfolio securities. As of December 31, 2011, Calamos managed approximately \$32.8 billion in assets of individuals and institutions. Calamos is a wholly-owned subsidiary of Calamos Investments LLC (CILLC) and an indirect subsidiary of Calamos Asset Management, Inc., a publicly traded holding company.

The Fund pays Calamos an annual fee, payable monthly, for its investment management services equal to 0.80% of the Fund's average weekly managed assets. See Management of the Fund.

The principal business address of the Adviser is 2020 Calamos Court, Naperville, Illinois 60563.

The Offering

We may offer, on an immediate, continuous or delayed basis, up to \$250,000,000 of our securities on terms to be determined at the time of the offering. The Fund may engage in an offering of its common shares. The terms of any such offering would be disclosed in an appropriate prospectus supplement that would accompany the Fund's base prospectus. Common shareholders would bear any costs relating to any such offering. Any offering of common shares by the Fund would involve sales at a price equal to or above net asset value plus any underwriting discounts or sales commissions paid by the Fund to execute such sales. To the extent that the Fund issues common shares and current shareholders do not participate, those current shareholders may experience a dilution of their voting rights as new shares are issued to the public. Depending on the facts, any issuance of new common shares may also have the effect of reducing any premium to per share net asset value at which the shares might trade.

Currently, the Fund has not determined the timing of any preferred shares or debt offering. Preferred shares and debt securities (collectively, senior securities) may be auction rate securities. Investors generally may only buy and sell auction rate securities through an auction conducted by an auction agent and participating broker-dealers. In addition, senior securities, including auction rate securities, may not be listed on any exchange or automated quotation system.

We may offer our securities directly to one or more purchasers, through agents that we or they designate from time to time, or to or through underwriters or dealers. The prospectus supplement relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable

purchase price, fee, commission or discount arrangement between us and such agents or underwriters or among underwriters or the basis upon which such amount may be calculated. See Plan of Distribution. Our securities may not be sold through agents, underwriters or dealers without delivery or deemed delivery of a prospectus and prospectus supplement describing the method and terms of the offering of our securities.

Use of Proceeds

Unless otherwise specified in a prospectus supplement, we currently intend to use the net proceeds from the sale of our securities primarily to invest in accordance with our investment objective and policies within approximately three months of receipt of such proceeds. We may also use proceeds from the sale of our securities to (i) retire all or a portion of any short-term debt we incur in pursuit of our investment objective and policies, (ii) redeem any outstanding senior securities, and (iii) for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for these purposes.

Dividends and Distributions on Common Shares

The Fund has made regular monthly distributions to its common shareholders of \$0.1219 per share from August 2003 through October 2008, and monthly distributions of \$0.0850 since November 2008. Additionally, the Fund has made special supplemental distributions, in addition to the regular monthly distributions, of \$0.0920, \$0.0232, and \$0.1052 in January 2006, January 2007, and January 2008, respectively. The Fund intends to distribute to common shareholders all or a portion of its net investment income monthly and net realized capital gains, if any, at least annually.

The Fund currently intends to make monthly distributions to common shareholders at a level rate established by the Board of Trustees. The rate may be modified by the Board of Trustees from time to time. Monthly distributions may include net investment income, net realized short-term capital gain and, if necessary to maintain a level distribution, return of capital. The Fund may at times in its discretion pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income in addition to net investment income earned in other periods in order to permit the Fund to maintain a more stable level of distributions. As a result, the distributions paid by the Fund to holders of common shares for any particular period may be more or less than the amount of net investment income earned by the Fund during such period. Net realized short-term capital gains distributed to shareholders will be taxed as ordinary income for federal income tax purposes. Generally, there may be at least one additional distribution per calendar year that may include net realized long-term capital gain (if any), which will be taxed for federal income tax purposes at long-term capital gain rates. To date, however, none of the Fund's distributions on an annual basis have included a return of capital as determined on a tax basis during any calendar year. To the extent the Fund distributes an amount in excess of the Fund's current and accumulated earnings and profits, such excess, if any, will be treated by a shareholder for federal income tax purposes as a return of capital to the extent of the shareholder's adjusted tax basis in his, her or its shares and thereafter as a gain from the sale or exchange of such shares. Any such distributions made by the Fund will reduce the shareholder's adjusted tax basis in his, her or its shares to the extent that the distribution constitutes a return of capital on a tax basis during any calendar year. To the extent that the Fund's distributions exceed the Fund's current and accumulated earnings and profits, the distribution payout rate will exceed the yield generated from the Fund's investments. There is no guarantee that the Fund will realize capital gain in any given year. Pursuant to the requirements of the Investment Company Act of 1940, as amended (the 1940 Act) and other applicable laws, a notice would accompany each monthly distribution with respect to the estimated source of the distribution made. Distributions are subject to re-characterization for federal income tax purposes after the end of the fiscal year.

On November 4, 2008, the Commission granted Calamos, on behalf of itself and certain funds that it manages, including the Fund, an order granting an exemption from Section 19(b) of, and Rule 19b-1 under, the 1940 Act to conditionally permit the Fund to make periodic distributions of long-term capital gains with respect to the Fund's outstanding common stock as frequently as twelve times each year, so long as it complies with the conditions of the order and maintains in effect a distribution policy with respect to its common shares calling for periodic distributions of an amount equal to a fixed amount per share, a fixed percentage of market price per

share or a fixed percentage of the Fund's net asset value per share (a Managed Dividend Policy). In connection with any implementation of a Managed Dividend Policy pursuant to the order, the Fund would be required to:

implement certain compliance review and reporting procedures with respect to the Managed Dividend Policy;

include in each notice to shareholders that accompanies distributions certain information in addition to the information currently required by Section 19(a) of and Rule 19a-1 under the 1940 Act;

include disclosure regarding the Managed Dividend Policy on the inside front cover of each annual and semi-annual report to shareholders;

provide the Fund's total return in relation to changes in net asset value (often referred to as NAV) in the financial highlights table and in any discussion about the Fund's total return in each prospectus and annual and semi-annual report to shareholders;

include the information contained in each notice to shareholders that accompanies distributions in: (a) communications regarding the Managed Dividend Policy to shareholders, prospective shareholders and third-party information providers; (b) a press release issued contemporaneously with the issuance of the notice; (c) an exhibit to the Fund's next report filed with the Commission on Form N-CSR; and (d) a statement posted prominently on its website; and

take certain steps to ensure the delivery of the notices accompanying distributions to beneficial owners whose Fund shares are held through a financial intermediary.

In addition, if the Fund's common shares were to trade at a significant premium to NAV following the implementation of a Managed Dividend Policy, and certain other circumstances were present, the Fund's Board of Trustees would be required to determine whether to approve or disapprove the continuation, or continuation after amendment, of the Managed Dividend Policy. Finally, if the Fund implemented a Managed Dividend Policy pursuant to the order, it would not be permitted to make a public offering of common shares other than:

a rights offering below NAV to holders of the Fund's common shares;

an offering in connection with a dividend reinvestment plan, merger, consolidation, acquisition, spin-off or reorganization of the Fund; or

an offering other than those described above, unless, with respect to such other offering:

the Fund's average annual distribution rate for the six months ending on the last day of the month ended immediately prior to the most recent distribution record date, expressed as a percentage of NAV per share as of such date, is no more than one percentage point greater than the Fund's average annual total return for the five-year period (or the period since the Fund's first public offering, if less than five years) ending on such date; and

the transmittal letter accompanying any registration statement filed with the Commission in connection with such offering discloses that the Fund has received an order under Section 19(b) of the 1940 Act to permit it to make periodic distributions of long-term capital gains with respect to its common stock as frequently as twelve times each year, and as frequently as distributions are specified in accordance with the terms of any outstanding preferred stock that such fund may issue.

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The relief described above will expire on the effective date of any amendment to Rule 19b-1 under the 1940 Act that provides relief permitting certain closed-end investment companies to make periodic distributions of long-term capital gains with respect to their outstanding common stock as frequently as twelve times each year. As a result of the granting of the order, the Fund may implement a Managed Dividend Policy, although it has not done so as of the date of this prospectus. Under a Managed Dividend Policy, if, for any distribution, undistributed net investment income and net realized capital gains were less than the amount of the distribution, the difference would be distributed from the Fund's other assets. In addition, in order to make such distributions, the Fund might have to sell a portion of its investment portfolio at a time when independent investment judgment might

not dictate such action. Notwithstanding receipt of the exemptive relief, currently the Fund does not intend to implement a Managed Dividend Policy until such time as its implementation is in the best interests of the Fund and our shareholders. In addition, it is not contemplated that we will change the terms of our current level distribution policy, which otherwise meets the requirements of Section 19 of the 1940 Act, in connection with any future implementation of the managed distribution order.

Pursuant to the Fund's Automatic Dividend Reinvestment Plan, unless a shareholder is ineligible or elects otherwise, all dividends and capital gain distributions on common shares are automatically reinvested in additional common shares of the Fund. However, an investor can choose to receive dividends and distributions in cash. Since investors can participate in the automatic dividend reinvestment plan only if their broker or nominee participates in our plan, you should contact your broker or nominee to confirm that you are eligible to participate in the plan. See Dividends and Distributions; Automatic Dividend Reinvestment Plan.

Investment Policies

Primary Investments. Under normal circumstances, the Fund will invest at least 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities. The portion of the Fund's assets invested in convertible securities and below investment grade (high yield/high risk) non-convertible debt securities will vary from time to time consistent with the Fund's investment objective, changes in equity prices and changes in interest rates and other economic and market factors, although, under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities and at least 20% of its managed assets in below investment grade (high yield/high risk) non-convertible debt securities (so long as the combined total equals at least 80% of the Fund's managed assets). The Fund invests in securities with a broad range of maturities. The average term to maturity of the Fund's securities typically will range from five to ten years. See Investment Objective and Principal Investment Strategies Principal Investment Strategies.

The Fund's derivative activities are principally focused on the following derivatives: interest rate swaps, convertible securities, synthetic convertible securities, options on individual securities, index options and forward currency exchange contracts. However, the Fund reserves the right to invest in other derivative instruments to the extent it is consistent with the Fund's investment objectives and restrictions. See Investment Objective and Principal Investment Strategies Principal Investment Strategies.

Convertible Securities. Investment in convertible securities forms an important part of the Fund's investment strategies. Under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities. A convertible security is a debt security or preferred stock that is exchangeable for an equity security (typically of the same issuer) at a predetermined price (the conversion price). Depending upon the relationship of the conversion price to the market value of the underlying security, a convertible security may trade more like an equity security than a debt instrument. The Fund may invest in convertible securities of any rating. See Investment Objective and Principal Investment Strategies Principal Investment Strategies Convertible Securities.

Synthetic Convertible Securities. The Fund may invest in synthetic convertible securities. A synthetic convertible security is a financial instrument that is designed to simulate the characteristics of another instrument (i.e., a convertible security) through the combined features of a collection of other securities or assets. Calamos may create a synthetic convertible security by combining separate securities that possess the two principal characteristics of a true convertible security, i.e., a fixed-income security (fixed-income component), which may be a convertible or non-convertible security) and the right to acquire an equity security (convertible component). The fixed-income component is achieved by investing in non-convertible, fixed-income securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index.

The Fund may also invest in synthetic convertible securities created by third parties, typically investment banks. Synthetic convertible securities created by such parties may be designed to simulate the characteristics of traditional convertible securities or may be designed to alter or emphasize a particular feature. Traditional

convertible securities typically offer stable cash flows with the ability to participate in capital appreciation of the underlying common stock. Because traditional convertible securities are exercisable at the option of the holder, the holder is protected against downside risk. Synthetic convertible securities may alter these characteristics by offering enhanced yields in exchange for reduced capital appreciation or less downside protection, or any combination of these features. Synthetic convertible instruments may include structured notes, equity-linked notes, mandatory convertibles and combinations of securities and instruments, such as a debt instrument combined with a forward contract. The Fund's holdings of synthetic convertible securities are considered convertible securities for purposes of the Fund's policy to invest at least 20% of its managed assets in convertible securities and 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities. See Investment Objective and Principal Investment Strategies Principal Investment Strategies Synthetic Convertible Securities.

High Yield Securities. Investment in high yield securities forms an important part of the Fund's investment strategies. The Fund will invest in high yield securities for either current income or capital appreciation or both. Under normal circumstances, the Fund will invest at least 20% of its managed assets in high yield non-convertible debt securities. These securities are rated Ba or lower by Moody's Investors Service, Inc. (Moody's) or BB or lower by Standard & Poor's Financial Services, LLC, a subsidiary of The McGraw-Hill Companies, Inc. (Standard or Poor's) or are unrated securities of comparable quality as determined by Calamos, the Fund's investment adviser. The Fund may invest in high yield securities of any rating. The Fund may, but currently does not intend to, invest up to 5% of its managed assets in distressed securities that are in default or the issuers of which are in bankruptcy. Non-convertible debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. They involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated securities. See Investment Objective and Principal Investment Strategies Principal Investment Strategies High Yield Securities.

Foreign Securities. Although the Fund primarily invests in securities of U.S. issuers, the Fund may invest up to 25% of its net assets in securities of foreign issuers in developed and emerging markets, including debt and equity securities of corporate issuers and debt securities of government issuers. The Fund may invest up to 15% of its managed assets in securities of foreign issuers in emerging markets. A foreign issuer is a foreign government or a company organized under the laws of a foreign country. See Investment Objective and Principal Investment Strategies Principal Investment Strategies Foreign Securities.

Rule 144A Securities. The Fund may invest without limit in certain securities (Rule 144A Securities), such as convertible and debt securities, that are typically purchased in transactions exempt from the registration requirements of the 1933 Act pursuant to Rule 144A under that act. Rule 144A Securities may only be sold to qualified institutional buyers, such as the Fund. Any resale of these securities must generally be effected through a sale that is registered under the 1933 Act or otherwise exempted or excepted from such registration requirements. Under the supervision and oversight of the Fund's Board of Trustees, Calamos will determine whether Rule 144A Securities are liquid. Typically, the Fund purchases Rule 144A Securities only if Calamos has determined them to be liquid. If any Rule 144A Security held by the Fund should become illiquid, the value of the security may be reduced and a sale of the security may be more difficult. See Investment Objective and Principal Investment Strategies Principal Investment Strategies Rule 144A Securities.

Options Writing. The Fund may seek to generate income from option premiums by writing (selling) options. The Fund may write (sell) call options (i) on a portion of the equity securities (including securities that are convertible into equity securities) in the Fund's portfolio and (ii) on broad-based securities indexes (such as the Standard and Poor's 500 Index (S&P 500) or the MSCI EAFE Index (MSCI EAFE), which is an index of international equity stocks) or certain ETFs (exchange traded funds) that trade like common stocks but seek to replicate such market indexes.

In addition, 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 (such as the S&P 500 or MSCI EAFE) or certain ETFs that trade like common stocks but seek to replicate such market indexes.

Other Securities. The Fund may invest in other securities of various types to the extent consistent with its investment objective. Normally, the Fund invests substantially all of its assets to meet its investment objective. For temporary defensive purposes, the Fund may depart from its principal investment strategies and invest part or all of its assets in securities with remaining maturities of less than one year or cash equivalents; or it may hold cash. During such periods, the Fund may not be able to achieve its investment objective. There are no restrictions as to the ratings of debt securities acquired by the Fund or the portion of the Fund's assets that may be invested in debt securities in a particular ratings category. For more information on the types of derivatives that the Fund invests in, see *Investment Objective and Principal Investment Strategies* and *Principal Investment Strategies* in this prospectus and *Investment Objective and Policies* in the statement of additional information.

Use of Leverage by the Fund

The Fund currently uses, and may in the future use, financial leverage. The Fund, with the approval of its Board of Trustees, including its independent Trustees, has entered into a financing package that includes a Committed Facility Agreement (the *Agreement*) with BNP Paribas Prime Brokerage, Inc. (as successor to Bank of America N.A.) (*BNP*) that allows the Fund to borrow up to an initial limit of \$400,000,000, and a Lending Agreement, as defined below. As of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding under the agreement, representing 26.0% of managed assets as of that date. Borrowings under the Agreement are secured by assets of the Fund that are held with the Fund's custodian in a separate account (the *pledged collateral*). Interest is charged at the quarterly LIBOR (London Inter-bank Offered Rate) plus .65% on the amount borrowed and .55% on the undrawn balance. For the period November 1, 2010 to October 31, 2011, and for the period November 1, 2011 to December 31, 2011, the average borrowings under the Agreement and the average interest rate were \$291,378,082 and 1.07%, and \$314,000,000 and 1.20%, respectively. The interest rate applicable to the borrowings on December 31, 2011 was 1.23%.

The *Lending Agreement* is a separate side-agreement between the Fund and BNP pursuant to which BNP may borrow a portion of the pledged collateral (the *Lent Securities*) in an amount not to exceed the outstanding borrowings owed by the Fund to BNP under the Agreement. The *Lending Agreement* is intended to permit the Fund to significantly reduce the cost of its borrowings under the Agreement. BNP may re-register the *Lent Securities* in its own name or in another name other than the Fund, and may pledge, re-pledge, sell, lend or otherwise transfer or use the *Lent Securities* with all attendant rights of ownership. 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*. BNP will pay to the Fund a fee for borrowing the securities that is calculated as a percentage of the difference between a fair market rate and a reference rate, with a guaranteed minimum annualized rate.

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

institution that meets the definition of eligible foreign custodian under rule 17f-5 of the 1940 Act. Under the terms of the guaranty, BNP Paribas has agreed to guarantee the obligation of BNP to pay to the Fund any cash or securities owed under the terms of the Lending Agreement. The guaranty does not create any rights or grant any remedies to any person other than the Fund and other persons who are defined as beneficiaries under the guaranty. The Fund will exercise its set-off rights, or will exercise its rights under the guaranty, when in accordance with its business discretion, it believes that doing so is in the best interests of the Fund and its shareholders. The Fund's Board of Trustees, including its Independent Trustees, has determined that the financing package is in the best interest of the Fund. The Fund reserves the right to utilize sources of borrowings in addition to, or in lieu of, the Agreement and the Lending Agreement.

See [Effects of Leverage](#) for an illustration of the hypothetical effect on the return to a holder of the Fund's common shares of the leverage obtained by borrowing under the Agreement.

For further information about leveraging, see [Risk Factors](#) [Additional Risks to Common Shareholders](#) [Leverage Risk](#).

The Fund may make further use of financial leverage through the issuance of preferred shares or may borrow money or issue additional debt securities to the extent permitted under the 1940 Act. As a non-fundamental policy, the Fund may not issue preferred shares or borrow money and issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's total assets measured immediately after the issuance of the preferred shares or debt. However, the Board of Trustees reserves the right to issue preferred shares or debt securities or borrow to the extent permitted by the 1940 Act. See [Leverage](#).

The Fund may not be leveraged at all times and the amount of leverage, if any, may vary depending upon a variety of factors, including Calamos outlook for the market and the costs that the Fund would incur as a result of such leverage. The Fund will pay (and common shareholders will bear) any costs and expenses relating to any borrowings and to the issuance and ongoing maintenance of preferred shares or debt securities (for example, the higher management fee resulting from the use of any such leverage, and interest and/or dividend expense and ongoing maintenance). The Fund's leveraging strategy may not be successful. By leveraging its investment portfolio, the Fund creates an opportunity for increased net income or capital appreciation. However, the use of leverage also involves risks to common shareholders, which can be significant. These risks include the possibility that the value of the assets acquired with the proceeds of leverage decreases although the Fund's liability to holders of preferred shares or other types of leverage is fixed, greater volatility in the Fund's net asset value and the market price of the Fund's common shares, and higher expenses. In addition, the rights of lenders, the holders of preferred shares and the holders of debt securities issued by the Fund will be senior to the rights of the holders of common shares with respect to the payment of dividends or to the payment of the Fund's assets upon liquidation. Holders of preferred shares and debt securities may have voting rights in addition to, and separate from, the voting rights of common shareholders. See [Description of Securities](#) [Preferred Shares](#) and [Certain Provisions of the Agreement and Declaration of Trust and By-Laws](#). The holders of preferred shares or debt, on the one hand, and the holders of the common shares, on the other, may have interests that conflict with each other in certain situations.

Because Calamos' management fee is based upon a percentage of the Fund's managed assets, which include assets attributable to any outstanding leverage, Calamos' fee is higher when the Fund is leveraged and Calamos will have an incentive to leverage the Fund. See [Leverage](#) and [Risk Factors](#) [Leverage](#).

Interest Rate Transactions

In order to seek to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund, if Calamos deems market conditions favorable, may enter into over-the-counter interest rate swap or cap transactions to attempt to protect itself from increasing dividends or interest expenses on its leverage. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions.

In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund a payment at a variable rate that is expected to approximate the rate on any variable rate payment obligation on the Fund's leverage. The payment obligations would be based on the notional amount of the swap.

In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Depending on the state of interest rates in general, the Fund's use of interest rate swap or cap transactions could enhance or harm the overall performance of the common shares. See Interest Rate Transactions.

Conflicts of Interest

Conflicts of interest may arise from the fact that Calamos and its affiliates carry on substantial investment activities for other clients, in which the Fund does not have an interest. Calamos or its affiliates may have financial incentives to favor certain of these accounts over the Fund. Any of their proprietary accounts or other customer accounts may compete with the Fund for specific trades. Calamos or its affiliates may give advice and recommend securities to, or buy or sell securities for, other accounts and customers, which advice or securities recommended may differ from advice given to, or securities recommended or bought or sold for, the Fund, even though their investment objectives may be the same as, or similar to, the Fund's objective.

Situations may occur when the Fund could be disadvantaged because of the investment activities conducted by Calamos and its affiliates for their other accounts. Such situations may be based on, among other things, the following: (1) legal or internal restrictions on the combined size of positions that may be taken for the Fund or the other accounts, thereby limiting the size of the Fund's position; or (2) the difficulty of liquidating an investment for the Fund or the other accounts where the market cannot absorb the sale of the combined position. See Investment Objective and Principal Investment Strategies Conflicts of Interest.

Fund Risks

Convertible Securities Risk. The value of a convertible security is influenced by both the yield of non-convertible securities of comparable issuers and by the value of the underlying common stock. The value of a convertible security viewed without regard to its conversion feature (i.e., strictly on the basis of its yield) is sometimes referred to as its investment value. A convertible security's investment value tends to decline as prevailing interest rate levels increase. Conversely, a convertible security's investment value increases as prevailing interest rate levels decline.

However, the convertible's market value tends to reflect the market price of the common stock of the issuing company when that stock price is greater than the convertible's conversion price. The conversion price is defined as the predetermined price at which the convertible could be exchanged for the associated stock. As the market price of the underlying common stock declines, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, the convertible security may not decline in price to the same extent as the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company's common stockholders. Consequently, the issuer's convertible securities generally entail less risk than its common stock. See Risk Factors Fund Risks Convertible Securities Risk.

Synthetic Convertible Securities Risk. The value of a synthetic convertible security may respond differently to market fluctuations than a convertible security because a synthetic convertible is composed of two or more separate securities or instruments, each with its own market value. In addition, if the value of the underlying common stock or the level of the index involved in the convertible component falls below the exercise price of the warrant or option, the warrant or option may lose all value. See Risk Factors Fund Risks Synthetic Convertible Securities Risk.

High Yield Securities Risk. Investment in high yield securities involves substantial risk of loss. Below investment grade non-convertible debt securities or comparable unrated securities are commonly referred to as

junk bonds and are considered predominantly speculative with respect to the issuer's ability to pay interest and principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks:

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

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

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

if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed.

This negative perception could last for a significant period of time.

Adverse changes in economic conditions are more likely to lead to a weakened capacity of a high yield issuer to make principal payments and interest payments than an investment grade issuer. The principal amount of high yield securities outstanding has proliferated in the past decade as an increasing number of issuers have used high yield securities for corporate financing. An economic downturn could severely affect the ability of highly leveraged issuers to service their debt obligations or to repay their obligations upon maturity.

The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security. There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's net asset value. See *Risk Factors* *Fund Risks* *High Yield Securities Risk*.

Interest Rate Risk. In addition to the risks discussed above, debt securities are subject to certain risks, including:

if interest rates go up, the value of debt securities in the Fund's portfolio generally will decline;

during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer;

during periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk; and

market interest rates currently are near historically low levels. See *Risk Factors* *Fund Risks* *Interest Rate Risk*.

Default Risk. Default risk refers to the risk that a company that issues a debt security will be unable to fulfill its obligations to repay principal and interest. The lower a debt security is rated, the greater its default risk. See *Risk Factors* *Fund Risks* *Default Risk*.

Liquidity Risk. 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. 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. See Risk Factors Fund Risks Liquidity Risk.

Foreign Securities Risk. Investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers. These risks may include:

less information may be available about non-U.S. issuers or markets due to less rigorous disclosure or accounting standards or regulatory practices;

many non-U.S. markets are smaller, less liquid and more volatile. In a changing market, Calamos may not be able to sell the Fund's portfolio securities at times, in amounts and at prices it considers reasonable;

an adverse effect of currency exchange rates or controls on the value of the Fund's investments;

the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession;

economic, political and social developments may adversely affect the securities markets, including expropriation and nationalization;

the difficulty in obtaining or enforcing a court judgment in non-U.S. countries;

restrictions on foreign investments in non-U.S. jurisdictions;

difficulties in effecting the repatriation of capital invested in non-U.S. countries; and

withholding and other non-U.S. taxes may decrease the Fund's return. See Risk Factors Fund Risks Foreign Securities Risk. *Risks Associated with Options.* There are several risks associated with transactions in options. For example, there are significant differences between the securities markets and options markets that could result in an imperfect correlation among these markets, causing a given transaction not to achieve its objectives. A decision as to whether, when and how to use options involves the exercise of skill and judgment, and even a well-conceived transaction may be unsuccessful to some degree because of market behavior or unexpected events. The Fund's ability to utilize options successfully will depend on Calamos' ability to predict pertinent market movements, which cannot be assured.

The Fund may sell options on individual securities and securities indices. All calls sold by the Fund must be covered. Even though the Fund will receive the option premium to help protect it against loss, a call option sold by the Fund exposes the Fund during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require the Fund to hold a security or instrument that it might otherwise would have sold. The Fund may purchase and sell put options on individual securities and securities indices. In selling put options, there is a risk that the Fund may be required to buy the underlying security at a disadvantageous price above the market price. A put option written by the Fund requires the Fund to segregate cash or liquid assets equal to the exercise price. See Risk Factors Fund Risks Risks Associated with Options.

REIT Risk. 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

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mortgage REITs) are also subject to interest rate risks. 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. See Risk Factors Fund Risks REIT Risk.

Management Risk. Calamos' judgment about the attractiveness, relative value or potential appreciation of a particular sector, security or investment strategy may prove to be incorrect. See Risk Factors Fund Risks Management Risk.

Tax Risk. The Fund may invest in certain securities, such as certain convertible securities, for which the federal income tax treatment may not be clear or may be subject to re-characterization by the Internal Revenue Service. It could be more difficult for the Fund to comply with the federal income tax requirements applicable to regulated investment companies if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the Internal Revenue Service. See Certain Federal Income Tax Matters.

Antitakeover Provisions. The Fund's Agreement and Declaration of Trust and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions include staggered terms of office for the Trustees, advance notice requirements for shareholder proposals, and super-majority voting requirements for certain transactions with affiliates, converting the Fund to an open-end investment company or a merger, asset sale or similar transaction. Holders of preferred shares may have voting rights in addition to and separate from the voting rights of common shareholders with respect to certain of these matters. Holders of any preferred shares, voting separately as a single class, have the right to elect at least two Trustees at all times. See Description of Shares Preferred Shares and Certain Provisions of the Agreement and Declaration of Trust and By-Laws. The holders of preferred shares, on the one hand, and the holders of the common shares, on the other, may have interests that conflict, including conflicts that relate to the fees and expenses of the Fund. For more information on potential conflicts of interest between holders of common shares and holders of preferred shares, see Additional Risks to Common Shareholders Leverage Risk. See also Risk Factors Fund Risks Antitakeover Provisions.

Market Disruption Risk. Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events, earthquakes, storms and other disasters. The Fund cannot predict the effects of similar events in the future on the U.S. economy or any foreign economy. See Risk Factors Fund Risks Market Disruption Risk.

Counterparty and Settlement Risk. Trading options, futures contracts, swaps and other derivative financial instruments entails credit risk on the counterparties. Such instruments are not afforded the same protections as may apply to trading derivatives on organized exchanges. Substantial losses may arise from the insolvency, bankruptcy or default of a counterparty and risk of settlement default of parties with whom it trades securities. This risk may be heightened during volatile market conditions. Settlement mechanisms in emerging markets are generally less developed and reliable than those in more developed countries thus increasing the risks.

Duration Risk. Duration measures the expected life of a fixed-income security, and its sensitivity to changes in interest rates. The longer a fixed income security's duration, the more sensitive that security will be to changes in interest rates. Similarly, the longer the Fund's dollar-weighted average duration, the more sensitive the Fund will be to interest rate changes than a fund with a shorter dollar-weighted average duration. See Risk Factors Fund Risks Duration Risk.

Maturity Risk. Interest rate risk will generally affect the price of a fixed income security more if the security has a longer maturity. Fixed income securities with longer maturities will therefore be more volatile than other fixed income securities with shorter maturities. Conversely, fixed income securities with shorter maturities will be less volatile but generally provide lower returns than fixed income securities with longer maturities. The

average maturity of the Fund's investments will affect the volatility of the Fund's share price. See Risk Factors Fund Risks Maturity Risk.

Recent Market Events. In the recent past, domestic and international markets have experienced acute turmoil, due to a variety of factors, including economic unrest in Italy, Greece, Spain, Ireland, Portugal and other European Union countries. This turmoil resulted in unusual and extreme volatility in the equity and debt markets, in the prices of individual securities and in the world economy. In addition, many governments or quasi-governmental organizations throughout the world responded to the turmoil with a variety of significant fiscal and monetary policy changes, including but not limited to, direct capital infusions into companies, new monetary programs and dramatically lower interest rates. An unexpected or quick reversal of these policies could increase the volatility in the equity and debt markets. 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. Because the situation 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. These market conditions and continuing economic risks could have a significant effect on the domestic and international economies, and could add significantly to the risk of short-term volatility in the Fund.

Additional Risks to Common Shareholders

Additional risks of investing in common shares include the following:

Leverage Risk. The Fund has issued indebtedness and may issue preferred shares or borrow money or issue debt securities. The borrowing of money or issuance of debt securities and preferred shares represents the leveraging of the Fund's common shares. As a non-fundamental policy, the Fund may not issue preferred shares or borrow money and issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's total assets as measured immediately after the issuance of the preferred shares or debt. However, the Board of Trustees reserves the right to issue preferred shares or debt securities or borrow to the extent permitted by the 1940 Act. See Leverage. Leverage creates risks which may adversely affect the return for the holders of common shares, including:

the likelihood of greater volatility of net asset value and market price of the Fund's common shares;

fluctuations in the dividend rates on any preferred shares or in interest rates on borrowings and short-term debt;

increased operating costs, which are effectively borne by common shareholders, may reduce the Fund's total return; and

the potential for a decline in the value of an investment acquired with borrowed funds, while the Fund's obligations under such borrowing or preferred shares remain fixed.

In addition, the rights of lenders and the holders of preferred shares and debt securities issued by the Fund will be senior to the rights of the holders of common shares with respect to the payment of dividends or to the payment of assets upon liquidation. Holders of preferred shares have voting rights in addition to and separate from the voting rights of common shareholders. See Description of Shares Preferred Shares and Certain Provisions of the Agreement and Declaration of Trust and By-Laws. The holders of preferred shares, on the one hand, and the holders of the common shares, on the other, may have interests that conflict in certain situations.

Leverage is a speculative technique that could adversely affect the returns to common shareholders. Leverage can cause the Fund to lose money and can magnify the effect of any losses. To the extent the income or capital appreciation derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return will be greater than if leverage had not been used. Conversely, if the income or capital appreciation from the securities purchased with such funds is not sufficient to cover the cost of leverage or if the Fund incurs capital losses, the return of the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to common shareholders as dividends and other distributions will be reduced or potentially eliminated.

The Fund will pay, and common shareholders will effectively bear, any costs and expenses relating to any borrowings and to the issuance and ongoing maintenance of preferred shares or debt securities. Such costs and expenses include the higher management fee resulting from the use of any such leverage, offering and/or issuance costs, and interest and/or dividend expense and ongoing maintenance.

Certain types of borrowings may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants that may affect the Fund's ability to pay dividends and distributions on common shares in certain instances. The Fund may also be required to pledge its assets to the lenders in connection with certain types of borrowings. The Fund may be subject to certain restrictions on investments imposed by guidelines of one or more rating agencies which may issue ratings for the preferred shares or short-term debt instruments issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Currently, there are no portfolio composition requirements under the existing Agreement and related Lending Agreement. However, there are limits on which securities can be treated as pledged collateral for purposes of those agreements. Calamos does not anticipate that these covenants or restrictions will adversely affect its ability to manage the Fund's portfolio in accordance with the Fund's investment objective and policies. Due to these covenants or restrictions, the Fund may be forced to liquidate investments at times and at prices that are not favorable to the Fund, or the Fund may be forced to forgo investments that Calamos otherwise views as favorable. See Prospectus Summary Use of Leverage by the Fund.

Interest Rate Transactions Risk. The Fund may enter into an interest rate swap or cap transaction to attempt to protect itself from increasing dividends or interest expenses on its leverage resulting from increasing short-term interest rates and to hedge its portfolio securities. A decline in interest rates may result in a decline in the value of the swap or cap, which may result in a decline in the net asset value of the Fund. See Risk Factors Interest Rate Transactions Risk.

Reduction of Leverage Risk. We have previously taken, and may in the future take, action to reduce the amount of leverage employed by the Fund. Reduction of the leverage employed by the Fund, including by redemption of preferred shares, will in turn reduce the amount of assets available for investment in portfolio securities. This reduction in leverage may negatively impact our financial performance, including our ability to sustain current levels of distributions on common shares.

Market Impact Risk. The sale of our common shares (or the perception that such sales may occur) may have an adverse effect on prices in the secondary market for our common shares by increasing the number of shares available, which may put downward pressure on the market price for our common shares. These sales also might make it more difficult for us to sell additional equity securities in the future at a time and price we deem appropriate.

Dilution Risk. The voting power of current shareholders will be diluted to the extent that such shareholders do not purchase shares in any future common share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if we are unable to invest the proceeds of such offering as intended, our per share distribution may decrease (or may consist of return of capital) and we may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

Market Discount Risk. The Fund's common shares have traded both at a premium and at a discount relative to net asset value. Common shares of closed-end investment companies frequently trade at prices lower than their net asset value. Depending on the premium of the Fund's common shares, the Fund's net asset value may be reduced immediately following an offering of the Fund's common shares by the offering expenses paid by the Fund. See Use of Proceeds.

In addition to net asset value, the market price of the Fund's common shares may be affected by such factors as the Fund's use of leverage, dividend stability, portfolio credit quality, liquidity, market supply and demand of the common shares and the Fund's dividends paid (which are, in turn, affected by expenses), call protection for portfolio securities and interest rate movements. See Leverage, Risk Factors and Description of Securities.

The Fund's common shares are designed primarily for long-term investors, and you should not purchase common shares if you intend to sell them shortly after purchase.

See **Risk Factors - Additional Risks to Common Shareholders** for a more detailed discussion of these risks.

Additional Risks to Senior Security Holders

Additional risks of investing in senior securities include the following:

Interest Rate Risk. Rising market interest rates could impact negatively the value of our investment portfolio, reducing the amount of assets serving as asset coverage for the senior securities.

Senior Leverage Risk. Preferred shares will be junior in liquidation and with respect to distribution rights to debt securities and any other borrowings. Senior securities representing indebtedness may constitute a substantial lien and burden on preferred shares by reason of their prior claim against our income and against our net assets in liquidation. We may not be permitted to declare dividends or other distributions with respect to any series of preferred shares unless at such time we meet applicable asset coverage requirements and the payment of principal or interest is not in default with respect to any borrowings.

Ratings and Asset Coverage Risk. To the extent that senior securities are rated, a rating does not eliminate or necessarily mitigate the risks of investing in our senior securities, and a rating may not fully or accurately reflect all of the credit and market risks associated with that senior security. A rating agency could downgrade the rating of our preferred shares or debt securities, which may make such securities less liquid in the secondary market, though probably with higher resulting interest rates. If a rating agency downgrades the rating assigned to a senior security, we may alter our portfolio or redeem the senior security. We may voluntarily redeem senior securities under certain circumstances.

Inflation Risk. Inflation is the reduction in the purchasing power of money resulting from an increase in the price of goods and services. Inflation risk is the risk that the inflation adjusted or real value of an investment in preferred shares or debt securities or the income from that investment will be worth less in the future. As inflation occurs, the real value of the preferred shares or debt securities and the dividend payable to holders of preferred shares or interest payable on debt securities declines.

Decline in Net Asset Value Risk. A material decline in our NAV may impair our ability to maintain required levels of asset coverage for any preferred shares or debt securities we may issue in the future.

Secondary Market Risk. The market value of exchange-listed preferred shares that the Fund may issue will be determined by factors such as the relative demand for and supply of the preferred shares in the market, general market conditions and other factors beyond the control of the Fund. Because the Fund has no prior trading history for preferred shares, it is difficult to predict the trading patterns of preferred shares, including the effective costs of trading. There is a risk that the market for preferred shares may be thinly traded and relatively illiquid compared to the market for other types of securities.

Market Discount Risk. The market price of exchange-listed preferred shares that the Fund may issue may also be affected by such factors as the Fund's use of leverage, dividend stability, portfolio credit quality, liquidity, and the Fund's dividends paid (which are, in turn, affected by expenses), call protection for portfolio securities and interest rate movements.

Early Redemption Risk. The Fund may voluntarily redeem preferred shares or may be forced to redeem preferred shares to meet regulatory requirements and the asset coverage requirements of the preferred shares. Such redemptions may be at a time that is unfavorable to holders of the preferred shares.

See **Risk Factors - Additional Risks to Senior Security Holders** for a more detailed discussion of these risks.

SUMMARY OF FUND EXPENSES

The following table and example contain information about the costs and expenses that common shareholders will bear directly or indirectly. In accordance with Commission requirements, the table below shows our expenses, including leverage costs, as a percentage of our average net assets as of October 31, 2011, and not as a percentage of gross assets or managed assets. By showing expenses as a percentage of average net assets, expenses are not expressed as a percentage of all of the assets we invest. The table and example are based on our capital structure as of October 31, 2011.

As of October 31, 2011, and as of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding, representing 25.5%, and 26.0% of managed assets, respectively.

Shareholder Transaction Expenses

| | |
|---|------|
| Sales Load (as a percentage of offering price) | (1) |
| Offering Expenses Borne by the Fund (as a percentage of offering price) | (1) |
| Dividend Reinvestment and Cash Purchase Plan Fees(2) | None |

| | Percentage of Average Net Assets Attributable to Common Shareholders |
|------------------------------|---|
| Annual Expenses | |
| Management Fee(3) | 1.05 |
| Leverage Costs(4) | 0.51 |
| Other Expenses(5) | 0.07 |
| Acquired Fees and Expenses | 0.01 |
| Total Annual Expenses | 1.64 |

Example:

The following example illustrates the expenses that common shareholders would pay on a \$1,000 investment in common shares, assuming (1) total annual expenses of 1.64% of net assets attributable to common shares (2) a 5% annual return; and (3) all distributions are reinvested at net asset value:

| | 1 Year | 3 Years | 5 Years | 10 Years |
|---|--------|---------|---------|----------|
| Total Expenses Paid by Common Shareholders(6) | \$ 17 | \$ 52 | \$ 89 | \$ 194 |

The example should not be considered a representation of future expenses. Actual expenses may be greater or less than those assumed. Moreover, our actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

- (1) If the securities to which this prospectus relates are sold to or through underwriters, the prospectus supplement will set forth any applicable sales load and the estimated offering expenses borne by us.
- (2) Shareholders will pay a transaction fee plus brokerage charges if they direct the Plan Agent to sell common shares held in a Plan account. In addition, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends or distributions. If a participant elects to have the Plan Agent sell part or all of his or her common shares and remit the proceeds, such participant will be charged his or her pro rata share of brokerage commissions on the shares sold. See Automatic Dividend Reinvestment Plan.

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- (3) The Fund pays Calamos an annual management fee, payable monthly, for its investment management services in an amount equal to 0.80% of the Fund's average weekly managed assets. In accordance with the requirements of the Commission, the table above shows the Fund's management fee as a percentage of average net assets attributable to common shares. By showing the management fee as a percentage of net assets, the management fee is not expressed as a percentage of all of the assets the Fund intends to invest. For purposes of the table, the management fee has been converted to 1.05% of the Fund's average weekly net assets as of December 31, 2011 by dividing the total dollar amount of the management fee by the Fund's average weekly net assets (managed assets less outstanding leverage).

(4) Reflects estimated interest expense on \$314,000,000 in borrowings under the Agreement described above under Prospectus Summary Use of Leverage by the Fund.

(5) Other Expenses are based on estimated amounts for the current fiscal year.

(6) The example does not include sales load or estimated offering costs, which would cause the expenses shown in the example to increase. The purpose of the table and the example above is to help investors understand the fees and expenses that they, as common shareholders, would bear directly or indirectly. For additional information with respect to our expenses, see Management of the Fund.

FINANCIAL HIGHLIGHTS

The information in the following table shows selected data for a common share outstanding throughout each period listed below. The information in this table for the year ended October 31, 2011 and each of the prior years then ended is derived from our financial statements audited by Deloitte & Touche LLP, whose report on such financial statements is contained in our 2011 Annual Report and is included in the statement of additional information, both of which are available from us. See Available Information in this prospectus.

| | Year Ended October 31, | | | | | | | | May 28, 2003 through October 31, 2003 |
|---|------------------------|------------|------------|------------|--------------|--------------|------------|------------|--|
| | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 | |
| Net asset value, beginning of period | \$ 13.03 | \$ 11.92 | \$ 8.30 | \$ 15.64 | \$ 15.44 | \$ 15.21 | \$ 15.47 | \$ 14.80 | \$ 14.32(f) |
| Income from investment operations: | | | | | | | | | |
| Net investment income (loss) | 0.91** | 0.96** | 0.82** | 1.05** | 1.27** | 1.34 | 1.49 | 1.60 | 0.44 |
| Net realized and unrealized gain (loss) | (0.20) | 1.17 | 3.82 | (6.63) | 0.75 | 0.75 | (0.09) | 0.63 | 0.46 |
| Distributions to preferred shareholders from: | | | | | | | | | |
| Net investment income (common share equivalent basis) | | | (a) | (0.12) | (0.30) | (0.29) | (0.20) | (0.10) | (0.02) |
| Net realized gains (common share equivalent basis) | | | | (0.07) | (0.03) | (0.02) | | | |
| Total from investment operations | 0.71 | 2.13 | 4.64 | (5.77) | 1.69 | 1.78 | 1.20 | 2.13 | 0.88 |
| Less distributions to common shareholders from: | | | | | | | | | |
| Net investment income | (0.86) | (1.02) | (1.00) | (1.34) | (1.22) | (1.29) | (1.34) | (1.46) | (0.37) |
| Net realized gains | | | (0.02) | (0.23) | (0.27) | (0.26) | (0.12) | | |
| Return of Capital | (0.16) | | | | | | | | |
| Total Distributions | (1.02) | (1.02) | (1.02) | (1.57) | (1.49) | (1.55) | (1.46) | (1.46) | (0.37) |
| Capital charge resulting from issuance of common and preferred shares and related offering costs | (a) | (a) | (a) | (a) | | (a) | | | (0.03) |
| Premiums from shares sold in at the market offerings | (a) | (a) | | | | | | | |
| Net asset value, end of period | \$ 12.72 | \$ 13.03 | \$ 11.92 | \$ 8.30 | \$ 15.64 | \$ 15.44 | \$ 15.21 | \$ 15.47 | \$ 14.80 |
| Market value, end of period | \$ 11.96 | \$ 13.19 | \$ 11.01 | \$ 8.74 | \$ 14.67 | \$ 16.98 | \$ 15.52 | \$ 16.74 | \$ 16.00 |
| Total investment return based on(b): | | | | | | | | | |
| Net asset value | 5.80% | 18.88% | 60.83% | (39.96)% | 11.31% | 12.16% | 7.99% | 14.91% | 5.92% |
| Market value | (1.73)% | 30.29% | 41.07% | (32.59)% | (5.06)% | 20.88% | 1.83% | 15.02% | 9.36% |
| Net assets, end of period (000) | \$ 917,539 | \$ 921,278 | \$ 832,769 | \$ 563,187 | \$ 1,054,614 | \$ 1,030,741 | \$ 940,736 | \$ 945,037 | \$ 891,152 |
| Preferred shares, at redemption value (\$25,000 per share liquidation preference) (000 s omitted) | \$ | \$ | \$ | \$ 80,000 | \$ 430,000 | \$ 430,000 | \$ 430,000 | \$ 430,000 | \$ 430,000 |
| Ratios to average net assets applicable to common shareholders: | | | | | | | | | |
| Net expenses(c)(g) | 1.61% | 1.73% | 3.01% | 1.91% | 1.18% | 1.20% | 1.23% | 1.25% | 1.11% |

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| | | | | | | | | | |
|---|-----------|----------|----------|------------|-----------|-----------|-----------|-----------|-----------|
| Gross expenses prior to expense reductions and earnings credits(c)(g) | 1.64% | 1.79% | 3.10% | 2.04% | 1.33% | 1.34% | 1.38% | 1.40% | 1.24% |
| Net expenses, excluding interest expense | 1.20% | 1.20% | 2.37% | 1.29% | 1.18% | 1.20% | | | |
| Net investment income (loss)(c)(g) | 6.99% | 7.75% | 8.56% | 7.77% | 8.20% | 8.76% | 9.55% | 10.56% | 7.85% |
| Preferred share distributions(g) | % | % | 0.04% | 0.87% | 1.95% | 1.88% | 1.30% | 0.65% | 0.34% |
| Net investment income (loss), net of preferred share distributions from net investment income | 6.99% | 7.75% | 8.52% | 6.90% | 6.25% | 6.88% | 8.25% | 9.91% | 7.51% |
| Portfolio turnover rate | 42% | 39% | 29% | 55% | 57% | 38% | 55% | 27% | 20% |
| Average commission rate paid | \$ 0.0211 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Asset coverage per preferred share, at end of period(d) | \$ | \$ | \$ | \$ 201,006 | \$ 86,333 | \$ 84,945 | \$ 79,708 | \$ 79,952 | \$ 76,811 |
| Asset coverage per \$1,000 of loan outstanding(e) | \$ 3,922 | \$ 4,412 | \$ 4,084 | \$ 3,438 | \$ | \$ | \$ | \$ | \$ |

Commencement of operations.

** 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 holders of the Preferred Shares, all of which were redeemed by the Fund in July 2009.

(d) Calculated by subtracting the Fund's total liabilities (not including Preferred Shares) from the Fund's total assets and dividing this by the number of Preferred Shares outstanding.

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(e) Calculated by subtracting the Fund's total liabilities (not including Note payable) and preferred shares from the Fund's total assets and dividing this by the amount of note payable outstanding, and by multiplying the result by 1,000.

(f) Net of sales load of \$0.675 on initial shares issued and beginning net asset value of \$14.325.

(g) Annualized for periods less than one year.

MARKET AND NET ASSET VALUE INFORMATION

Our common shares are listed on the New York Stock Exchange (NYSE) under the symbol CHY. Our common shares commenced trading on the NYSE in May 2003.

Our common shares have traded both at a premium and a discount to NAV. We cannot predict whether our shares will trade in the future at a premium or discount to NAV. The provisions of the 1940 Act generally require that the public offering price of common shares (less any underwriting commissions and discounts) must equal or exceed the NAV per share of a company's common stock (calculated within 48 hours of pricing). Our issuance of common shares may have an adverse effect on prices in the secondary market for our common shares by increasing the number of common shares available, which may put downward pressure on the market price for our common shares. Shares of common stock of closed-end investment companies frequently trade at a discount from NAV. See Risk Factors Additional Risks to Common Shareholders Market Discount Risk.

The following table sets forth for each of the periods indicated the high and low closing market prices for our common shares on the NYSE, the NAV per share and the premium or discount to NAV per share at which our common shares were trading. NAV is determined on the last business day of each month. See Determination of Net Asset Value for information as to the determination of our NAV.

| Quarter Ended | Market Price(1) | | Net Asset Value(2) | Premium/ (Discount) to Net Asset Value(3) | |
|------------------|------------------|-------|--------------------|---|----------|
| | High | Low | | High | Low |
| | January 31, 2009 | 9.41 | 5.77 | 8.52 | 6.81% |
| April 30, 2009 | 9.14 | 6.37 | 9.51 | (1.40)% | (19.06)% |
| July 31, 2009 | 11.09 | 9.29 | 11.01 | 2.50% | (2.42)% |
| October 31, 2009 | 11.76 | 10.46 | 11.92 | (2.65)% | (4.82)% |
| January 31, 2010 | 12.19 | 11.18 | 12.22 | (3.25)% | (6.21)% |
| April 30, 2010 | 13.00 | 11.14 | 12.83 | 0.85% | (7.17)% |
| July 31, 2010 | 13.05 | 11.38 | 12.33 | 1.56% | (3.07)% |
| October 31, 2010 | 13.19 | 12.33 | 13.03 | 1.23% | (0.64)% |
| January 31, 2011 | 13.49 | 12.11 | 13.21 | 2.82% | (6.70)% |
| April 30, 2011 | 13.82 | 13.12 | 13.55 | 2.60% | 0.31% |
| July 31, 2011 | 13.79 | 12.45 | 13.09 | 1.77% | (4.89)% |
| October 31, 2011 | 12.68 | 10.66 | 12.72 | (3.06)% | (8.65)% |
| January 31, 2012 | 12.52 | 11.13 | 12.86 | (2.64)% | (8.62)% |

Source: Bloomberg Financial and Fund Accounting Records.

(1) Based on high and low closing market price per share during the respective quarter.

(2) Based on the NAV calculated on the close of business on the last business day of each calendar quarter.

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(3) Based on the Fund's computations on the day of each of the high and low closing market prices per share during the respective quarter. The last reported sale price, NAV per common share and percentage discount to NAV per common share on January 31, 2012 were \$12.52, \$12.86 and (2.64)%, respectively. As of January 31, 2012, we had 72,148,383 common shares outstanding and managed assets of \$1,241,947,892.

USE OF PROCEEDS

Subject to the remainder of this section, and unless otherwise specified in a prospectus supplement, we currently intend to invest the net proceeds of any sales of our securities pursuant to this prospectus in accordance with our investment objective and policies as described under Investment Objective and Principal Investment

Strategies within approximately three months of receipt of such proceeds. Such investments may be delayed if suitable investments are unavailable at the time or for other reasons. Pending such investment, we anticipate that we will invest the proceeds in securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations. We may also use proceeds from the sale of our securities to (i) retire all or a portion of any short-term debt we incur in pursuit of our investment objective and policies and (ii) for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for this purpose. A delay in the anticipated use of proceeds could lower returns, reduce our distribution to common shareholders and reduce the amount of cash available to make dividend and interest payments on outstanding preferred shares and debt securities, respectively.

THE FUND

Calamos Convertible and High Income Fund is a diversified, closed-end management investment company which commenced investment operations in May 2003. The Fund was organized as a statutory trust under the laws of the State of Delaware on March 12, 2003, and has registered under the 1940 Act. On May 27, 2003, the Fund issued an aggregate 52,200,000 common shares, no par value, in an initial public offering and commenced its operations. On June 11, 2003 and July 15, 2003, the Fund issued an additional 4,000,000 and 3,800,000 common shares, respectively, in connection with exercises by the underwriters of their over-allotment option. The net proceeds of the initial public offering and subsequent exercises of the over-allotment option were approximately \$858.2 million after the payment of offering expenses. As of December 31, 2011, the Fund had issued an additional 3,767,833 common shares in connection with a continuous, at-the-market offering that commenced in June 2008. The net proceeds of that offering through December 31, 2011 were \$42,792,625. As of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding under the Agreement, representing 26.0% of managed assets as of that date. The Fund's principal office is located at 2020 Calamos Court, Naperville, Illinois 60563, and its telephone number is 1-800-582-6959.

The following table provides information about our outstanding securities as of January 31, 2012:

| Title of Class | Amount Authorized | Amount Held by the Fund or for its Account | Amount Outstanding |
|----------------|----------------------|---|-----------------------|
| Common Shares | Unlimited | 0 | 72,148,383 |

INVESTMENT OBJECTIVE AND PRINCIPAL INVESTMENT STRATEGIES

Investment Objective

The Fund's investment objective is to provide total return through a combination of capital appreciation and current income. The Fund's investment objective may be changed by the Board of Trustees without a shareholder vote, although the Fund will give shareholders at least 60 days' written notice of any change to the Fund's investment objective. The Fund makes no assurance that it will realize its objective. An investment in the Fund may be speculative in that it involves a high degree of risk and should not constitute a complete investment program. See Risk Factors.

Principal Investment Strategies

Under normal circumstances, the Fund will invest at least 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities. This is a non-fundamental policy and may be changed by the Board of Trustees of the Fund provided that shareholders are provided with at least 60 days' prior written notice of any change as required by the rules under the 1940 Act. The portion of the Fund's assets invested in convertible securities and below investment grade (high yield/high risk) non-convertible debt securities will vary from time to time consistent with the Fund's investment objective, changes in equity prices and changes in interest rates and other economic and market factors, although, under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities and at least 20% of its managed assets in below investment grade (high yield/high risk)

non-convertible debt securities (so long as the combined total equals at least 80% of the Fund's managed assets). The Fund invests in securities with a broad range of maturities. The average term to maturity of the Fund's securities typically will range from five to ten years.

The Fund starts from a universe of primarily convertible and high yield non-convertible debt securities, and performs fundamental research to assess credit. The Fund filters out securities of issuers with a high probability of bankruptcy, declining credits, or distressed credits. The Fund also screens issues based on equity characteristics of the security, such as intrinsic/economic business value, cash flow generation, and sufficient access to capital. The Fund then ensures there is sufficient return potential, and assesses relative risk/reward. Finally, the Fund performs top-down portfolio construction by actively managing the security mix, overlay macro/industry themes, and diversity by sector and industry.

The Fund's derivative activities are principally focused on the following derivatives: interest rate swaps, convertible securities, synthetic convertible securities, options on individual securities, index options and forward currency exchange contracts. However, the Fund reserves the right to invest in other derivative instruments to the extent it is consistent with the Fund's investment objective and restrictions.

Convertible Securities. Investment in convertible securities forms an important part of the Fund's investment strategies. Under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities. A convertible security is a debt security or preferred stock that is exchangeable for an equity security (typically of the same issuer) at a predetermined price. Depending upon the relationship of the conversion price to the market value of the underlying security, a convertible security may trade more like an equity security than a debt instrument. The Fund may invest in convertible securities of any rating.

Synthetic Convertible Securities. The Fund may invest in synthetic convertible securities. A synthetic convertible security is a financial instrument that is designed to simulate the characteristics of another instrument (i.e., a convertible security) through the combined features of a collection of other securities or assets. Calamos may create a synthetic convertible security by combining separate securities that possess the two principal characteristics of a true convertible security, i.e., a fixed-income security (fixed-income component), which may be a convertible or non-convertible security) and the right to acquire an equity security (convertible component). The fixed-income component is achieved by investing in non-convertible, fixed-income securities such as bonds, preferred stocks and money market instruments. The convertible component is achieved by investing in warrants or options to buy common stock at a certain exercise price, or options on a stock index. The Fund may also purchase synthetic convertible securities created by other parties, typically investment banks, including convertible structured notes. Convertible structured notes are fixed income debentures linked to equity. Convertible structured notes have the attributes of a convertible security, however, the investment bank that issued the convertible note assumes the credit risk associated with the investment, rather than the issuer of the underlying common stock into which the note is convertible. Different companies may issue the fixed-income and convertible components, which may be purchased separately and at different times.

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

Some examples of these securities include:

Preferred equity redeemable cumulative stock (PERCS) are shares that automatically convert into one ordinary share upon maturity. They are usually issued at the prevailing share price, convertible into one ordinary share, with an enhanced dividend yield. PERCS pay a higher dividend than common shares, but the equity upside is capped. Above a certain share price, the conversion ratio will fall as the stock rises, capping

the upside at that level. Below this level, the conversion ratio remains one-for-one, giving the same downside exposure as the ordinary shares, excluding the income difference.

Dividend enhanced convertible stock (DECS) are either preference shares or subordinated bonds. These, like PERCS, mandatorily convert into ordinary shares at maturity, if not already converted. DECS give no significant downside protection and are very equity sensitive with minimal direct bond characteristics and interest rate exposure. As with PERCS, some of the upside performance is given away and in return, the investor receives an enhanced yield over the ordinary shares. Unlike PERCS, however, the investor's upside is not capped. Instead, the investor trades a zone of flat exposure to the share price for the enhanced income.

Preferred Redeemable Increased Dividend Equity Security (PRIDES) are synthetic securities consisting of a forward contract to purchase the issuer's underlying security and an interest bearing deposit. Interest payments are made at regular intervals, and conversion into the underlying security is mandatory at maturity. Similar to convertible securities, PRIDES allow investors to earn stable cash flows while still participating in the capital gains of an underlying stock. This is possible because these products are valued along the same lines as the underlying security.

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

High Yield Securities. Investment in high yield non-convertible debt securities forms an important part of the Fund's investment strategies. The Fund will invest in high yield securities for either current income or capital appreciation or both. Under normal circumstances, the Fund will invest at least 20% of its managed assets in high yield non-convertible debt securities. The high yield securities in which the Fund invests are rated Ba or lower by Moody's or BB or lower by Standard & Poor's or are unrated but determined by Calamos to be of comparable quality. The Fund may invest in high yield securities of any rating. The Fund may, but currently does not intend to, invest up to 5% of its total assets in distressed securities that are in default or the issuers of which are in bankruptcy. Non-convertible debt securities rated below investment grade are commonly referred to as "junk bonds" and are considered speculative with respect to the issuer's capacity to pay interest and repay principal. Below investment grade non-convertible debt securities involve greater risk of loss, are subject to greater price volatility and are less liquid, especially during periods of economic uncertainty or change, than higher rated debt securities.

Foreign Securities. Although the Fund primarily invests in securities of U.S. issuers, the Fund may invest up to 25% of its managed assets in securities of foreign issuers in developed and emerging markets, including debt and equity securities of corporate issuers and debt securities of government issuers. A foreign issuer is a foreign government or a company organized under the laws of a foreign country. The Fund may invest up to 15% of its managed assets in securities of foreign issuers in emerging markets.

Other Income Securities. The Fund may also invest in investment grade debt securities. The Fund's investments in investment grade debt securities may have fixed or variable principal payments and all types of interest rate and dividend payment and reset terms, including fixed rate, adjustable rate, zero coupon, contingent, deferred, payment in kind and auction rate features.

Preferred Shares. The Fund may invest in preferred stock. The preferred stock in which the Fund typically will invest will 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. However, because preferred stocks are equity securities, they may be more susceptible to risks traditionally associated with equity investments than the Fund's fixed income securities.

Options Writing. The Fund may seek to generate income from option premiums by writing (selling) options. The Fund may write (sell) call options (i) on a portion of the equity securities (including securities that are convertible into equity securities) in the Fund's portfolio and (ii) on broad-based securities indexes (such as the S&P 500 or MSCI EAFE) or certain ETFs (exchange traded funds) that trade like common stocks but seek to replicate such market indexes.

In addition, 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 (such as the S&P 500 or MSCI EAFE), or certain ETFs that trade like common stocks but seek to replicate such market indexes.

Rule 144A Securities. The Fund may invest without limit in Rule 144A Securities, such as convertible and debt securities, that are typically purchased in transactions exempt from the registration requirements of the 1933 Act pursuant to Rule 144A under that act. Rule 144A Securities may only be sold to qualified institutional buyers, such as the Fund. Any resale of these securities must generally be effected through a sale that is registered under the 1933 Act or otherwise exempted or excepted from such registration requirements. Under the supervision and oversight of the Fund's Board of Trustees, Calamos will determine whether Rule 144A Securities are liquid. Typically, the Fund purchases Rule 144A Securities only if Calamos has determined them to be liquid. If any Rule 144A Security held by the Fund should become illiquid, the value of the security may be reduced and a sale of the security may be more difficult.

REITs. The Fund may invest in securities of real estate investment trusts (REITs). REITs primarily invest 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 distributed to shareholders provided they comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (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.

U.S. Government Securities. U.S. government securities in which the Fund invests include debt obligations of varying maturities issued by the U.S. Treasury or issued or guaranteed by an agency or instrumentality of the U.S. government, including the Federal Housing Administration, Federal Financing Bank, Farmers Home Administration, Export-Import Bank of the United States, Small Business Administration, Government National Mortgage Association (GNMA), General Services Administration, Central Bank for Cooperatives, Federal Farm Credit Banks, Federal Home Loan Banks, Federal Home Loan Mortgage Corporation (FHLMC), Federal National Mortgage Association (FNMA), Maritime Administration, Tennessee Valley Authority, District of Columbia Armory Board, Student Loan Marketing Association, Resolution Fund Corporation and various institutions that previously were or currently are part of the Farm Credit System (which has been undergoing reorganization since 1987). Some U.S. government securities, such as U.S. Treasury bills, Treasury notes and Treasury bonds, which differ only in their interest rates, maturities and times of issuance, are supported by the full faith and credit of the United States. Others are supported by: (i) the right of the issuer to borrow from the U.S. Treasury, such as securities of the Federal Home Loan Banks; (ii) the discretionary authority of the U.S. government to purchase the agency's obligations, such as securities of the FNMA; or (iii) only the credit of the issuer. No assurance can be given that the U.S. government will provide financial support in the future to U.S. government agencies, authorities or instrumentalities that are not supported by the full faith and credit of the United States. Securities guaranteed as to principal and interest by the U.S. government, its agencies, authorities or instrumentalities include: (i) securities for which the payment of principal and interest is backed by an irrevocable letter of credit issued by the U.S. government or any of its agencies, authorities or instrumentalities; and (ii) participations in loans made to non-U.S. governments or other entities that are so guaranteed. The secondary market for certain of these participations is limited and, therefore, may be regarded as illiquid.

On September 7, 2008, the Federal Housing Finance Agency (FHFA), an agency of the U.S. government, placed FNMA and FHLMC into conservatorship, a statutory process with the objective of returning the entities to normal business operations. FHFA will act as the conservator to operate FNMA and FHLMC until they are stabilized. It is unclear what effect this conservatorship will have on the securities issued or guaranteed by FNMA or FHLMC.

Zero Coupon Securities. The securities in which the Fund invests may include zero coupon securities, which are debt obligations that are issued or purchased at a significant discount from face value. The discount approximates the total amount of interest the security will accrue and compound over the period until maturity or the particular interest payment date at a rate of interest reflecting the market rate of the security at the time of issuance. Zero coupon securities do not require the periodic payment of interest. These investments benefit the issuer by mitigating its need for cash to meet debt service, but generally require a higher rate of return to attract investors who are willing to defer receipt of cash. These investments may experience greater volatility in market value than comparable securities that make regular payments of interest. The Fund accrues income on these investments for tax and accounting purposes, which is distributable to shareholders and which, because no cash is received at the time of accrual, may require the liquidation of other portfolio securities to satisfy the Fund's distribution obligations, in which case the Fund will forgo the purchase of additional income producing assets with these funds. Zero coupon U.S. government securities include STRIPS and CUBES, which are issued by the U.S. Treasury as component parts of U.S. Treasury bonds and represent scheduled interest and principal payments on the bonds.

Equity Securities. Consistent with its objective, the Fund may invest in equity securities, including common and preferred stocks, warrants, rights and depository receipts. Equity securities, such as common stock, generally represent an ownership interest in a company. Although equity securities have historically generated higher average returns than fixed income securities, equity securities have also experienced significantly more volatility in those returns. An adverse event, such as an unfavorable earnings report, may depress the value of a particular equity security held by the Fund. Also, the prices of equity securities, particularly common stocks, are sensitive to general movements in the stock market. A drop in the stock market may depress the price of equity securities held by the Fund.

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 are permissible under 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, (1) more than 10% of the Fund's total assets would be invested in securities of other investment companies, (2) 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 (3) 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 of 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.

Temporary Defensive Investments. Under unusual market or economic conditions or for temporary defensive purposes, the Fund may invest in a manner that is inconsistent with its principal investment strategies described herein. In those situations, the Fund may invest up to 100% of its managed assets in securities issued or guaranteed by the U.S. government or its instrumentalities or agencies, certificates of deposit, bankers acceptances and other bank obligations, commercial paper rated in the highest category by a nationally recognized statistical rating organization or other fixed income securities deemed by Calamos to be consistent with a defensive posture, or may hold cash. The yield on such securities may be lower than the yield on lower rated fixed income securities. During such periods, the Fund may not be able to achieve its investment objective.

Repurchase Agreements. The Fund may enter into repurchase agreements with broker-dealers, member banks of the Federal Reserve System and other financial institutions. Repurchase agreements are arrangements under which the Fund purchases securities and the seller agrees to repurchase the securities within a specific time and at a specific price. The repurchase price is generally higher than the Fund's purchase price, with the difference being income to the Fund. The counterparty's obligations under the repurchase agreement are collateralized with U.S. Treasury and/or agency obligations with a market value of not less than 100% of the obligations, valued daily. Collateral is held by the Fund's custodian in a segregated, safekeeping account for the benefit of the Fund. Repurchase agreements afford the Fund an opportunity to earn income on temporarily available cash at low risk. In the event of commencement of bankruptcy or insolvency proceedings with respect

to the seller of the security before repurchase of the security under a repurchase agreement, the Fund may encounter delay and incur costs before being able to sell the security. Such a delay may involve loss of interest or a decline in price of the security. If the court characterizes the transaction as a loan and the Fund has not perfected a security interest in the security, the Fund may be required to return the security to the seller's estate and be treated as an unsecured creditor of the seller. As an unsecured creditor, the Fund would be at risk of losing some or all of the principal and interest involved in the transaction.

Lending of Portfolio Securities. In addition to the Lending Agreement with BNP, the Fund may lend portfolio securities to registered broker-dealers or other institutional investors deemed by Calamos to be of good standing under agreements which require that the loans be secured continuously by collateral in cash, cash equivalents or U.S. Treasury bills maintained on a current basis at an amount at least equal to the market value of the securities loaned. The Fund does not use affiliated agents in managing its lending program. The Fund continues to receive the equivalent of the interest or dividends paid by the issuer on the securities loaned as well as the benefit of an increase and the detriment of any decrease in the market value of the securities loaned and would also receive compensation based on investment of the collateral. The Fund would not, however, have the right to vote any securities having voting rights during the existence of the loan, but could call the loan in advance of an important vote to be taken among holders of the securities or of the giving or withholding of consent on a material matter affecting the investment.

As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the collateral should the borrower of the securities fail financially. At no time would the value of the securities loaned exceed 331/3% of the value of the Fund's managed assets. See *Description of Securities* for more information on lending on portfolio securities.

Portfolio Turnover. It is the policy of the Fund not to engage in trading for short-term profits although portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for the Fund.

Fundamental Investment Restrictions. As more fully described in the Fund's statement of additional information, under the Fund's fundamental investment restrictions, 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. This description of the Fund's fundamental investment restrictions is a summary only and to the extent it differs from the discussion of fundamental investment restrictions contained in the Fund's statement of additional information, the description in the statement of additional information controls.

These restrictions may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities. 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. See *Investment Restrictions* on page S-19 of the Fund's statement of additional information.

Conflicts of Interest

Conflicts of interest may arise from the fact that Calamos and its affiliates carry on substantial investment activities for other clients, in which the Fund has no interest, some of which may have similar investment strategies as the Fund. Calamos or its affiliates may have financial incentives to favor certain of such accounts over the Fund. Any of their proprietary accounts and other customer accounts may compete with the Fund for

specific trades. Calamos or its affiliates may give advice and recommend securities to, or buy or sell securities for, the Fund which advice or securities may differ from advice given to, or securities recommended or bought or sold for, other accounts and customers, even though their investment objectives may be the same as, or similar to, the Fund's objectives. When two or more clients advised by Calamos or its affiliates seek to purchase or sell the same publicly traded securities, the securities actually purchased or sold will be allocated among the clients on a good faith equitable basis by Calamos in its discretion and in accordance with the client's various investment objectives and Calamos' procedures. In some cases, this system may adversely affect the price or size of the position the Fund may obtain or sell. In other cases, our ability to participate in volume transactions may produce better execution for the Fund.

Calamos will evaluate a variety of factors in determining whether a particular investment opportunity or strategy is appropriate and feasible for the relevant account at a particular time, including, but not limited to, the following: (1) the nature of the investment opportunity taken in the context of the other investments at the time; (2) the liquidity of the investment relative to the needs of the particular entity or account; (3) the availability of the opportunity (i.e., size of obtainable position); (4) the transaction costs involved; and (5) the investment or regulatory limitations applicable to the particular entity or account. Because these considerations may differ when applied to the Fund and relevant accounts under management in the context of any particular investment opportunity, the Fund's investment activities, on the one hand, and other managed accounts, on the other hand, may differ considerably from time to time. In addition, the Fund's fees and expenses will differ from those of the other managed accounts. Accordingly, investors should be aware that the Fund's future performance and future performance of other accounts of Calamos may vary.

Situations may occur when the Fund could be disadvantaged because of the investment activities conducted by Calamos and its affiliates for its other funds or accounts. Such situations may be based on, among other things, the following: (1) legal or internal restrictions on the combined size of positions that may be taken for the Fund or the other accounts, thereby limiting the size of the Fund's position; (2) the difficulty of liquidating an investment for the Fund or the other accounts where the market cannot absorb the sale of the combined position; or (3) limits on co-investing in negotiated transactions under the 1940 Act, as discussed further below.

Calamos and its principals, officers, employees, and affiliates may buy and sell securities or other investments for their own accounts and may have actual or potential conflicts of interest with respect to investments made on our behalf. As a result of differing trading and investment strategies or constraints, positions may be taken by principals, officers, employees, and affiliates of Calamos that are the same as, different from, or made at a different time than positions taken for the Fund.

LEVERAGE

The Fund may issue preferred shares or debt securities or borrow to increase its assets available for investment. As of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding under the Agreement, representing 26.0% of managed assets as of that date. As a non-fundamental policy, the Fund may not issue preferred shares or borrow money and issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's total assets measured immediately after leverage is issued. However, the Board of Trustees reserves the right to issue preferred shares or debt securities or borrow to the extent permitted by the 1940 Act or under any order issued by the Commission, as described below. The Fund generally will not issue preferred shares or debt securities or borrow unless Calamos expects that the Fund will achieve a greater return on such leverage than the additional costs the Fund incurs as a result of such leverage. The Fund also may borrow money as a temporary measure for extraordinary or emergency purposes, including the payment of dividends and the settlement of securities transactions, which otherwise might require untimely dispositions of the Fund's holdings. When the Fund leverages its assets, the fees paid to Calamos for investment management services will be higher than if the Fund did not leverage because Calamos' fees are calculated based on the Fund's managed assets, which include the proceeds of the issuance of preferred shares or debt securities or any outstanding borrowings. Consequently, the Fund and Calamos may have differing interests in determining whether to leverage the Fund's assets. The Fund's Board of Trustees monitors any such potential conflicts of interest on an ongoing basis.

The Fund's use of leverage is premised upon the expectation that the Fund's leverage costs will be lower than the return the Fund achieves on its investments with the leverage proceeds. Such difference in return may result from the Fund's higher credit rating or the short-term nature of its borrowing compared to the long-term nature of its investments. Because Calamos seeks to invest the Fund's managed assets (including the assets obtained from leverage) in the higher yielding portfolio investments or portfolio investments with the potential for capital appreciation, the holders of common shares will be the beneficiaries of any incremental return. Should the differential between the underlying assets and cost of leverage narrow, the incremental return pick up will be reduced. Furthermore, if long-term interest rates rise without a corresponding increase in the yield on the Fund's portfolio investments or the Fund otherwise incurs losses on its investments, the Fund's net asset value attributable to its common shares will reflect the decline in the value of portfolio holdings resulting therefrom.

Leverage creates risks which may adversely affect the return for the holders of common shares, including:

the likelihood of greater volatility of net asset value and market price of common shares;

fluctuations in the dividend rates on any preferred shares or in interest rates on borrowings and short-term debt;

increased operating costs, which are effectively borne by common shareholders, may reduce the Fund's total return; and

the potential for a decline in the value of an investment acquired with borrowed funds, while the Fund's obligations under such borrowing remains fixed.

Leverage is a speculative technique that could adversely affect the returns to common shareholders. Leverage can cause the Fund to lose money and can magnify the effect of any losses. To the extent the income or capital appreciation derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return will be greater than if leverage had not been used. Conversely, if the income or capital appreciation from the securities purchased with such funds is not sufficient to cover the cost of leverage or if the Fund incurs capital losses, the return of the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to common shareholders as dividends and other distributions will be reduced or potentially eliminated (or, in the case of distributions, will consist of return of capital).

Calamos may determine to maintain the Fund's leveraged position if it expects that the long-term benefits to the Fund's common shareholders of maintaining the leveraged position will outweigh the current reduced return. Capital raised through the issuance of preferred shares or debt securities or borrowing will be subject to dividend payments or interest costs that may or may not exceed the income and appreciation on the assets purchased. The issuance of preferred shares involves offering expenses and other costs and may limit the Fund's freedom to pay dividends on common shares or to engage in other activities. The Fund also may be required to maintain minimum average balances in connection with borrowings or to pay a commitment or other fee to maintain a line of credit; either of these requirements would increase the cost of borrowing over the stated interest rate. The Fund will pay (and common shareholders will bear) any costs and expenses relating to any borrowings and to the issuance and ongoing maintenance of preferred shares or debt securities (for example, the higher management fee resulting from the use of any such leverage, and interest and/or dividend expense and ongoing maintenance). Net asset value will be reduced immediately following any additional offering of preferred shares or debt securities by the costs of that offering paid by the Fund.

Under the 1940 Act, the Fund is not permitted to issue preferred shares unless immediately after such issuance the Fund has an asset coverage of at least 200% of the liquidation value of the aggregate amount of outstanding preferred shares (i.e., such liquidation value may not exceed 50% of the value of the Fund's total assets). Under the 1940 Act, the Fund may only issue one class of senior securities representing equity. So long as preferred shares are outstanding, additional senior equity securities must rank on a parity with the preferred shares. In addition, 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. Under the 1940 Act, the Fund is not permitted to incur indebtedness unless immediately after such borrowing the Fund has an asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness (i.e., such

indebtedness may not exceed 331/3% of the value of the Fund's total assets). Under the 1940 Act, the Fund may only issue one class of senior securities representing indebtedness. Additionally, under the 1940 Act, the Fund may generally 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. In general, the Fund may declare dividends on preferred shares as long as there is asset coverage of 200% after deducting the amount of the dividend.

The Fund may subject to certain restrictions on investments imposed by guidelines of one or more rating agencies, which may issue ratings for any debt securities or preferred shares issued by the Fund in the future. These guidelines impose asset coverage and portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Certain types of borrowings may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants that may affect the Fund's ability to pay dividends and distributions on common shares in certain instances. The Fund also may be required to pledge its assets to the lenders in connection with certain types of borrowings. Currently, there are no portfolio composition requirements under the existing Agreement and related Lending Agreement. However, there are limits on which securities can be treated as pledged collateral for purposes of those agreements. Calamos does not anticipate that these covenants or restrictions would adversely affect its ability to manage the Fund's portfolio in accordance with the Fund's investment objective and policies. Due to these covenants or restrictions, the Fund may be forced to liquidate investments at times and at prices that are not favorable to the Fund, or the Fund may be forced to forgo investments that Calamos otherwise views as favorable.

The extent to which the Fund employs leverage will depend on many factors, the most important of which are investment outlook, market conditions and interest rates. Successful use of a leveraging strategy depends on Calamos' ability to predict correctly interest rates and market movements. There is no assurance that a leveraging strategy will be successful during any period in which it is employed.

Effects of Leverage

As of October 31, 2011, and as of December 31, 2011, the Fund had outstanding borrowings under the Agreement of \$314,000,000, representing approximately 25.5%, and 26.0% of the Fund's managed assets as of that date. Interest is charged at a quarterly LIBOR (London Inter-bank Offered Rate) plus .65% on the amount borrowed and .55% on the undrawn balance. For the period November 1, 2010 through October 31, 2011, the average borrowings under the Agreement and the average interest rate were \$291,378,082 and 1.07%, respectively. For the period November 1, 2011 through December 31, 2011, the average borrowings under the Agreement and the average interest rate were \$314,000,000 and 1.20%, respectively.

To cover the interest expense on the borrowings under the Agreement, based on rates in effect on

October 31, 2011, the Fund's portfolio would need to experience an annual return of 0.32%. To cover the interest expense on the borrowings under the Agreement, based on rates in effect on December 31, 2011, the Fund's portfolio would need to experience an annual return of 0.36%.

The following table illustrates the hypothetical effect on the return to a holder of the Fund's common shares of the leverage obtained by borrowing under the Agreement. The purpose of this table is to assist you in understanding the effects of leverage. As the table shows, leverage generally increases the return to shareholders when portfolio return is positive and greater than the cost of leverage and decreases the return when the portfolio return is negative or less than the cost of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or less than those appearing in the table.

| Assumed Portfolio Return (Net of Expenses) | (10)% | (5)% | 0% | 5% | 10% |
|--|----------|---------|---------|-------|--------|
| Corresponding Common Share Return(1) | (13.99)% | (7.24)% | (0.49)% | 6.26% | 13.01% |

(1) Includes interest expense on the borrowings under the Agreement, accrued at the interest rate in effect on December 31, 2011 of 1.23% (the three month LIBOR plus 0.65% on the amount borrowed) and 0.55% on the undrawn balance.

For further information about leveraging, see Risk Factors Additional Risks to Common Shareholders Leverage.

INTEREST RATE TRANSACTIONS

In order to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund, if Calamos deems market conditions favorable, may enter into over-the-counter interest rate swap or cap transactions to attempt to protect itself from increasing dividends or interest expenses on its leverage and to hedge portfolio securities from interest rate changes. Interest rate swaps involve the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty agreeing to pay the Fund a payment at a variable rate that is expected to approximate the rate of any variable rate payment obligation on the Fund's leverage. The payment obligations would be based on the notional amount of the swap.

The Fund may use an interest rate cap, which would require it to pay a premium to the counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount of such cap. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on common share net earnings as a result of leverage.

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

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Depending on the state of interest rates in general, the Fund's use of interest rate swaps or caps could enhance or harm the overall performance of the Fund's common shares. To the extent that there is a decline in interest rates for maturities equal to the remaining maturity on the Fund's fixed rate payment obligation under the interest rate swap or equal to the remaining term of the interest rate cap, the value of the swap or cap (which initially has a value of zero) could decline, and could result in a decline in the net asset value of the common shares. If, on the other hand, such rates were to increase, the value of the swap or cap could increase, and thereby increase the net asset value of the common shares. As interest rate swaps or caps approach their maturity, their positive or negative value due to interest rate changes will approach zero.

In addition, if the short-term interest rates effectively received by the Fund during the term of an interest rate swap are lower than the Fund's fixed rate of payment on the swap, the swap will increase the Fund's operating expenses and reduce common share net earnings. For example, if the Fund were to (A) issue preferred shares representing 33% of the Fund's total assets and (B) enter into one or more interest rate swaps in a notional amount equal to 75% of its outstanding preferred shares under which the Fund would receive a short-term swap rate of 5.12% and pay a fixed swap rate of 5.35% over the term of the swap, the swap would effectively increase Fund expenses and reduce Fund common share net earnings by approximately 0.09% as a percentage of net assets attributable to common shares and approximately 0.06% as a percentage of managed assets. If, on the other hand, the short-term interest rates effectively received by the Fund are higher than the Fund's fixed rate of payment on the interest rate swap, the swap would enhance common share net earnings. In either case, the swap would have the effect of reducing fluctuations in the Fund's cost of leverage due to changes in short-term interest rates during the term of the swap. The example above is purely for illustrative purposes and is not predictive of the actual percentage of the Fund's leverage that will be hedged by a swap, the actual fixed rates that the Fund will pay under the swap (which will depend on market interest rates for the applicable maturities at the time the Fund enters into swaps) or the actual short-term rates that the Fund will receive on any swaps (which fluctuate frequently during the term of the swap, and may change significantly from initial levels), or the actual impact such swaps will have on the Fund's expenses and common share net earnings.

Buying interest rate caps could enhance the performance of the Fund's common shares by providing a maximum leverage expense. Buying interest rate caps could also increase the operating expenses of the Fund and

decrease the net earnings of the common shares in the event that the premium paid by the Fund to the counterparty exceeds the additional amount the Fund would have been required to pay on its preferred shares due to increases in short-term interest rates during the term of the cap had it not entered into the cap agreement. The Fund has no current intention of selling an interest rate swap or cap. The Fund will monitor any interest rate swaps or caps with a view to ensuring that it remains in compliance with the federal income tax requirements for qualification as a regulated investment company.

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

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

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

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

RISK FACTORS

Investing in any of our securities involves risk, including the risk that you may receive little or no return on your investment or even that you may lose part or all of your investment. Therefore, before investing in any of our securities you should consider carefully the following risks, as well as any risk factors included in the applicable prospectus supplement.

Fund Risks

General. The Fund is a diversified, closed-end management investment company designed primarily as a long-term investment and not as a trading tool. The Fund invests primarily in a diversified portfolio of convertible securities and non-convertible debt securities. An investment in the Fund's common shares may be speculative and it involves a high degree of risk. The Fund should not constitute a complete investment program. Due to the uncertainty in all investments, there can be no assurance that the Fund will achieve its investment objective.

Convertible Securities Risk. The value of a convertible security is influenced by both the yield of non-convertible securities of comparable issuers and by the value of the underlying common stock. The value of a convertible security viewed without regard to its conversion feature (i.e., strictly on the basis of its yield) is sometimes referred to as its investment value. A convertible security's investment value tends to decline as prevailing interest rate levels increase. Conversely, a convertible security's investment value increases as prevailing interest rate levels decline.

However, a convertible security's market value will also be influenced by its conversion price, which is the market value of the underlying common stock that would be obtained if the convertible security were converted. A convertible security's conversion price tends to increase as the price of the underlying common stock increases, and decrease as the price of the underlying common stock decreases. As the market price of the underlying common stock declines such that the conversion price is substantially below the investment value of the convertible security, the price of the convertible security tends to be influenced more by the yield of the convertible security. Thus, the convertible security may not decline in price to the same extent as the underlying common stock. If the market price of the underlying common stock increases to a point where the conversion value approximates or exceeds the investment value, the price of the convertible security tends to be influenced more by the market price of the underlying common stock. In the event of a liquidation of the issuing company, holders of convertible securities would be paid before the company's common stockholders.

Synthetic Convertible Instruments Risk. The value of a synthetic convertible instrument may respond differently to market fluctuations than a convertible security because a synthetic convertible instrument is composed of two or more separate instruments, each with its own market value. In addition, if the value of the underlying common stock or the level of the index involved in the convertible component falls below the exercise price of the warrant or option, the warrant or option may lose all value. Synthetic convertible instruments created by other parties have the same attributes of a convertible security; however, the issuer of the synthetic convertible instrument assumes the credit risk associated with the investment, rather than the issuer of the underlying equity security into which the instrument is convertible. Therefore, the Fund is subject to the credit risk associated with the counterparty creating the synthetic convertible instrument.

High Yield Securities Risk. Investment in high yield securities involves substantial risk of loss. Below investment grade non-convertible debt securities or comparable unrated securities are commonly referred to as junk bonds and are considered predominantly speculative with respect to the issuer's ability to pay interest and repay principal and are susceptible to default or decline in market value due to adverse economic and business developments. The market values for high yield securities tend to be very volatile, and these securities are less liquid than investment grade debt securities. For these reasons, your investment in the Fund is subject to the following specific risks:

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

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

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

if a negative perception of the high yield market develops, the price and liquidity of high yield securities may be depressed.

This negative perception could last for a significant period of time.

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

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

The secondary market for high yield securities may not be as liquid as the secondary market for more highly rated securities, a factor which may have an adverse effect on the Fund's ability to dispose of a particular security when necessary to meet its liquidity needs. There are fewer dealers in the market for high yield securities than for investment grade obligations. The prices quoted by different dealers may vary significantly and the spread between the bid and asked price is generally much larger than for higher quality instruments. Under adverse market or economic conditions, the secondary market for high yield securities could contract further, independent of any specific adverse changes in the condition of a particular issuer, and these instruments may become illiquid. As a result, the Fund could find it more difficult to sell these securities or may be able to sell the securities only at prices lower than if such securities were widely traded. Prices realized upon the sale of such lower rated or unrated securities, under these circumstances, may be less than the prices used in calculating the Fund's net asset value.

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

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

Interest Rate Risk. Fixed income securities, including high yield securities, are subject to certain common risks, including:

if interest rates go up, the value of debt securities in the Fund's portfolio generally will decline;

during periods of declining interest rates, the issuer of a security may exercise its option to prepay principal earlier than scheduled, forcing the Fund to reinvest in lower yielding securities. This is known as call or prepayment risk. Debt securities frequently have call features that allow the issuer to repurchase the security prior to its stated maturity. An issuer may redeem an obligation if the issuer can refinance the debt at a lower cost due to declining interest rates or an improvement in the credit standing of the issuer;

during periods of rising interest rates, the average life of certain types of securities may be extended because of slower than expected principal payments. This may lock in a below market interest rate, increase the security's duration (the estimated period until the security is paid in full) and reduce the value of the security. This is known as extension risk; and

market interest rates currently are near historically low levels.

Default Risk. Default risk refers to the risk that a company that issues a debt security will be unable to fulfill its obligations to repay principal and interest. The lower a debt security is rated, the greater its default risk.

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

Foreign Securities Risk. Investments in non-U.S. issuers may involve unique risks compared to investing in securities of U.S. issuers. These risks are more pronounced to the extent that the Fund invests a significant portion of its non-U.S. investments in one region or in the securities of emerging market issuers. These risks may include:

less information may be available about non-U.S. issuers or markets due to less rigorous disclosure or accounting standards or regulatory practices;

many non-U.S. markets are smaller, less liquid and more volatile. In a changing market, Calamos may not be able to sell the Fund's portfolio securities at times, in amounts and at prices it considers reasonable;

an adverse effect of currency exchange rates or controls on the value of the Fund's investments;

the economies of non-U.S. countries may grow at slower rates than expected or may experience a downturn or recession;

economic, political and social developments may adversely affect the securities markets, including expropriation and nationalization;

the difficulty in obtaining or enforcing a court judgment in non-U.S. countries;

restrictions on foreign investments in non-U.S. jurisdictions;

difficulties in effecting the repatriation of capital invested in non-U.S. countries; and

withholding and other non-U.S. taxes may decrease the Fund's return.

There may be less publicly available information about non-U.S. markets and issuers than is available with respect to U.S. securities and issuers. Non-U.S. companies generally are not subject to accounting, auditing and financial reporting standards, practices and requirements comparable to those applicable to U.S. companies. The trading markets for most non-U.S. securities are generally less liquid and subject to greater price volatility than the markets for comparable securities in the United States. The markets for securities in certain emerging markets are in the earliest stages of their development. Even the markets for relatively widely traded securities in certain non-U.S. markets, including emerging market countries, may not be able to absorb, without price disruptions, a significant increase in trading volume or trades of a size customarily undertaken by institutional investors in the United States. Additionally, market making and arbitrage activities are generally less extensive in such markets, which may contribute to increased volatility and reduced liquidity.

Economies and social and political conditions in individual countries may differ unfavorably from those in the United States. Non-U.S. economies may have less favorable rates of growth of gross domestic product, rates of inflation, currency valuation, capital reinvestment, resource self-sufficiency and balance of payments positions. Many countries have experienced substantial, and in some cases extremely high, rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had, and may continue to have, very negative effects on the economies and securities markets of certain emerging countries. Unanticipated political or social developments may also affect the values of the Fund's investments and the availability to the Fund of additional investments in such countries.

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

The Fund may sell options on individual securities and securities indices. All calls sold by the Fund must be covered. Even though the Fund will receive the option premium to help protect it against loss, a call option sold by the Fund exposes the Fund during the term of the option to possible loss of opportunity to realize appreciation in the market price of the underlying security or instrument and may require the Fund to hold a security or instrument that it might otherwise have sold. The Fund may purchase and sell put options on individual securities and securities indices. In selling put options, there is a risk that the Fund may be required to buy the underlying security at a disadvantageous price above the market price. A put option written by the Fund requires the Fund to segregate cash or liquid assets equal to the exercise price.

REIT Risk. 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.

Management Risk. Calamos' judgment about the attractiveness, relative value or potential appreciation of a particular sector, security or investment strategy may prove to be incorrect.

Tax Risk. The Fund may invest in certain securities, such as certain convertible securities, for which the federal income tax treatment may not be clear or may be subject to re-characterization by the Internal Revenue Service. It could be more difficult for the Fund to comply with the federal income tax requirements applicable to regulated investment companies if the tax characterization of the Fund's investments or the tax treatment of the income from such investments were successfully challenged by the Internal Revenue Service. See Certain Federal Income Tax Matters.

Antitakeover Provisions. The Fund's Agreement and Declaration of Trust and By-laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees. Such provisions could limit the ability of shareholders to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions include staggered terms of office for the Trustees, advance notice requirements for shareholder proposals, and super-majority voting requirements for certain transactions with affiliates, converting the Fund to an open-end investment company or a merger, asset sale or similar transaction. Holders of preferred shares have voting rights in addition to and separate from the voting rights of common shareholders with respect to certain of these matters. Holders of any preferred shares, voting separately as single class, have the right to elect at least two trustees at all times. See Description of Shares Preferred Shares and Certain Provisions of the Agreement and Declaration of Trust and By-Laws. The holders of preferred shares, on the one hand, and the holders of the common shares, on the other, may have interests that conflict, including conflicts that relate to the fees and expenses of the Fund. For more information on potential conflicts of interest between holders of common shares and holders of preferred shares, see Additional Risks to Common Shareholders Leverage Risk.

Market Disruption Risk. Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events, earthquakes, storms and other disasters. The Fund cannot predict the effects of similar events in the future on the U.S. economy or any foreign economy. High yield securities tend to be more volatile than higher rated debt securities so that these events and any actions resulting from them may have a greater impact on the prices and volatility of high yield securities than on higher rated securities.

Counterparty and Settlement Risk. Trading options, futures contracts, swaps and other derivative financial instruments entails credit risk on the counterparties. Such instruments are not afforded the same protections as may apply to trading derivatives on organized exchanges. Substantial losses may arise from the insolvency, bankruptcy or default of a counterparty and risk of settlement default of parties with whom it trades securities. This risk may be heightened during volatile market conditions. Settlement mechanisms in emerging markets are generally less developed and reliable than those in more developed countries thus increasing the risks.

Duration Risk. Duration measures the time-weighted expected cash flows of a fixed-income security, which can determine its sensitivity to changes in the general level of interest rates. Securities with longer durations tend to be more sensitive to interest rate changes than securities with shorter durations. The longer the Fund's dollar-weighted average duration, the more it can generally be expected to be more sensitive to interest rate changes than a fund with a shorter dollar-weighted average duration. Duration differs from maturity in that it considers a security's coupon payments in addition to the amount of time until the security matures. Various techniques may be used to shorten or lengthen the Fund's duration. As the value of a security changes over time, so will its duration.

Maturity Risk. Interest rate risk will generally affect the price of a fixed income security more if the security has a longer maturity. Fixed income securities with longer maturities will therefore be more volatile than other fixed income securities with shorter maturities. Conversely, fixed income securities with shorter maturities will be less volatile but generally provide lower returns than fixed income securities with longer maturities. The average maturity of the Fund's investments will affect the volatility of the Fund's share price.

Recent Market Events. In the recent past, domestic and international markets have experienced acute turmoil due to a variety of factors, including economic unrest in Italy, Greece, Spain, Ireland, Portugal and other European Union countries. This turmoil resulted in unusual and extreme volatility in the equity and debt markets, in the prices of individual securities and in the world economy. In addition, many governments or quasi-governmental organizations throughout the world responded to the turmoil with a variety of significant fiscal and monetary policy changes, including but not limited to, direct capital infusions into companies, new monetary programs and dramatically lower interest rates. An unexpected or quick reversal of these policies could increase the volatility in the equity and debt markets. 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. Because the situation 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. These market conditions and continuing economic risks could have a significant effect on the domestic and international economies, and could add significantly to the risk of short-term volatility in the Fund.

Additional Risks to Common Shareholders

Generally, an investment in common shares is subject to the following risks:

Leverage Risk. The Fund may issue preferred shares or borrow money or issue debt securities as permitted by the 1940 Act. The Fund's use of leverage creates risk. As a non-fundamental policy, the Fund may not issue preferred shares or borrow money and issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's total assets. However, the Board of Trustees reserves the right to issue preferred shares or borrow to the extent permitted by the 1940 Act or under any order issued by the Commission. See Leverage.

Leverage creates risks which may adversely affect the return for the holders of common shares, including:

the likelihood of greater volatility of net asset value and market price of the Fund's common shares;

fluctuations in the dividend rates on any preferred shares or in interest rates on borrowings and short-term debt;

increased operating costs, which are effectively borne by common shareholders, may reduce the Fund's total return; and

the potential for a decline in the value of an investment acquired with borrowed funds, while the Fund's obligations under such borrowing or preferred shares remain fixed.

The Fund's use of leverage is premised upon the expectation that the Fund's preferred share dividends or borrowing cost will be lower than the return the Fund achieves on its investments with the proceeds of the issuance of preferred shares or debt securities or borrowing. Such difference in return may result from the Fund's higher credit rating or the short-term nature of its borrowing compared to the long-term nature of its investments. Because Calamos seeks to invest the Fund's managed assets (including the assets obtained from leverage) in the higher yielding portfolio investments or portfolio investments with the potential for capital appreciation, the holders of common shares will be the beneficiaries of the incremental return. Should the differential between the underlying assets and cost of leverage narrow, the incremental return pick up will be reduced. Furthermore, if long-term interest rates rise without a corresponding increase in the yield on the Fund's portfolio investments or the Fund otherwise incurs losses on its investments, the Fund's net asset value attributable to its common shares will reflect the decline in the value of portfolio holdings resulting therefrom.

Leverage is a speculative technique that could adversely affect the returns to common shareholders. Leverage can cause the Fund to lose money and can magnify the effect of any losses. To the extent the income or capital appreciation derived from securities purchased with funds received from leverage exceeds the cost of leverage, the Fund's return will be greater than if leverage had not been used. Conversely, if the income or capital appreciation from the securities purchased with such funds is not sufficient to cover the cost of leverage or if the Fund incurs capital losses, the return of the Fund will be less than if leverage had not been used, and therefore the amount available for distribution to common shareholders as dividends and other distributions will be reduced or potentially eliminated.

The Fund will pay, and common shareholders will effectively bear, any costs and expenses relating to any borrowings and to the issuance and ongoing maintenance of preferred shares or debt securities. Such costs and expenses include the higher management fee resulting from the use of any such leverage, offering and/or issuance costs, and interest and/or dividend expense and ongoing maintenance.

Certain types of borrowings may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants that may affect the Fund's ability to pay dividends and distributions on common shares in certain instances. The Fund may also be required to pledge its assets to the lenders in connection with certain types of borrowings. The Fund is subject to certain restrictions on investments imposed by guidelines of one or more rating agencies which may issue ratings for any preferred shares or short-term debt instruments issued by the Fund. These guidelines may impose asset coverage or portfolio composition requirements that are more stringent than those imposed by the 1940 Act. Currently, there are no portfolio composition requirements under the existing Agreement and related Lending Agreement. However, there are limits on which securities can be treated as pledged collateral for purposes of those agreements. Calamos does not anticipate that these covenants or restrictions will adversely affect its ability to manage the Fund's portfolio in accordance with the Fund's investment objective and policies. Due to these covenants or restrictions, the Fund may be forced to liquidate investments at times and at prices that are not favorable to the Fund, or the Fund may be forced to forgo investments that Calamos otherwise views as favorable. See Rating Agency Guidelines.

If the Fund's ability to make dividends and distributions on its common shares is limited, such limitation could, under certain circumstances, impair the ability of the Fund to maintain its qualification for taxation as a regulated investment company, which would have adverse tax consequences for common shareholders. To the extent that the Fund is required, in connection with maintaining 1940 Act asset coverage requirements or otherwise, or elects to redeem any preferred shares or debt securities or prepay any borrowings, the Fund may need to liquidate investments to fund such redemptions or prepayments. Liquidation at times of adverse economic conditions may result in capital loss and reduce returns to common shareholders.

Because Calamos' investment management fee is a percentage of the Fund's managed assets, Calamos' fee will be higher if the Fund is leveraged and Calamos will have an incentive to be more aggressive and leverage the Fund. Consequently, the Fund and Calamos may have differing interests in determining whether to leverage the Fund's assets. Any additional use of leverage by the Fund would require approval by the Board of Trustees of the Fund. In considering whether to approve the use of additional leverage, the Board would be presented with all relevant information necessary to make a determination whether or not additional leverage would be in the best interests of the Fund, including information regarding any potential conflicts of interest.

Interest Rate Transactions Risk. The Fund may enter into an interest rate swap or cap transaction to attempt to protect itself from increasing dividends or interest expenses on its leverage resulting from increasing short-term interest rates and to hedge its portfolio securities. A decline in interest rates may result in a decline in the value of the swap or cap, which may result in a decline in the net asset value of the Fund.

Depending on the state of interest rates in general, the Fund's use of interest rate swap or cap transactions could enhance or harm the overall performance of the common shares. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, and could result in a decline in the net asset value of the common shares. In addition, if the counterparty to an interest rate swap or cap defaults, the Fund would not be able to use the anticipated net receipts under the swap or cap to offset the dividend or interest payments on the Fund's leverage.

Depending on whether the Fund would be entitled to receive net payments from the counterparty on the swap or cap, which in turn would depend on the general state of short-term interest rates at that point in time, such a default could negatively impact the performance of the common shares. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund would not be able to obtain a replacement transaction or that the terms of the replacement would not be as favorable as on the expiring transaction. If either of these events occurs, it could have a negative impact on the performance of the common shares.

If the Fund fails to maintain a required 200% asset coverage of the liquidation value of the outstanding Auction Market Preferred Shares or if the Fund loses its rating on its Auction Market Preferred Shares or fails to maintain other covenants with respect to the Auction Market Preferred Shares, the Fund may be required to redeem some or all of the Auction Market Preferred Shares. Similarly, the Fund could be required to prepay the principal amount of any debt securities or other borrowings. Such redemption or prepayment would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by or to the Fund. Early termination of a cap could result in a termination payment to the Fund. The Fund intends to segregate with its custodian cash or liquid securities having a value at least equal to the Fund's net payment obligations under any swap transaction, marked-to-market daily.

Reduction of Leverage Risk. We have previously taken, and may in the future take, action to reduce the amount of leverage employed by the Fund. In addition, subject to then current market conditions and portfolio management assessment, we may use the proceeds of any offering under this prospectus and related prospectus supplement to redeem senior securities to the extent that any such securities are outstanding. Reduction of the leverage employed by the Fund, including by redemption of preferred shares, will in turn reduce the amount of assets available for investment in portfolio securities. This reduction in leverage may negatively impact our financial performance, including our ability to sustain current levels of distributions on common shares.

Market Impact Risk. The sale of our common shares (or the perception that such sales may occur) may have an adverse effect on prices in the secondary market for our common shares. An increase in the number of common shares available may put downward pressure on the market price for our common shares. These sales also might make it more difficult for us to sell additional equity securities in the future at a time and price we deem appropriate.

Dilution Risk. The voting power of current shareholders will be diluted to the extent that current shareholders do not purchase shares in any future common share offerings or do not purchase sufficient shares to maintain their percentage interest. In addition, if we are unable to invest the proceeds of such offering as intended, our per share distribution may decrease and we may not participate in market advances to the same extent as if such proceeds were fully invested as planned.

Market Discount Risk. The Fund's common shares have traded both at a premium and at a discount in relation to net asset value. Shares of closed-end investment companies frequently trade at a discount from net asset value, but in some cases trade above net asset value. The risk of the common shares trading at a discount is a risk separate from the risk of a decline in the Fund's net asset value as a result of investment activities. The Fund's net asset value may be reduced immediately following this offering by the offering costs for common shares or other securities, which will be borne entirely by all common shareholders.

Whether shareholders will realize a gain or loss upon the sale of the Fund's common shares depends upon whether the market value of the shares at the time of sale is above or below the price the shareholder paid, taking into account transaction costs for the shares, and is not directly dependent upon the Fund's net asset value. Because the market value of the Fund's common shares will be determined by factors such as the relative demand for and supply of the shares in the market, general market conditions and other factors beyond the control of the Fund, the Fund cannot predict whether its common shares will trade at, below or above net asset value, or below or above the public offering price for the common shares.

Additional Risks to Senior Security Holders

Generally, an investment in preferred shares (including exchange-listed preferred shares) or debt securities (collectively, "senior securities") is subject to the following risks:

Interest Rate Risk. Rising market interest rates could impact negatively the value of our investment portfolio, reducing the amount of assets serving as asset coverage for the senior securities.

Senior Leverage Risk. Preferred shares will be junior in liquidation and with respect to distribution rights to debt securities and any other borrowings. Senior securities representing indebtedness may constitute a substantial lien and burden on preferred shares by reason of their prior claim against our income and against our net assets in liquidation. We may not be permitted to declare dividends or other distributions with respect to any series of preferred shares unless at such time we meet applicable asset coverage requirements and the payment of principal or interest is not in default with respect to any borrowings.

Ratings and Asset Coverage Risk. To the extent that senior securities are rated, a rating does not eliminate or necessarily mitigate the risks of investing in our senior securities, and a rating may not fully or accurately reflect all of the credit and market risks associated with that security. A rating agency could downgrade the rating of our shares of preferred stock or debt securities, which may make such securities less liquid in the secondary market, though probably with higher resulting interest rates. If a rating agency downgrades the rating assigned to a senior security, we may alter our portfolio or redeem the senior security. We may voluntarily redeem senior securities under certain circumstances.

Inflation Risk. Inflation is the reduction in the purchasing power of money resulting from an increase in the price of goods and services. Inflation risk is the risk that the inflation adjusted or real value of an investment in preferred stock or debt securities or the income from that investment will be worth less in the future. As inflation occurs, the real value of the preferred stock or debt securities and the dividend payable to holders of preferred stock or interest payable to holders of debt securities declines.

Decline in Net Asset Value Risk. A material decline in our NAV may impair our ability to maintain required levels of asset coverage for any preferred securities or debt securities we may issue.

Redemption Risk. The Fund may experience periods of heavy redemptions that could cause the Fund to liquidate its assets at inopportune times or at a loss or depressed value, particularly during periods of declining or illiquid markets. Redemption risk is greater to the extent that the Fund has investors with large shareholdings, short investment horizons, or unpredictable cash flow needs. In addition, redemption risk is heightened during periods of overall market turmoil. The redemption by one or more large shareholders of their holdings in the Fund could cause the remaining shareholders in the Fund to lose money.

Secondary Market Risk. The market value of exchange-listed preferred shares that the Fund may issue will be determined by factors such as the relative demand for and supply of the preferred shares in the market, general market conditions and other factors beyond the control of the Fund. Because the Fund has no prior trading history for preferred shares, it is difficult to predict the trading patterns of preferred shares, including the effective costs of trading. There is a risk that the market for preferred shares may be thinly traded and relatively illiquid compared to the market for other types of securities.

Market Discount Risk. The market price of exchange-listed preferred shares that the Fund may issue may also be affected by such factors as the Fund's use of leverage, dividend stability, portfolio credit quality, liquidity, and the Fund's dividends paid (which are, in turn, affected by expenses), call protection for portfolio securities and interest rate movements.

Early Redemption Risk. The Fund may voluntarily redeem preferred shares or may be forced to redeem preferred shares to meet regulatory requirements and the asset coverage requirements of the preferred shares. Such redemptions may be at a time that is unfavorable to holders of the preferred shares.

MANAGEMENT OF THE FUND

Trustees and Officers

The Fund's Board of Trustees provides broad supervision over the affairs of the Fund. The officers of the Fund are responsible for the Fund's operations. Currently, there are six Trustees of the Fund, one of whom is an interested person of the Fund (as defined in the 1940 Act) and five of whom are not interested persons. The names and business addresses of the trustees and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the statement of additional information.

Investment Adviser

The Fund's investments are managed by Calamos, 2020 Calamos Court, Naperville, Illinois. On December 31, 2011, Calamos managed approximately \$32.8 billion in assets of individuals and institutions. Calamos is a wholly-owned subsidiary of CILLC and indirect subsidiary of Calamos Asset Management, Inc., a publicly traded holding company whose shares are listed on the NASDAQ exchange under the ticker symbol CLMS.

Investment Management Agreement

Subject to the overall authority of the Board of Trustees, Calamos regularly 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, supervises the Fund's business and affairs and provides the following other services on behalf of the Fund and not provided by persons not a party to the investment management agreement: (a) preparing or assisting in the preparation of reports to and meeting materials for the Trustees; (b) 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; (c) assisting in the preparation and making of filings with the Commission and other regulatory and self-regulatory organizations, including, but not limited to, preliminary and definitive proxy materials, registration statements on Form N-2 and amendments thereto, and reports on Form N-SAR and Form N-CSR; (d) overseeing the tabulation of proxies by the Fund's transfer agent; (e) assisting in the preparation and filing of the Fund's federal, state and local tax returns; (f) assisting in the preparation and filing of the Fund's federal excise tax return pursuant to Section 4982 of the Code; (g) providing assistance with investor and public relations matters; (h) monitoring the valuation of portfolio securities and the calculation of net asset value; (i) monitoring the registration of shares of beneficial interest of the Fund under applicable federal and state securities laws; (j) 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; (k) assisting in establishing the accounting policies of the Fund; (l) 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; (m) reviewing the Fund's bills; (n) 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 (o) 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 computed weekly and paid on a monthly basis. The fee paid by the Fund is at the annual rate of 0.80% of average weekly managed assets. Because the fees paid to Calamos are determined on the basis of the Fund's managed assets, the amount of management fees paid to Calamos when the Fund uses leverage will be higher than if the Fund did not use leverage. Therefore, Calamos has a financial incentive to use leverage, which creates a conflict of interest between Calamos and the Fund's common shareholders. A discussion regarding the basis of the approval of the Investment Management Agreement is available in the Fund's annual report for the year ended October 31, 2011.

Under the terms of its investment management agreement, except for the services and facilities provided by Calamos as set forth therein, the Fund shall assume and pay all expenses for all other Fund operations and activities and shall reimburse Calamos for any such expenses incurred by Calamos. The expenses borne by the Fund shall include, without limitation: (a) organization expenses of the Fund (including out-of-pocket expenses, but not including Calamos' overhead or employee costs); (b) fees payable to Calamos; (c) legal expenses; (d) auditing and accounting expenses; (e) maintenance of books and records that are required to be maintained by the Fund's custodian or other agents of the Fund; (f) telephone, telex, facsimile, postage and other communications expenses;

(g) taxes and governmental fees; (h) fees, dues and expenses incurred by the Fund in connection with membership in investment company trade organizations and the expense of attendance at professional meetings of such organizations; (i) fees and expenses of accounting agents, custodians, subcustodians, transfer agents, dividend disbursing agents and registrars; (j) payment for portfolio pricing or valuation services to pricing agents, accountants, bankers and other specialists, if any; (k) expenses of preparing share certificates; (l) expenses in connection with the issuance, offering, distribution, sale, redemption or repurchase of securities issued by the Fund; (m) expenses relating to investor and public relations provided by parties other than Calamos; (n) expenses and fees of registering or qualifying shares of beneficial interest of the Fund for sale; (o) interest charges, bond premiums and other insurance expenses; (p) freight, insurance and other charges in connection with the shipment of the Fund's portfolio securities; (q) the compensation and all expenses (specifically including travel expenses relating to Fund business) of Trustees, officers and employees of the Fund who are not affiliated persons of Calamos; (r) brokerage commissions or other costs of acquiring or disposing of any portfolio securities of the Fund; (s) expenses of printing and distributing reports, notices and dividends to shareholders; (t) expenses of preparing and setting in type, printing and mailing prospectuses and statements of additional information of the Fund and supplements thereto; (u) costs of stationery; (v) any litigation expenses; (w) indemnification of Trustees and officers of the Fund; (x) costs of shareholders' and other meetings; (y) interest on borrowed money, if any; and (z) the fees and other expenses of listing the Fund's shares on the NYSE or any other national stock exchange.

Portfolio Manager

Calamos employs a team approach to portfolio management, led by the Co-Chief Investment Officers (Co-CIOs) and comprised generally of the Co-CIOs, Co-Heads of Research and Investments, senior strategy analysts, intermediate analysts and junior analysts. The Co-CIOs, Co-Heads of Research and Investments and senior strategy analysts 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.

Portfolio holdings are reviewed and trading activity is discussed on a regular basis by team members. Team members, including the Co-CIOs, Co-Heads of Research and Investments and senior strategy analysts, may each make trading decisions guided by the Fund's investment objective and strategy.

While day-to-day management of the Fund is a team effort, the Co-CIOs, along with the Co-Heads of Research and Investments and the senior strategy analysts, have joint primary and supervisory responsibility for the Fund and work with all team members in developing and executing the Fund's investment program. Each is further identified below.

John P. Calamos, Sr. and Nick P. Calamos, Co-CIO of Calamos, generally focus on the top-down approach of diversification by industry sector and macro-level investment themes. Nick P. Calamos, Co-CIO and President of Investments of Calamos, also focuses on portfolio level risk management, sector and country weightings, bottom-up fundamental security analysis, and corresponding research and analysis for key holdings. As Co-CIOs, Messrs. John P. Calamos, Sr. and Nick P. Calamos direct the team's focus on macro themes, upon which the portfolio's strategy is based. The team, as a whole, implements the investment strategies, under the general direction and supervision of the Co-CIOs, as well as the Co-Heads of Research and Investments, Jeff Scudieri and Jon Vacko, and the senior strategy analysts. Nick Calamos, along with Jeff Scudieri and Jon Vacko, are responsible for the day-to-day management of the team, bottom-up research efforts and strategy implementation. John Calamos, Jr., Christopher Hartman, John Hillenbrand, Steve Klouda, and Joe Wysocki are each senior strategy analysts.

During the past five years, the following portfolio managers held the positions indicated with the Fund and the Adviser: John P. Calamos, Sr. has been President and Trustee of the Fund and chairman, CEO and Co-CIO of Calamos and its predecessor company, and Nick P. Calamos has been Vice President since the Fund's inception and Trustee of the Fund (through June 2006) and President of Investments and Co-CIO of Calamos (since 2009), prior thereto he was Senior Executive Vice President of Investments and Co-CIO of Calamos and its predecessor company; John P. Calamos, Jr., Executive Vice President of Calamos, joined the firm in 1985 and has held various senior investment positions since that time; Jeff Scudieri joined Calamos in 1997 and has been a Senior Vice President and Co-Head of Research and Investments of Calamos since July 2010, prior thereto he was a Senior Vice President and Senior Strategy Analyst since September 2002; Jon Vacko joined Calamos in 2000

and has been a Senior Vice President and Co-Head of Research and Investments of Calamos since July 2010, prior thereto he was a Senior Vice President and Senior Strategy Analyst since July 2002; John Hillenbrand, Senior Vice President of Calamos, joined Calamos in 2002 and has been a Senior Strategy Analyst since August 2002; Steve Klouda, Senior Vice President of Calamos, joined Calamos in 1994 and has been a Senior Strategy Analyst since July 2002; Christopher Hartman, Assistant Vice President of Calamos, joined Calamos in February 1997 and has been a Senior Strategy Analyst since May 2007; and Joe Wysocki, Assistant Vice President of Calamos, joined Calamos in October 2003 and has been a Senior Strategy Analyst since February 2007.

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.

Fund Accounting

Under the arrangements with State Street to provide fund accounting services, State Street provides certain administrative and accounting services 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) as described more fully in the statement of additional information. For the services rendered to the Calamos Funds, State Street receives fees based on the combined managed assets of the Calamos Funds (Combined Assets). 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. State Street receives a fee at the annual rate of .005% for the first \$20.0 billion of Combined Assets, .004% for the next \$10.0 billion of Combined Assets and .003% for the Combined Assets in excess of \$30.0 billion. Because the fees payable to State Street are based on the managed assets of the Calamos Funds, the fees increase as the Calamos Funds increase their leverage.

In addition, pursuant to an agreement, Calamos is obligated to provide certain other financial accounting services to the Calamos Funds described more fully in the statement of additional information. For those services, Calamos receives a fee 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 (financial accounting service fee). Each fund of the Calamos Funds will pay its pro rata share of the financial accounting service fee to Calamos based on the fund's portion of the Combined Assets.

Legal Proceedings

The Fund, the Fund's Board of Trustees, the Adviser and the corporate parent of the Adviser were named as a defendant in putative class action complaints, captioned Rutgers Casualty Insurance Co. v. Calamos, et al. Calamos Convertible Opportunities and Income Fund (CHI), CHI's Board of Trustees, the Adviser and the corporate parent of the Adviser also were named in putative class action complaints, captioned Brown v. Calamos, et al. and Bourrienne v. Calamos, et al. All three complaints were originally filed in the Circuit Court of Cook County, Illinois and subsequently removed to the U.S. District Court for the Northern District of Illinois. Only the Rutgers matter remains pending in that Court. The complaints in Brown and Bourrienne generally alleged that the Board of Trustees of CHI breached certain fiduciary duties owed to CHI's common shareholders by approving the redemption of CHI's ARPS at their liquidation preference, and by recapitalizing CHI with debt-based borrowings that were allegedly less advantageous to CHI's common shareholders. The complaints also alleged that the Adviser, the corporate parent of the Adviser, and in the case of the Brown complaint, CHI itself, aided and abetted the Trustees' alleged breaches of fiduciary duty and were unjustly enriched as a result. The Rutgers complaint contains allegations similar to, and pleads the same claims as, the complaint in Brown, but is directed against the Fund and the Fund's Board of Trustees. The Brown and Bourrienne suits sought, and the Rutgers suit seeks, indeterminate monetary and punitive damages from the named defendants, as well as injunctive relief. The Brown action was dismissed pursuant to SLUSA on March 14, 2010. The dismissal was affirmed by the United States Court of Appeals for the Seventh Circuit on November 10, 2011. On January 27, 2012, Brown applied to the United States Supreme Court for an extension of time to file a petition for writ of

certiorari, which the Court granted on January 31, 2012. As a result, Brown has until March 9, 2012 to file a petition for writ of certiorari in the Supreme Court. The Bourrienne action was dismissed on August 4, 2011. Bourrienne filed a Notice of Appeal from the final judgment, which was docketed in the United States Court of Appeals for the Seventh Circuit on August 30, 2011. On December 6, 2011, Bourrienne stipulated to the dismissal with prejudice of his appeal, and the Seventh Circuit dismissed the appeal on December 7, 2011. In Rutgers, defendants moved to dismiss the complaint and plaintiff has moved to remand the case to the Circuit Court of Cook County. Although both motions are fully briefed, the Court has not yet ruled on either motion. The defendants believe that the Rutgers complaint, like the Brown and Bourrienne complaints, is without merit, and intend to defend themselves vigorously against these allegations.

The Fund believes that the litigation does not have any present material adverse effect on the Fund or on the ability of the Adviser to perform its obligations under its investment advisory contract with the Fund.

CLOSED-END FUND STRUCTURE

The Fund is a diversified, closed-end management investment company (commonly referred to as a closed-end fund) which commenced investment operations in May 2003. Closed-end funds differ from open-end management investment companies (which are generally referred to as mutual funds) in that closed-end funds generally list their shares for trading on a stock exchange and do not redeem their shares at the request of the shareholder. This means that if you wish to sell your shares of a closed-end fund you must trade them on the market like any other stock at the prevailing market price at that time. In a mutual fund, if the shareholder wishes to sell shares of the fund, the mutual fund will redeem or buy back the shares at net asset value. Also, mutual funds generally offer new shares on a continuous basis to new investors, and closed-end funds generally do not. The Fund is presently engaged in a continuous at the market offering of its common shares as described in the prospectus supplement. The continuous inflows and outflows of assets in a mutual fund can make it difficult to manage the fund's investments. By comparison, closed-end funds are generally able to stay more fully invested in securities that are consistent with their investment objectives and also have greater flexibility to make certain types of investments and to use certain investment strategies, such as financial leverage and investments in illiquid securities.

Shares of closed-end funds frequently trade at a discount to their net asset value. To the extent the common shares do trade at a discount, the Fund's Board of Trustees may from time to time engage in open-market repurchases or tender offers for shares after balancing the benefit to shareholders of the increase in the net asset value per share resulting from such purchases against the decrease in the assets of the Fund and potential increase in the expense ratio of expenses to assets of the Fund. The Board of Trustees believes that in addition to the beneficial effects described above, any such purchases or tender offers may result in the temporary narrowing of any discount but will not have any long-term effect on the level of any discount. We cannot guarantee or assure, however, that the Fund's Board of Trustees will decide to engage in any of these actions. Nor is there any guarantee or assurance that such actions, if undertaken, would result in the shares trading at a price equal or close to net asset value per share. The Board of Trustees might also consider converting the Fund to an open-end mutual fund, which would also require a vote of the shareholders of the Fund. Conversion of the Fund to an open-end mutual fund would require an amendment to the Fund's Declaration of Trust. Such an amendment would require the favorable vote of the holders of at least 75% of the Fund's outstanding shares (including any preferred shares) entitled to be voted on the matter, voting as a single class (or a majority of such shares if the amendment were previously approved, adopted or authorized by 75% of the total number of Trustees fixed in accordance with the Bylaws), and, assuming preferred shares are issued, the affirmative vote of a majority of outstanding preferred shares, voting as a separate class.

CERTAIN FEDERAL INCOME TAX MATTERS

The following is a general summary of certain federal income tax considerations affecting us and our security holders. This discussion does not purport to be complete or to deal with all aspects of federal income taxation that may be relevant to shareholders in light of their particular circumstances or those who are subject to special rules, such as banks, thrift institutions and certain other financial institutions, REITs, regulated investment companies, insurance companies, brokers and dealers in securities or currencies, certain securities

traders, tax-exempt investors, individual retirement accounts, certain tax-deferred accounts, and foreign investors. Tax matters are very complicated, and the tax consequences of an investment in and holding of our securities will depend on the particular facts of each investor's situation. Investors are advised to consult their own tax advisors with respect to the application to their own circumstances of the general federal income taxation rules described below and with respect to other federal, state, local or foreign tax consequences to them before making an investment in our securities. Unless otherwise noted, this discussion assumes that investors are U.S. persons and hold our securities as capital assets. More detailed information regarding the federal income tax consequences of investing in our securities is in the statement of additional information.

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 income and 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, the excess of any net short-term capital gains over net long-term capital losses and certain net foreign exchange gains, 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 net short-term capital loss), it will be subject to U.S. federal income tax at regular corporate federal income tax rates (currently at a maximum rate of 35%) 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, and net capital gain. Under the Code, the Fund will generally be subject to a nondeductible 4% federal excise tax on its undistributed ordinary income and capital gains if it fails to meet certain distribution requirements with respect to each calendar year. The Fund intends to make distributions in a timely manner in amounts necessary to avoid the excise tax and accordingly does not expect to be subject to this tax.

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 deducted 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, and non-corporate shareholders would generally be able to treat such distributions as qualified dividend income eligible for reduced rates of U.S. federal income taxation in taxable years beginning on or before December 31, 2012.

Certain of the Fund's investment practices are subject to special and complex federal income tax provisions that may, among other things, (i) disallow, suspend or otherwise limit the allowance of certain losses or deductions, (ii) convert tax-advantaged, long-term capital gains and qualified dividend income into higher taxed short-term capital gain or ordinary income, (iii) convert an ordinary loss or a deduction into a capital loss (the deductibility of which is more limited), (iv) cause the Fund to recognize income or gain without a corresponding receipt of cash, (v) adversely affect the timing as to when a purchase or sale of stock or securities is deemed to occur, and (vi) adversely alter the characterization of certain complex financial transactions. The Fund will monitor its transactions and may make certain tax elections where applicable in order to mitigate the effect of these provisions, if possible.

Dividends, interest and some capital gains received by the Fund on foreign securities may be subject to foreign tax withholdings or other foreign taxes. If it meets certain requirements, the Fund may make an election under the Code to pass through such taxes to shareholders of the Fund. If such an election is not made, any foreign taxes paid or accrued by the Fund will represent an expense of the Fund. If an election is made, shareholders will generally be able to claim a credit or deduction on their federal income tax return for, and will be required to treat as part of the amounts distributed to them, their pro rata portion of the income taxes paid by the Fund to foreign countries (which taxes relate primarily to investment income). If the Fund makes such an election, it will provide relevant information to its shareholders.

Federal Income Taxation of Common and Preferred Shares

Federal Income Tax Treatment of Common Share Distributions. Unless a shareholder is ineligible to participate or elects otherwise, all distributions will be automatically reinvested in additional shares of common stock of the Fund pursuant to the Fund's Automatic Dividend Reinvestment Plan (the Plan). For taxpayers subject to U.S. federal income tax, all dividends will generally be taxable regardless of whether a shareholder takes them in cash or they are reinvested pursuant to the Plan in additional shares of the Fund. Distributions of the Fund's investment company taxable income (determined without regard to the deduction for dividends paid) will generally be taxable at ordinary federal income tax rates to the extent of the Fund's current and accumulated earnings and profits. However, a portion of such distributions derived from certain corporate dividends, if any, may qualify for either the dividends received deduction available to corporate shareholders under Section 243 of the Code or the reduced rates of U.S. federal income taxation for qualified dividend income currently available to noncorporate shareholders under Section 1(h)(11) of the Code, provided certain holding period and other requirements are met at both the Fund and shareholder levels. The provisions of the Code applicable to qualified dividend income are currently effective for taxable years beginning on or before December 31, 2012, and it is unclear whether Congress will extend these provisions to taxable years beginning after December 31, 2012. Distributions of net capital gain, if any, are generally taxable as long-term capital gains for U.S. federal income tax purposes without regard to the length of time a 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 return of capital, which is applied against and reduces the shareholder's basis in his, her or its shares. To the extent that the amount of any such distribution exceeds the shareholder's basis in his, her or its 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 dividends and distributions will be reported by the Fund to the shareholders annually.

If the Fund retains any net capital gain, the Fund may report the retained amount as undistributed capital gains 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. If such an event occurs, the tax basis of shares owned by a shareholder of the Fund will, for U.S. federal income tax purposes, generally 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 shareholders.

If a shareholder's distributions are automatically reinvested pursuant to the 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 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 stock the shareholder receives.

Dividends declared by the Fund in October, November or December with a record date in such month that are paid during the following January will be treated for federal income tax purposes as paid by the Fund and received by the shareholders on December 31 of the calendar year in which they were declared.

Federal Income Tax Treatment of Preferred Share Distributions. Under present law, we are of the opinion that our preferred shares will constitute equity, and thus distributions with respect to preferred shares (other than distributions in redemption of 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 federal income tax purposes. Except in the case of distributions of net capital gain, such dividends generally will be taxable to holders at ordinary federal income tax rates but may qualify for the dividends received deduction available to corporate shareholders under Section 243 of the Code or the reduced rates of U.S. federal income taxation under Section 1(h)(11) of the Code that apply to qualified dividend income received by noncorporate shareholders. 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 Internal Revenue Service (IRS) currently requires that a regulated investment company that has two or more classes of stock allocate to each such class proportionate amounts of each type of its income (such as ordinary income and capital gains). Accordingly, the Fund intends to report distributions made with respect to preferred shares as ordinary income, capital gain distributions, dividends qualifying for the dividends received deduction, if any, and qualified dividend income, if any, in proportion to the preferred shares' share of total dividends paid during the year. See "Certain Federal Income Tax Matters" in the statement of additional information.

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

Dividends declared by the Fund in October, November or December with a record date in such month that are paid during the following January will be treated for federal income tax purposes as paid by the Fund and received by the shareholders on December 31 of the calendar year in which they were declared.

Sale of Shares. Sales and other dispositions of the Fund's shares generally are taxable events for shareholders that are subject to U.S. federal income tax. Shareholders should consult their own tax advisors with reference to their individual circumstances to determine whether any particular transaction in the Fund's shares is properly treated as a sale or exchange for federal income tax purposes, as the following discussion assumes, and the tax treatment of any gains or losses recognized in such transactions. Gain or loss will generally be equal to the difference between the amount of cash and the fair market value of other property received and the shareholder's adjusted tax basis in the shares sold or exchanged. Such gain or loss will generally be characterized as capital gain or loss and will be long-term or short-term depending on the shareholder's holding period in the shares disposed. However, any loss realized by a shareholder upon the sale or other disposition of shares with a federal income 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. The ability to deduct capital losses may be limited.

Gain or loss will generally be long-term capital gain or loss if the shares disposed of were held for more than one year and will be short-term capital gain or loss if the shares disposed of were held for one year or less. Net long-term capital gain recognized by a noncorporate U.S. shareholder generally will be subject to federal income tax at a lower rate (currently a maximum rate of 15%, although this rate will increase to 20% for taxable years beginning after December 31, 2012) than net short-term capital gain or ordinary income (currently a maximum rate of 35%). For corporate shareholders, 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%. In addition, losses on sales or other dispositions of shares may be disallowed under the "wash sale" rules in the event that substantially identical stock or securities are acquired (including those made pursuant to reinvestment of dividends) 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 tax basis of the shares acquired.

Backup Withholding. The Fund is required in certain circumstances to withhold federal income tax (backup withholding) at a current rate of 28% on reportable payments including dividends, capital gain distributions, and proceeds of sales or other dispositions of the Fund's shares paid to certain holders of the Fund's shares who do not furnish the Fund with their correct social security number or other taxpayer identification number and certain other certifications, or who are otherwise subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld from payments made to a shareholder may be refunded or credited against such shareholder's U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

Federal Income Taxation of Debt Securities

Federal Income Tax Treatment of Holders of Debt Securities. Under present law, we are of the opinion that the debt securities will constitute indebtedness of the Fund 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.

Taxation of Interest. 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 their regular method of accounting for federal income tax purposes.

Purchase, Sale and Redemption of Debt Securities. Initially, the 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 a holder includes in income under the rules governing market discount, and will decrease by the amount of any amortized premium on such debt securities, as discussed below. When a holder sells or exchanges any of their debt securities, or if any debt securities are redeemed, the holder of the debt securities 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. A holder's ability to deduct capital losses may be limited.

Amortizable Premium. 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 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, the holder 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 its 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.

Market Discount. If the holder purchases debt securities at a price that reflects a market discount, any principal payments on, or any gain 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 the holder held such debt securities. 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 holder's election, 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 it includes in gross income. If the holder does make such an election, it will apply to all market discount debt instruments that the holder acquires 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. A holder who is a non-U.S. Holder 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 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 the Fund's stock entitled to vote, (4) the holder is not a controlled foreign corporation that is related, directly or indirectly, to the Fund 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 generally 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 United States federal income tax, including withholding tax. This exemption will not apply to a holder whose gain is effectively connected with their conduct of a trade or business in the U.S. or who 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 its gain is attributable to an office or other fixed place of business that it maintains in the U.S. or it has a tax home in the United States.

Alternative Minimum Tax

Investors may be subject to the federal alternative minimum tax on their income (including taxable income from the Fund), depending on their individual circumstances.

NET ASSET VALUE

Net asset value per share is determined no less frequently than the close of regular session trading on the NYSE (usually 4:00 p.m., Eastern time), on the last business day in each week, or such other time as the Fund may determine. 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 and the Monday edition of The Wall Street Journal.

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 the 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 and certain convertible preferred 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 such fixed income securities and certain convertible preferred securities 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 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, whose members are appointed by the Board of Trustees and which is comprised of officers of the Fund and employees of Calamos, 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.

DIVIDENDS AND DISTRIBUTIONS ON COMMON SHARES;

AUTOMATIC DIVIDEND REINVESTMENT PLAN

Dividends and Distributions on Common Shares

The Fund has made regular monthly distributions to its common shareholders of \$0.1219 per share from August 2003 through October 2008 and monthly distributions of \$0.0850 since November 2008. Additionally, the Fund has made special supplemental distributions, in addition to the regular monthly distributions, of \$0.0920, \$0.0232, and \$0.1052 in January 2006, January 2007, and January 2008, respectively.

The Fund currently intends to make monthly distributions to common shareholders at a level rate established by the Board of Trustees. The rate may be modified by the Board of Trustees from time to time. Monthly distributions may include net investment income, net realized short-term capital gain and, if necessary, return of capital. Net realized short-term capital gains distributed to common shareholders will be taxed as ordinary income. Generally, there may be at least one additional distribution per calendar year that may include net realized long-term capital gains. There is no guarantee that the Fund will realize capital gains in any given year. Pursuant to the requirements of the 1940 Act and other applicable laws, a notice will accompany each monthly distribution with respect to the estimated source of the distribution made. Distributions are subject to re-characterization for federal income tax purposes after the end of the fiscal year. The Fund may at times in its discretion pay out less than the entire amount of net investment income earned in any particular period and may at times pay out such accumulated undistributed income in addition to net investment income earned in other periods in order to permit the Fund to maintain its level distribution policy. As a result, the distribution paid by the Fund to holders of common shares for any particular period may be more or less than the amount of net investment income earned by the Fund during such period. In addition, in order to make such distributions, the Fund might have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.

For U.S. federal income tax purposes, the Fund is required to distribute substantially all of its net investment income and net realized capital gains each year to both reduce its federal income tax liability and to avoid a

potential excise tax. Accordingly, the Fund intends to distribute all or substantially all of its net investment income and all net realized capital gains, if any. Therefore, the Fund's final distribution with respect to each calendar year would include any remaining net investment income and net realized capital gains, if any, undistributed during the year.

If, for any calendar year, the Fund's total distributions exceeded net investment income and net realized capital gains (the Excess), the Excess, distributed from the Fund's assets, would generally be treated as dividend income to the extent of the Fund's current and accumulated earnings and profits. Thereafter, such Excess would be treated as a tax-free return of capital up to the amount of the common shareholder's tax basis in his, her or its common shares, with any amounts exceeding such basis treated as gain from the sale of common shares. See Certain Federal Income Tax Matters.

In the event the Fund distributed the Excess, such distribution would decrease the Fund's managed assets and, therefore, have the likely effect of increasing the Fund's expense ratio. There is a risk that the Fund would not eventually realize capital gains in an amount corresponding to a distribution of the Excess.

On November 4, 2008, the Commission granted Calamos, on behalf of itself and certain funds that it manages, including the Fund, an order granting an exemption from Section 19(b) of and Rule 19b-1 under the 1940 Act to conditionally permit the Fund to make periodic distributions of long-term capital gains with respect to the Fund's outstanding common stock as frequently as twelve times each year, so long as it complies with the conditions of the order and maintains in effect a distribution policy with respect to its common shares calling for periodic distributions of an amount equal to a fixed amount per share, a fixed percentage of market price per share or a fixed percentage of the Fund's net asset value per share (a Managed Dividend Policy). As of the date of this prospectus, the Fund has not implemented a Managed Dividend Policy. In connection with any implementation of a Managed Dividend Policy pursuant to the order, the Fund would be required to:

implement certain compliance review and reporting procedures with respect to the Managed Dividend Policy;

include in each notice to shareholders that accompanies distributions certain information in addition to the information currently required by Section 19(a) of and Rule 19a-1 under the 1940 Act;

include disclosure regarding the Managed Dividend Policy on the inside front cover of each annual and semi-annual report to shareholders;

provide the Fund's total return in relation to changes in NAV in the financial highlights table and in any discussion about the Fund's total return in each prospectus and annual and semi-annual report to shareholders;

include the information contained in each notice to shareholders that accompanies distributions in: (a) communications regarding the Managed Dividend Policy to shareholders, prospective shareholders and third-party information providers; (b) a press release issued contemporaneously with the issuance of the notice; (c) an exhibit to the Fund's next report filed with the Commission on Form N-CSR; and (d) a statement posted prominently on its website; and

take certain steps to ensure the delivery of the notices accompanying distributions to beneficial owners whose Fund shares are held through a financial intermediary.

In addition, if the Fund's common shares were to trade at a significant premium to NAV following the implementation of a Managed Dividend Policy, and certain other circumstances were present, the Fund's Board of Trustees would be required to determine whether to approve or disapprove the continuation, or continuation after amendment, of the Managed Dividend Policy. Finally, if the Fund implemented a Managed Dividend Policy pursuant to the order, it would not be permitted to make a public offering of common shares other than:

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a rights offering below NAV to holders of the Fund's common shares;

an offering in connection with a dividend reinvestment plan, merger, consolidation, acquisition, spin-off or reorganization of the Fund;
or

an offering other than those described above, unless, with respect to such other offering:

the Fund's average annual distribution rate for the six months ending on the last day of the month ended immediately prior to the most recent distribution record date, expressed as a percentage of NAV per share as of such date, is no more than one percentage point greater than the Fund's average annual total return for the five-year period (or the period since the Fund's first public offering, if less than five years) ending on such date; and

the transmittal letter accompanying any registration statement filed with the Commission in connection with such offering discloses that the Fund has received an order under Section 19(b) of the 1940 Act to permit it to make periodic distributions of long-term capital gains with respect to its common stock as frequently as twelve times each year, and as frequently as distributions are specified in accordance with the terms of any outstanding preferred stock that such fund may issue.

The relief described above will expire on the effective date of any amendment to Rule 19b-1 under the 1940 Act that provides relief permitting certain closed-end investment companies to make periodic distributions of long-term capital gains with respect to their outstanding common stock as frequently as twelve times each year. As a result of the granting of the order, the Fund may implement a Managed Dividend Policy, although it has not done so as of the date of this prospectus. Under a Managed Dividend Policy, if, for any distribution, undistributed net investment income and net realized capital gains were less than the amount of the distribution, the difference would be distributed from the Fund's other assets. In addition, in order to make such distributions, the Fund might have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action. Notwithstanding receipt of the exemptive relief, currently the Fund does not intend to implement a Managed Dividend Policy until such time as its implementation is in the best interests of the Fund and our shareholders. In addition, it is not contemplated that we will change the terms of our current level distribution policy, which otherwise meets the requirements of Section 19 of the 1940 Act, in connection with any future implementation of the managed distribution order.

Under the 1940 Act, the Fund is not permitted to incur indebtedness unless immediately after such incurrence the Fund has an asset coverage of at least 300% of the aggregate outstanding principal balance of indebtedness. Additionally, under the 1940 Act, the Fund may generally not declare any dividend or other distribution upon any class of its capital shares, or purchase any such capital 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.

While any preferred shares are outstanding, the Fund may not declare any dividend or other distribution on its common shares, unless at the time of such declaration, (1) all accumulated preferred dividends have been paid and (2) the net asset value of the Fund's portfolio (determined after deducting the amount of such dividend or other distribution) is at least 200% of the liquidation value of the outstanding preferred shares (expected to be equal to the original purchase price per share plus any accumulated and unpaid dividends thereon).

In addition to the limitations imposed by the 1940 Act described above, certain lenders may impose additional restrictions on the payment of dividends or distributions on common shares in the event of a default on the Fund's borrowings. If the Fund's ability to make distributions on its common shares is limited, such limitation could, under certain circumstances, impair the ability of the Fund to maintain its qualification for federal income taxation as a regulated investment company, which would have adverse tax consequences for shareholders. See [Leverage](#) and [Certain Federal Income Tax Matters](#).

See [Automatic Dividend Reinvestment Plan](#) for information concerning the manner in which dividends and distributions to common shareholders may be automatically reinvested in common shares. Dividends and distributions are taxable to shareholders for federal income tax purposes whether they are reinvested in shares of the Fund or received in cash.

The yield on the Fund's common shares will vary from period to period depending on factors including, but not limited to, market conditions, the timing of the Fund's investment in portfolio securities, the securities comprising the Fund's portfolio, changes in interest rates including changes in the relationship between

short-term rates and long-term rates, the amount and timing of the use of borrowings and other leverage by the Fund, the effects of leverage on the common shares discussed above under *Leverage*, the timing of the investment of leverage proceeds in portfolio securities, the Fund's net assets and its operating expenses. Consequently, the Fund cannot guarantee any particular yield on its common shares and the yield for any given period is not an indication or representation of future yields on the Fund's common shares.

Automatic Dividend Reinvestment Plan

Pursuant to the Plan, unless a shareholder is ineligible or elects otherwise, all dividend and capital gains on common shares distributions are automatically reinvested by BNY Mellon Asset Servicing, as agent for shareholders in administering the Plan (*Plan Agent*), in additional common shares of the Fund. Shareholders who elect not to participate in the Plan will receive all dividends and distributions payable in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name, then to such nominee) by Plan Agent, as dividend paying agent. Shareholders may elect not to participate in the Plan and to receive all dividends and distributions in cash by sending written instructions to Plan Agent, as dividend paying agent, at the address set forth below. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by giving notice in writing to the Plan Agent; such termination will be effective with respect to a particular dividend or distribution if notice is received prior to the record date for the applicable distribution.

Whenever the Fund declares a dividend or distribution payable either in shares or in cash, non-participants in the Plan will receive cash, and participants in the Plan will receive the equivalent in shares of common shares. The shares are acquired by the Plan Agent for the participant's account, depending upon the circumstances described below, either (i) through receipt of additional common shares from the Fund (*newly issued shares*) or (ii) by purchase of outstanding common shares on the open market (*open-market purchases*) on the NYSE or elsewhere. If, on the payment date, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (such condition being referred to herein as *market premium*), the Plan Agent will receive newly issued shares from the Fund for each participant's account. The number of newly issued common shares to be credited to the participant's account will be determined by dividing the dollar amount of the dividend or distribution by the greater of (i) the net asset value per common share on the payment date, or (ii) 95% of the market price per common share on the payment date.

If, on the payment date, the net asset value per common share exceeds the market price plus estimated brokerage commissions (such condition being referred to herein as *market discount*), the Plan Agent has until the last business day before the next date on which the shares trade on an *ex-dividend* basis or in no event more than 30 days after the payment date (*last purchase date*) to invest the dividend or distribution amount in shares acquired in open-market purchases. It is contemplated that the Fund will pay monthly income dividends. Therefore, the period during which open-market purchases can be made will exist only from the payment date on the dividend through the date before the next *ex-dividend* date, which typically will be approximately ten days. The weighted average price (including brokerage commissions) of all common shares purchased by the Plan Agent as Plan Agent will be the price per common share allocable to each participant. If, before the Plan Agent has completed its open-market purchases, the market price of a common share exceeds the net asset value per share, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Fund's shares, resulting in the acquisition of fewer shares than if the dividend had been paid in newly issued shares on the payment date. Because of the foregoing difficulty with respect to open-market purchases, the Plan provides that if the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend or distribution amount in newly issued shares at the close of business on the last purchase date.

The Plan Agent maintains all shareholders' accounts in the Plan and furnishes written confirmation of each acquisition made for the participant's account as soon as practicable, but in no event later than 60 days after the date thereof. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the Plan Agent's name or that of its nominee, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. The Plan Agent will forward all proxy solicitation materials to

participants and vote proxies for shares held pursuant to the Plan first in accordance with the instructions of the participants then with respect to any proxies not returned by such participant, in the same proportion as the Plan Agent votes the proxies returned by the participants.

There will be no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions payable either in shares or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of dividends or distributions. If a participant elects to have the Plan Agent sell part or all of his or her common shares and remit the proceeds, such participant will be charged his or her pro rata share of brokerage commissions on the shares sold, plus a \$15 transaction fee.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends. See Certain Federal Income Tax Matters.

Shareholders participating in the Plan may receive benefits not available to shareholders not participating in the Plan. If the market price plus commissions of the Fund's shares is higher than the net asset value, participants in the Plan will receive shares of the Fund at less than they could otherwise purchase them and will have shares with a cash value greater than the value of any cash distribution they would have received on their shares. If the market price plus commissions is below the net asset value, participants receive distributions of shares with a net asset value greater than the value of any cash distribution they would have received on their shares. However, there may be insufficient shares available in the market to make distributions in shares at prices below the net asset value. Also, since the Fund does not redeem its shares, the price on resale may be more or less than the net asset value. See Certain Federal Income Tax Matters for a discussion of federal income tax consequences of the Plan.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan if in the judgment of the Board of Trustees such a change is warranted. The Plan may be terminated by the Plan Agent or the Fund upon notice in writing mailed to each participant at least 60 days prior to the effective date of the termination. Upon any termination, the Plan Agent will cause a certificate or certificates to be issued for the full shares held by each participant under the Plan and cash adjustment for any fraction of a common share at the then current market value of the common shares to be delivered to him or her. If preferred, a participant may request the sale of all of the common shares held by the Plan Agent in his or her Plan account in order to terminate participation in the Plan. If such participant elects in advance of such termination to have the Plan Agent sell part or all of his shares, the Plan Agent is authorized to deduct from the proceeds a \$15.00 fee plus the brokerage commissions incurred for the transaction. If a participant has terminated his or her participation in the Plan but continues to have common shares registered in his or her name, he or she may re-enroll in the Plan at any time by notifying the Plan Agent in writing at the address below. The terms and conditions of the Plan may be amended by the Plan Agent or the Fund at any time but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Commission or any other regulatory authority, only by mailing to each participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment shall be deemed to be accepted by each participant unless, prior to the effective date thereof, the Plan Agent receives notice of the termination of the participant's account under the Plan. Any such amendment may include an appointment by the Plan Agent of a successor Plan Agent, subject to the prior written approval of the successor Plan Agent by the Fund. There is no direct service charge to participants in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence concerning the Plan should be directed to the Plan Agent at Dividend Reinvestment Department, P.O. Box 1958, Newark, New Jersey 07101-9774.

DESCRIPTION OF SECURITIES

The Fund is authorized to issue an unlimited number of common shares, without par value. The Fund is also authorized to issue preferred shares. The Board of Trustees is authorized to classify and reclassify any unissued shares into one or more additional classes or series of shares. As of December 31, 2011, the Fund had 72,148,383 common shares outstanding. The Board of Trustees may establish such series or class from time to time by setting or changing in any one or more respects the designations, preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications or terms or conditions of redemption of such shares and pursuant to such classification or reclassification to increase or decrease the number of authorized shares of any existing class or series. The Board of Trustees, without shareholder approval, is authorized to amend the Agreement and Declaration of Trust and Bylaws to reflect the terms of any such class or series. The Fund is also authorized to issue other securities, including debt securities.

As of December 31, 2011, the Fund had \$314,000,000 in borrowings outstanding under the Agreement, representing 26.0% of managed assets as of that date. Borrowings under the Agreement are secured by assets of the Fund that are held with the Fund's custodian in a separate account. Interest is charged at the quarterly LIBOR plus .65% on the amount borrowed and .55% on the undrawn balance. For the period November 1, 2011 through December 31, 2011, the average borrowings under the Agreement and the average interest rate were \$314,000,000 and 1.20%, respectively. As of December 31, 2011, the amount of such outstanding borrowings was \$314,000,000. The interest rate applicable to the borrowings on December 31, 2011 was 1.23%.

The Lending Agreement is a separate side-agreement between the Fund and BNP pursuant to which BNP may borrow a portion of the pledged collateral in an amount not to exceed the outstanding borrowings owed by the Fund to BNP under the Agreement. The Lending Agreement is intended to permit the Fund to significantly reduce the cost of its borrowings under the Agreement. BNP may re-register the Lent Securities in its own name or in another name other than the Fund, and may pledge, re-pledge, sell, lend or otherwise transfer or use the Lent Securities with all attendant rights of ownership. 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. BNP will pay to the Fund a fee for borrowing the securities that is calculated as a percentage of the difference between a fair market rate and a reference rate, with a guaranteed minimum annualized rate.

Under the terms of the Lending Agreement, the Lent Securities are marked to market daily, and if the value of the Lent Securities exceeds the value of the then-outstanding borrowings owed by the Fund to BNP under the Agreement, 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 also has 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. In addition, the Fund is a beneficiary of an irrevocable guaranty issued by BNP's parent, BNP Paribas, a French banking institution that meets the definition of "eligible foreign custodian" under rule 17f-5 of the 1940 Act. Under the terms of the guaranty, BNP Paribas has agreed to guarantee the obligation of BNP to pay to the Fund any cash or securities owed under the terms of the Lending Agreement. The guaranty does not create any rights or grant any remedies to any person other than the Fund and other persons who are defined as beneficiaries under the guaranty. The Fund will exercise its set-off rights, or will exercise its rights under the guaranty, when in accordance with its business.

discretion, it believes that doing so is in the best interests of the Fund and its shareholders. The Fund's board of Trustees, including its independent Trustees, has determined that the financing package is in the best interest of the Fund. The Fund reserves the right to utilize sources of borrowings in addition to, or in lieu of, the Agreement and the Lending Agreement. See Prospectus Summary Use of Leverage by the Fund.

While unsecured and unsubordinated indebtedness will rank equally with the borrowings under the Agreement in right of payment, the lender under the Agreement, together with the holders of other outstanding secured indebtedness, may, to the exclusion of unsecured creditors, seek recourse against the collateral as security for the borrowings and such other secured indebtedness until amounts owed under the Agreement and the other secured indebtedness are satisfied in full. All borrowings under the Agreement rank senior to the Fund's common and preferred shares as to the payment of interest and distribution of assets upon liquidation.

A declaration of a dividend or other distribution on or purchase or redemption of any common or preferred shares of capital stock of the Fund may be prohibited (i) at any time that an event of default under any borrowings has occurred and is continuing, or (ii) if after giving effect to such declaration, purchase or redemption, the Fund would not meet the 1940 Act asset coverage requirements or any temporary requirements imposed under an order issued by the Commission.

Common Shares

Common shares, when issued and outstanding, will be legally issued, fully paid and non-assessable. Shareholders are entitled to share pro rata in the net assets of the Fund available for distribution to common shareholders upon liquidation of the Fund. Common shareholders are entitled to one vote for each share held.

So long as any preferred shares that may be issued by the Fund are outstanding, holders of common shares will not be entitled to receive any net income of or other distributions from the Fund unless all accumulated dividends on preferred shares have been paid, and unless asset coverage (as defined in the 1940 Act) with respect to preferred shares would be at least 200% after giving effect to such distributions. See Leverage.

The Fund will send unaudited semi-annual financial statements and audited annual financial statements to all of its shareholders.

Other offerings of common shares, if made, will require approval of the Board of Trustees and will be subject to the requirement of the 1940 Act that common shares may not be sold at a price below the then-current net asset value, exclusive of underwriting discounts and commissions. Common shares may be sold in one or more at the market offerings through sales on the NYSE at a price equal to or above NAV plus any underwriting discounts or sales commissions paid by the Fund to execute such sales.

Preferred Shares

Preferred shares, when issued and outstanding, will be legally issued, fully paid and non-assessable. Shareholders will be entitled to the rights and preferences set out in the documents creating the preferred shares. As a non-fundamental policy, the Fund may not issue preferred shares or borrow money and issue debt securities with an aggregate liquidation preference and aggregate principal amount exceeding 38% of the Fund's total assets. However, the Board of Trustees reserves the right to issue preferred shares to the extent permitted by the 1940 Act, which currently limits the aggregate liquidation preference of all outstanding preferred shares to 50% of the value of the Fund's total assets less the Fund's liabilities and indebtedness not represented by senior securities. Under the 1940 Act, the Fund may only issue one class of preferred shares. So long as any preferred shares are outstanding, additional issuances of preferred shares may not have preference or priority over the outstanding preferred shares.

In the event of any voluntary or involuntary liquidation, dissolution or winding up of the Fund, the holders of preferred shares will be entitled to receive a preferential liquidating distribution, which is expected to equal the original purchase price per preferred share plus accumulated and unpaid dividends, whether or not declared, before any distribution of assets is made to holders of common shares. After payment of the full amount of the liquidating distribution to which they are entitled, the holders of preferred shares will not be entitled to any further participation in any distribution of assets by the Fund.

The 1940 Act requires that the holders of any preferred shares, voting separately as a single class, have the right to elect at least two Trustees at all times. The remaining Trustees will be elected by holders of common shares and preferred shares, voting together as a single class. In addition, subject to the prior rights, if any, of the holders of any other class of senior securities outstanding, the holders of any preferred shares have the right to elect a majority of the Trustees at any time two years accumulated dividends on any preferred shares are unpaid. The 1940 Act also requires that, in addition to any approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding preferred shares, voting separately as a class, would be required to (1) adopt any plan of reorganization that would adversely affect the preferred shares, and (2) take any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund's subclassification as a closed-end investment company or changes in its fundamental investment restrictions. See

Certain Provisions of the Agreement and Declaration of Trust and By-Laws, Including Antitakeover Provisions. As a result of these voting rights, the Fund's ability to take any such actions may be impeded to the extent that there are any preferred shares outstanding. Except as otherwise indicated in this prospectus and except as otherwise required by applicable law, holders of preferred shares have equal voting rights with holders of common shares (one vote per share, unless otherwise required by the 1940 Act) and will vote together with holders of common shares as a single class.

The affirmative vote of the holders of a majority of the outstanding preferred shares, voting as a separate class, will be required to amend, alter or repeal any of the preferences, rights or powers of holders of preferred shares so as to affect materially and adversely such preferences, rights or powers, or to increase or decrease the authorized number of preferred shares. The class vote of holders of preferred shares described above will in each case be in addition to any other vote required to authorize the action in question.

Any redemption or purchase of any preferred shares by the Fund will reduce the leverage applicable to the common shares, while any resale of shares by the Fund will increase that leverage.

Preferred shares that may be issued by the Fund may or may not be listed on an exchange or automated quotation system. The details on how to buy and sell such securities, along with the other terms of the securities, will be described in a prospectus supplement. We cannot assure you that any market will exist for our preferred securities or if a market does exist, whether it will provide holders with liquidity.

Debt Securities

General. Under Delaware law and our Agreement and Declaration of Trust, we may borrow money, without prior approval of holders of common and preferred shares. We may issue debt securities, or other evidence of indebtedness (including bank borrowings or commercial paper) and may secure any such notes or borrowings by mortgaging, pledging or otherwise subjecting as security our assets to the extent permitted by the 1940 Act or rating agency guidelines. Any borrowings will rank senior to preferred shares and the common shares.

Under the 1940 Act, we may only issue one class of senior securities representing indebtedness, which in the aggregate, may represent no more than 33 1/3% of our managed assets. A prospectus supplement and indenture (a summary of the expected terms of which is attached as Appendix A to the statement of additional information) relating to any debt securities will include specific terms relating to the offering. These terms are expected to include the following:

the form and title of the security;

the aggregate principal amount of the securities;

the interest rate of the securities;

the maturity dates on which the principal of the securities will be payable;

any changes to or additional events of default or covenants;

any optional or mandatory redemption provisions;

identities of, and any changes in trustees, paying agents or security registrar; and

any other terms of the securities.

Interest. Unless otherwise stated in a prospectus supplement, debt securities will bear interest as generally determined by the Board of Trustees, as more fully described in the related prospectus supplement. Interest on debt securities shall be payable when due as described in the related prospectus supplement. If we do not pay interest when due, it will trigger an event of default and we will be restricted from declaring dividends and making other distributions with respect to our common shares and preferred shares.

Limitations. Under the requirements of the 1940 Act, immediately after issuing any senior securities representing indebtedness, we must have an asset coverage of at least 300%. Asset coverage means the ratio which the value of our total assets, less all liabilities and indebtedness not represented by senior securities, bears to the aggregate amount of senior securities representing indebtedness. Other types of borrowings also may result in our being subject to similar covenants in credit agreements.

Events of Default and Acceleration of Maturity of Debt Securities; Remedies. Unless stated otherwise in the related prospectus supplement, any one of the following events are expected to constitute an event of default for that series under the indenture:

default in the payment of any interest upon a series of debt securities when it becomes due and payable and the continuance of such default for 30 days;

default in the payment of the principal of, or premium on, a series of debt securities at its stated maturity;

default in the performance, or breach, of any covenant or warranty of ours in the indenture, and continuance of such default or breach for a period of 90 days after written notice has been given to us by the trustee;

certain voluntary or involuntary proceedings involving us and relating to bankruptcy, insolvency or other similar laws;

if, on the last business day of each of twenty-four consecutive calendar months, the debt securities have a 1940 Act asset coverage of less than 100%; or

any other event of default provided with respect to a series, including a default in the payment of any redemption price payable on the redemption date.

Upon the occurrence and continuance of an event of default, the holders of a majority in principal amount of a series of outstanding debt securities or the trustee may declare the principal amount of that series of debt securities immediately due and payable upon written notice to us. A default that relates only to one series of debt securities does not affect any other series and the holders of such other series of debt securities are not entitled to receive notice of such a default under the indenture. Upon an event of default relating to bankruptcy, insolvency or other similar laws, acceleration of maturity occurs automatically with respect to all series. At any time after a declaration of acceleration with respect to a series of debt securities has been made, and before a judgment or decree for payment of the money due has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series, by written notice to us and the trustee, may rescind and annul the declaration of acceleration and its consequences if all events of default with respect to that series of debt securities, other than the non-payment of the principal of that series of debt securities which has become due solely by such declaration of acceleration, have been cured or waived and other conditions have been met.

Liquidation Rights. In the event of (a) any insolvency or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding in connection therewith, relative to us or to our creditors, as such, or to our assets, or (b) any liquidation, dissolution or other winding up of the Fund, whether voluntary or involuntary and whether or not involving insolvency or bankruptcy, or (c) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of ours, then (after any payments with respect to any secured creditor of ours outstanding at such time) and in any such event the holders of debt securities shall be entitled to receive payment in full of all amounts due or to become due on or in respect of all debt securities (including any interest accruing thereon after the commencement of any such case or proceeding), or provision shall be made for such payment in cash or cash equivalents or otherwise in a manner satisfactory to the holders of the debt securities, before the holders of any common or preferred stock of the Fund are entitled to

receive any payment on account of any redemption proceeds, liquidation preference or dividends from such shares. The holders of debt securities shall be entitled to receive, for application to the payment thereof, any payment or distribution of any kind or character, whether in cash, property or securities, including any such payment or distribution which may be payable or deliverable by reason of the payment of any other indebtedness of ours being subordinated to the payment of the debt securities, which may be payable or deliverable in respect of the debt securities in any such case, proceeding, dissolution, liquidation or other winding up event.

Unsecured creditors of ours may include, without limitation, service providers including Calamos, custodian, administrator, broker-dealers and the trustee, pursuant to the terms of various contracts with us. Secured creditors of ours may include without limitation parties entering into any interest rate swap, floor or cap transactions, or other similar transactions with us that create liens, pledges, charges, security interests, security agreements or other encumbrances on our assets.

A consolidation, reorganization or merger of the Fund with or into any other company, or a sale, lease or exchange of all or substantially all of our assets in consideration for the issuance of equity securities of another company shall not be deemed to be a liquidation, dissolution or winding up of the Fund.

Voting Rights. Debt securities have no voting rights, except to the extent required by law or as otherwise provided in the Indenture relating to the acceleration of maturity upon the occurrence and continuance of an event of default. In connection with any other borrowings (if any), the 1940 Act does in certain circumstances grant to the lenders certain voting rights in the event of default in the payment of interest on or repayment of principal.

Market. Our debt securities are not likely to be listed on an exchange or automated quotation system. The details on how to buy and sell such securities, along with the other terms of the securities, will be described in a prospectus supplement. We cannot assure you that any market will exist for our debt securities or if a market does exist, whether it will provide holders with liquidity.

Book-Entry, Delivery and Form. Unless otherwise stated in the related prospectus supplement, the debt securities will be issued in book-entry form and will be represented by one or more notes in registered global form. The global notes will be deposited with the trustee as custodian for The Depository Trust Company (DTC) and registered in the name of Cede & Co., as nominee of DTC. DTC will maintain the notes in designated denominations through its book-entry facilities.

Under the expected terms of the indenture, we and the trustee may treat the persons in whose names any notes, including the global notes, are registered as the owners thereof for the purpose of receiving payments and for any and all other purposes whatsoever. Therefore, so long as DTC or its nominee is the registered owner of the global notes, DTC or such nominee will be considered the sole holder of outstanding notes under the indenture. We or the trustee may give effect to any written certification, proxy or other authorization furnished by DTC or its nominee.

A global note may not be transferred except as a whole by DTC, its successors or their respective nominees. Interests of beneficial owners in the global note may be transferred or exchanged for definitive securities in accordance with the rules and procedures of DTC. In addition, a global note may be exchangeable for notes in definitive form if:

DTC notifies us that it is unwilling or unable to continue as a depository and we do not appoint a successor within 60 days;

we, at our option, notify the trustee in writing that we elect to cause the issuance of notes in definitive form under the indenture; or

an event of default has occurred and is continuing.

In each instance, upon surrender by DTC or its nominee of the global note, notes in definitive form will be issued to each person that DTC or its nominee identifies as being the beneficial owner of the related notes.

Under the expected terms of the indenture, the holder of any global note may grant proxies and otherwise authorize any person, including its participants and persons who may hold interests through DTC participants, to take any action which a holder is entitled to take under the indenture.

RATING AGENCY GUIDELINES

The Rating Agencies, which may assign ratings to our senior securities, impose asset coverage requirements, which may limit our ability to engage in certain types of transactions and may limit our ability to take certain actions without confirming that such action will not impair the ratings. Any agency that may rate our debt securities or preferred shares in the future is referred to as the Rating Agency.

We may, but are not required to, adopt any modification to the guidelines that may hereafter be established by any Rating Agency. Failure to adopt any modifications, however, may result in a change in the ratings described above or a withdrawal of ratings altogether. In addition, any Rating Agency may, at any time, change or withdraw any rating. The Board may, without shareholder approval, modify, alter or repeal certain of the definitions and related provisions which have been adopted pursuant to each Rating Agency's guidelines (Rating Agency Guidelines) only in the event we receive written confirmation from the Rating Agency or Agencies that any amendment, alteration or repeal would not impair the ratings then assigned to the senior securities.

We may be required to satisfy two separate asset maintenance requirements with respect to outstanding rated debt securities and with respect to rated preferred shares: (1) we must maintain assets in our portfolio that have a value, discounted in accordance with guidelines set forth by each Rating Agency, at least equal to 115% of the aggregate principal amount/liquidation preference of the debt securities/preferred stock, respectively, plus specified liabilities, payment obligations and other amounts (the Basic Maintenance Amount); and (2) we must satisfy the 1940 Act asset coverage requirements.

Basic Maintenance Amounts. We may be required to maintain, as of each valuation date on which senior securities are outstanding, eligible assets having an aggregate discounted value at least equal to 115% of the applicable Basic Maintenance Amount, which is calculated separately for debt securities and preferred shares for each Rating Agency that is then rating the senior securities and so requires. If we fail to maintain eligible assets having an aggregated discounted value at least equal to 115% of the applicable Basic Maintenance Amount as of any valuation date and such failure is not cured, we will be required in certain circumstances to redeem certain of the senior securities.

The applicable Basic Maintenance Amount is defined in the Rating Agency's Guidelines. Each Rating Agency may amend the definition of the applicable Basic Maintenance Amount from time to time.

The market value of our portfolio securities (used in calculating the discounted value of eligible assets) is calculated using readily available market quotations when appropriate, and in any event, consistent with our valuation procedures. For the purpose of calculating the applicable Basic Maintenance Amount, portfolio securities are valued in the same manner as we calculate our NAV. See Determination of Net Asset Value.

Each Rating Agency's discount factors, the criteria used to determine whether the assets held in our portfolio are eligible assets, and the guidelines for determining the discounted value of our portfolio holdings for purposes of determining compliance with the applicable Basic Maintenance Amount are based on Rating Agency Guidelines established in connection with rating the senior securities. The discount factor relating to any asset, the applicable basic maintenance amount requirement, the assets eligible for inclusion in the calculation of the discounted value of our portfolio and certain definitions and methods of calculation relating thereto may be changed from time to time by the applicable Rating Agency, without our approval, or the approval of our Board of Trustees or shareholders.

A Rating Agency's Guidelines will apply to the senior securities only so long as that Rating Agency is rating such securities. We will pay certain fees to Moody's, Fitch Ratings, Inc. and any other Rating Agency that may provide a rating for the senior securities. The ratings assigned to the senior securities are not recommendations to buy, sell or hold the senior securities. Such ratings may be subject to revision or withdrawal by the assigning Rating Agency at any time.

1940 Act Asset Coverage. We are also required to maintain, with respect to senior securities, as of the last business day on any month in which any senior securities are outstanding, asset coverage of at least 300% for debt securities and 200% for preferred stock (or such other percentage as may in the future be specified in or under the 1940 Act or in any order granted by the Commission as the minimum asset coverage for senior

securities representing shares of a closed-end investment company as a condition of declaring dividends on its common stock). If we fail to maintain the applicable 1940 Act asset coverage as of the last business day of any month and such failure is not cured as of the last business day of the following month (the Asset Coverage Cure Date), we may be required to redeem certain senior securities.

Notices. Under the current Rating Agency Guidelines, in certain circumstances, we may be required to deliver to any Rating Agency which is then rating the senior securities (1) a certificate with respect to the calculation of the applicable Basic Maintenance Amount; (2) a certificate with respect to the calculation of the applicable 1940 Act asset coverage and the value of our portfolio holdings; and (3) a letter prepared by our independent accountants regarding the accuracy of such calculations.

Notwithstanding anything herein to the contrary, the Rating Agency Guidelines, as they may be amended from time to time by each Rating Agency will be reflected in a written document and may be amended by each Rating Agency without the vote, consent or approval of the Fund, the Board of Trustees or any shareholder of the Fund.

A copy of the current Rating Agency Guidelines will be provided to any holder of rated, senior securities promptly upon request made by such holder to the Fund by writing the Fund at 2020 Calamos Court, Naperville, Illinois 60563.

**CERTAIN PROVISIONS OF THE AGREEMENT AND DECLARATION
OF TRUST AND BY-LAWS, INCLUDING ANTITAKEOVER PROVISIONS**

The Fund's Agreement and Declaration of Trust includes provisions that could have the effect of limiting the ability of other entities or persons to acquire control of the Fund or to change the composition of its Board of Trustees and could have the effect of depriving shareholders of an opportunity to sell their shares at a premium over prevailing market prices by discouraging a third party from seeking to obtain control of the Fund. These provisions, however, have the advantage of potentially requiring persons seeking control of the Fund to negotiate with our management regarding the price to be paid and facilitating the continuity of the Fund's investment objective and policies. The Board of Trustees of the Fund has considered these provisions and concluded that they are in the best interests of the Fund.

The Board of Trustees is divided into three classes. The terms of the Trustees of the different classes are staggered. A Trustee may be removed from office with or without cause by a vote of at least a majority of the then Trustees if such removal is approved by the holders of at least 75% of the shares entitled to vote with respect to the election of such Trustee and present in person or by proxy at a meeting of shareholders called for such purpose.

In addition, the Agreement and Declaration of Trust requires the affirmative vote of at least 75% of the outstanding shares entitled to vote on the matter for the Trust to merge or consolidate with any other corporation, association, trust or other organization or to sell, lease or exchange all or substantially all of the Fund's assets; unless such action has been approved by the affirmative vote of at least 75% of the Trustees then in office, in which case, the affirmative vote of a majority of the outstanding shares entitled to vote on the matter is required.

In addition, conversion of the Fund to an open-end investment company would require an amendment to the Fund's Agreement and Declaration of Trust. Such an amendment would require the favorable vote of a majority of the then Trustees followed by a favorable vote of the holders of at least 75% of the shares entitled to vote on the matter, voting as separate classes or series (or a majority of such shares if the amendment was previously approved by 75% of the Trustees). Such a vote also would satisfy a separate requirement in the 1940 Act that the change be approved by the shareholders.

Under the 1940 Act, shareholders of an open-end investment company may require the company to redeem their shares of common stock at any time (except in certain circumstances as authorized by or under the 1940 Act) at their net asset value, less such redemption charge, if any, as might be in effect at the time of a redemption. If the Fund is converted to an open-end investment company, it could be required to liquidate portfolio securities to meet requests for redemption, and the common shares would no longer be listed on the NYSE. Conversion to an open-end investment company would also require changes in certain of the Fund's investment policies and restrictions. In addition, the Fund would be required to redeem all of its outstanding preferred shares prior to conversion to an open-end investment company.

In addition, the Agreement and Declaration of Trust requires the affirmative vote or consent of a majority of the then Trustees followed by the affirmative vote or consent of the holders of at least 75% of the shares of each affected class or series of the Fund outstanding, voting separately as a class or series, to approve certain transactions with a Principal Shareholder, unless the transaction has been approved by at least 75% of the Trustees, in which case a majority of the outstanding shares entitled to vote shall be required. For purposes of these provisions, a Principal Shareholder refers to any person who, whether directly or indirectly and whether alone or together with its affiliates and associates, beneficially owns 5% or more of the outstanding shares of any class or series of shares of beneficial interest of the Fund. The 5% holder transactions subject to these special approval requirements are:

the merger or consolidation of the Fund or any subsidiary of the Fund with or into any Principal Shareholder;

the issuance of any securities of the Fund to any Principal Shareholder for cash (other than pursuant to any automatic dividend reinvestment plan); or

the sale, lease or exchange to the Fund or any subsidiary of the Fund in exchange for securities of the Fund, of any assets of any Principal Shareholder, except assets having an aggregate fair market value of less than \$1,000,000, aggregating for the purpose of such computation all assets sold, leased or exchanged in any series of similar transactions within a 12-month period.

The Fund may be terminated by the affirmative vote of not less than 75% of the Trustees then in office by written notice to the shareholders.

The Agreement and Declaration of Trust and By-Laws provide that the Board of Trustees has the power, to the exclusion of shareholders, to make, alter or repeal any of the By-Laws, except for any By-Law that requires a vote of the shareholders to be amended, adopted or repealed by the terms of the Agreement and Declaration of Trust, By-Laws or applicable law. Neither this provision of the Agreement and Declaration of Trust, nor any of the foregoing provisions thereof requiring the affirmative vote of 75% of outstanding shares of the Fund, can be amended or repealed except by the vote of such required number of shares.

With respect to proposals by shareholders submitted outside the process of Rule 14a-8 under the Securities Exchange Act of 1934, as amended (the Exchange Act), the Fund's By-Laws generally require that advance notice be given to the Fund in the event a shareholder desires to nominate a person for election to the Board of Trustees or to transact any other business at an annual meeting of shareholders. With respect to an annual meeting following the first annual meeting of shareholders, notice of any such nomination or business must be delivered to the principal executive offices of the Fund not less than 90 calendar days nor more than 120 calendar days prior to the anniversary date of the mailing of the notice for the prior year's annual meeting (subject to certain exceptions). Any notice by a shareholder must be accompanied by certain information as provided in the By-Laws, including information regarding the shares held by the shareholder and information regarding the candidate's background and qualifications to serve as trustee.

PLAN OF DISTRIBUTION

We may sell our common shares, preferred shares and debt securities, and certain of our shareholders may sell our common shares, on an immediate, continuous or delayed basis, in one or more offerings under this prospectus and any related prospectus supplement. The aggregate amount of securities that may be offered by us is limited to \$250 million. We may offer our common shares, preferred shares and debt securities: (1) directly to one or more purchasers; (2) through agents; (3) through underwriters; or (4) through dealers. Each prospectus supplement relating to an offering of securities will state the terms of the offering, including as applicable:

the names of any agents, underwriters or dealers;

any sales loads or other items constituting underwriters' compensation;

any discounts, commissions, or fees allowed or paid to dealers or agents;

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the public offering or purchase price of the offered securities and the net proceeds we will receive from the sale; provided, however, that we will not receive any of the proceeds from a sale of our common stock by any selling shareholder; and

any securities exchange on which the offered securities may be listed.

Direct Sales

We may sell our common shares, preferred shares and debt securities, or certain of our shareholders may sell our common shares, directly to, and solicit offers from, institutional investors or others who may be deemed to be underwriters as defined in the 1933 Act for any resales of the securities. In this case, no underwriters or agents would be involved. We, or any selling shareholder, may use electronic media, including the Internet, to sell offered securities directly. The terms of any of those sales will be described in a prospectus supplement.

If our common shares are to be offered for sale by certain of our shareholders, each prospectus supplement relating to such offering will indicate the nature of any position, office, or other material relationship which the selling shareholder has had within the past three years with the Fund or any of its predecessors or affiliates, and will state the amount of securities of the class owned by such shareholder prior to the offering, the amount to be offered for the shareholder's account, the amount and (if one percent or more) the percentage of the class to be owned by such shareholder after completion of the offering.

By Agents

We may offer our common shares, preferred shares and debt securities through agents that we or they designate. Any agent involved in the offer and sale will be named and any commissions payable by us will be described in the prospectus supplement. Unless otherwise indicated in the prospectus supplement, the agents will be acting on a best efforts basis for the period of their appointment.

Sales of our common shares may be made in transactions that are deemed to be at the market as defined in Rule 415 under the 1933 Act, including sales made directly on the NYSE or sales made to or through a market maker other than on an exchange.

By Underwriters

We may offer and sell securities from time to time to one or more underwriters who would purchase the securities as principal for resale to the public, either on a firm commitment or best efforts basis. If we sell securities to underwriters, we will execute an underwriting agreement with them at the time of the sale and will name them in the prospectus supplement. In connection with these sales, the underwriters may be deemed to have received compensation from us in the form of underwriting discounts and commissions. The underwriters also may receive commissions from purchasers of securities for whom they may act as agent. Unless otherwise stated in the prospectus supplement, the underwriters will not be obligated to purchase the securities unless the conditions set forth in the underwriting agreement are satisfied, and if the underwriters purchase any of the securities, they will be required to purchase all of the offered securities. The underwriters may sell the offered securities to or through dealers, and those dealers may receive discounts, concessions or commissions from the underwriters as well as from the purchasers for whom they may act as agent. Any public offering price and any discounts or concessions allowed or reallocated or paid to dealers may be changed from time to time.

If a prospectus supplement so indicates, we may grant the underwriters an option to purchase additional shares of common stock at the public offering price, less the underwriting discounts and commissions, within 45 days from the date of the prospectus supplement, to cover any overallotments.

By Dealers

We may offer and sell securities from time to time to one or more dealers who would purchase the securities as principal. The dealers then may resell the offered securities to the public at fixed or varying prices to be determined by those dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in the prospectus supplement.

General Information

Agents, underwriters, or dealers participating in an offering of securities may be deemed to be underwriters, and any discounts and commission received by them and any profit realized by them on resale of the offered securities for whom they act as agent may be deemed to be underwriting discounts and commissions under the 1933 Act.

We may offer to sell securities either at a fixed price or at prices that may vary, at market prices prevailing at the time of sale, at prices related to prevailing market prices, or at negotiated prices.

Ordinarily, each series of offered securities will be a new issue of securities and will have no established trading market.

To facilitate an offering of common stock in an underwritten transaction and in accordance with industry practice, the underwriters may engage in transactions that stabilize, maintain, or otherwise affect the market price of the common stock or any other security. Those transactions may include over-allotment, entering stabilizing bids, effecting syndicate covering transactions, and reclaiming selling concessions allowed to an underwriter or a dealer.

An over-allotment in connection with an offering creates a short position in the common stock for the underwriter's own account.

An underwriter may place a stabilizing bid to purchase the common stock for the purpose of pegging, fixing, or maintaining the price of the common stock.

Underwriters may engage in syndicate covering transactions to cover over-allotments or to stabilize the price of the common stock by bidding for, and purchasing, the common stock or any other securities in the open market in order to reduce a short position created in connection with the offering.

The managing underwriter may impose a penalty bid on a syndicate member to reclaim a selling concession in connection with an offering when the common stock originally sold by the syndicate member is purchased in syndicate covering transactions or otherwise. Any of these activities may stabilize or maintain the market price of the securities above independent market levels. The underwriters are not required to engage in these activities, and may end any of these activities at any time.

Any underwriters to whom the offered securities are sold for offering and sale may make a market in the offered securities, but the underwriters will not be obligated to do so and may discontinue any market-making at any time without notice. The offered securities may or may not be listed on a securities exchange. We cannot assure you that there will be a liquid trading market for the offered securities.

Under agreements entered into with us, underwriters and agents may be entitled to indemnification by us against certain civil liabilities, including liabilities under the 1933 Act, or to contribution for payments the underwriters or agents may be required to make.

The underwriters, agents, and their affiliates may engage in financial or other business transactions with us and our subsidiaries in the ordinary course of business.

The maximum commission or discount to be received by any member of the Financial Industry Regulatory Authority or independent broker-dealer will not be greater than eight percent of the initial gross proceeds from the sale of any security being sold.

The aggregate offering price specified on the cover of this prospectus relates to the offering of the securities not yet issued as of the date of this prospectus.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the underwriters may from time to time act as a broker or dealer and receive fees in connection with the execution of our portfolio transactions after the underwriters have ceased to be underwriters and, subject to certain restrictions, each may act as a broker while it is an underwriter.

A prospectus and accompanying prospectus supplement in electronic form may be made available on the websites maintained by underwriters. The underwriters may agree to allocate a number of securities for sale to their online brokerage account holders. Such allocations of securities for internet distributions will be made on the same basis as other allocations. In addition, securities may be sold by the underwriters to securities dealers who resell securities to online brokerage account holders.

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

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

LEGAL MATTERS

K&L Gates LLP (K&L Gates), Chicago, Illinois and Washington, DC, is counsel to the Fund. Morris, Nichols, Arsht and Tunnell LLP, Wilmington, Delaware (Morris Nichols), has opined on certain matters of Delaware law relating to the legality of the securities to be offered hereby. If certain legal matters in connection with an offering of securities are passed upon by counsel for the underwriters of such offering, such matters will be passed upon by counsel to be identified in a prospectus supplement. K&L Gates and counsel to the underwriters may rely on the opinion of Morris Nichols for certain matters of Delaware law.

EXPERTS

The financial highlights appearing herein and the financial statements and financial highlights as of and for the year ended October 31, 2011, appearing in the statement of additional information, which is incorporated by reference in its entirety into this prospectus, have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report on the statement of financial position as of October 31, 2011, the statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years then ended, and the financial highlights for each of the five years then ended, appearing in the Fund's 2011 annual report to shareholders and in the statement of additional information. Such financial statements and financial highlights are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

AVAILABLE INFORMATION

We are subject to the informational requirements of the Exchange Act and the 1940 Act and are required to file reports, including annual and semi-annual reports, proxy statements and other information with the Commission. These documents are available on the Commission's EDGAR system and can be inspected and copied for a fee at the Commission's public reference room, 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Additional information about the operation of the public reference room facilities may be obtained by calling the Commission at (202) 551-5850.

This prospectus does not contain all of the information in our registration statement, including amendments, exhibits, and schedules. Statements in this prospectus about the contents of any contract or other document are not necessarily complete and in each instance reference is made to the copy of the contract or other document filed as an exhibit to the registration statement, each such statement being qualified in all respects by this reference.

Additional information about us can be found in our registration statement (including amendments, exhibits, and schedules) on Form N-2 filed with the Commission. The Commission maintains a web site (<http://www.sec.gov>) that contains our registration statement, other documents incorporated by reference, and other information we have filed electronically with the Commission, including proxy statements and reports filed under the Exchange Act.

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6,232,167 Common Shares

Calamos Convertible and High Income Fund

PROSPECTUS SUPPLEMENT

February 29, 2012

Until March 25, 2012 (25 days after the date of this prospectus supplement), all dealers that buy, sell or trade the common shares, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers obligation to deliver a prospectus when acting as underwriters.

CHYPRO 2/12

CALAMOS CONVERTIBLE AND HIGH INCOME FUND

STATEMENT OF ADDITIONAL INFORMATION

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

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This Statement of Additional Information is dated February __, 2012.

USE OF PROCEEDS

Unless otherwise specified in a prospectus supplement, we currently intend to use the net proceeds from the sale of our securities primarily to invest in accordance with our investment objective and policies within approximately three months of receipt of such proceeds. We may also use proceeds from the sale of our securities to (i) retire all or a portion of any short-term debt we incur in pursuit of our investment objective and policies, (ii) redeem any outstanding senior securities, and (iii) for working capital purposes, including the payment of interest and operating expenses, although there is currently no intent to issue securities primarily for this purpose. Pending such investment, the net proceeds may be invested in U.S. government securities and high grade, short-term money market instruments. If necessary, the Fund may also purchase, as temporary investments, securities of other open- or closed-end investment companies that invest primarily in the types of securities in which the Fund may invest directly.

INVESTMENT OBJECTIVE AND POLICIES

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

Primary Investments

Under normal circumstances, the Fund will invest at least 80% of its managed assets in a diversified portfolio of convertible securities and below investment grade (high yield/high risk) non-convertible debt securities. The Fund will provide written notice to shareholders at least 60 days prior to any change to the requirement that it invest at least 80% of its managed assets as described in the sentence above. The portion of the Fund's assets invested in convertible securities and below investment grade (high yield/high risk) non-convertible debt securities will vary from time to time in light of the Fund's investment objective, changes in equity prices and changes in interest rates and other economic and market factors, although, under normal circumstances, the Fund will invest at least 20% of its managed assets in convertible securities and at least 20% of its managed assets in below investment grade (high yield/high risk) non-convertible debt securities (so long as the combined total equals at least 80% of the Fund's managed assets). Managed assets means the total assets of the Fund (including any assets attributable to any leverage that may be outstanding) minus the sum of liabilities (other than debt representing financial leverage). For this purpose, the liquidation preference on the preferred shares will not constitute a liability.

Convertible Securities

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

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

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

Synthetic Convertible Securities

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

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

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

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

High Yield Securities

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

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

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

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

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

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

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

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

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

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

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

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

Distressed Securities

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

Loans

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

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

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

Foreign Securities

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

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

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

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

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

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

Currency Exchange Transactions

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

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

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

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

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

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

Synthetic Foreign Money Market Positions

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

Debt Obligations of Non-U.S. Governments

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

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

Eurodollar Instruments and Samurai and Yankee Bonds

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

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

Lending of Portfolio Securities

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

Options on Securities, Indexes and Currencies

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

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

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

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

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

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

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

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

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

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

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

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

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

Risks Associated with Options

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

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

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

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

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

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

Futures Contracts and Options on Futures Contracts

The Fund may use interest rate futures contracts, index futures contracts and foreign currency futures contracts. An interest rate, index or foreign currency futures contract provides for the future sale by one party and purchase by another party of a specified quantity of a financial instrument or the cash value of an index¹ 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

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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.

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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.

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

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

Risks Associated with Futures

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

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

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

Limitations on Options and Futures

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

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

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

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

Warrants

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

Portfolio Turnover

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

Short Sales

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

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

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

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

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

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

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

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

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

Interest Rate Transactions

In order to reduce the interest rate risk inherent in the Fund's underlying investments and capital structure, the Fund, if market conditions are deemed favorable, may enter into interest rate swap or cap transactions. Interest rate swaps involve the Fund's agreement with the swap counterparty to pay a fixed rate payment in exchange for the counterparty agreeing to pay the Fund a payment at a variable rate that is expected to approximate the rate on any variable rate payment obligation on the Fund's leverage. The payment obligations would be based on the notional

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amount of the swap. The Fund may use an interest rate cap, which would require it to pay a premium to the cap counterparty and would entitle it, to the extent that a specified variable rate index exceeds a predetermined fixed rate, to receive from the counterparty payment of the difference based on the notional amount. The Fund would use interest rate swaps or caps only with the intent to reduce or eliminate the risk that an increase in short-term interest rates could have on common share net earnings as a result of leverage.

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

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

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

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

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

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

When Issued and Delayed Delivery Securities and Reverse Repurchase Agreements

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

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

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

Illiquid Securities

The Fund may invest up to 15% of its managed assets in securities that, at the time of investment, are illiquid (determined using the SEC's standard applicable to investment companies, i.e., securities that cannot be disposed of within 7 days in the ordinary course of business at approximately the value at which the Fund has valued the securities). The Fund may invest without limitation in securities that have not been registered for public sale, but that are eligible for purchase and sale by certain qualified institutional buyers. Calamos, under the supervision of the Board of Trustees, will determine whether securities purchased under Rule 144A are illiquid (that is, not readily marketable) and thus subject to the Fund's limit on investing no more than 15% of its managed assets in illiquid securities. Investments in Rule 144A Securities could have the effect of increasing the amount of the Fund's assets invested in illiquid securities if qualified institutional buyers are unwilling to purchase these Rule 144A Securities. Illiquid securities may be difficult to dispose of at a fair price at the times when the Fund believes it is desirable to do so. The market price of illiquid securities generally is more volatile than that of more liquid securities, which may adversely affect the price that the Fund pays for or recovers upon the sale of illiquid securities. Illiquid securities are also more difficult to value and Calamos's 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 Internal Revenue Code of 1986, as amended (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 each 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 has initiated a dramatic revision of the U.S. financial regulatory framework that is now expected to unfold over several years. The Dodd-Frank Act covers a broad range of topics, including (among many

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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 a consumer financial protection watchdog; 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. Most of the implementing regulations have not yet been finalized. Accordingly, the ultimate effect of the Dodd-Frank Act, including on the derivative instruments in which the Fund may invest, 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.

The regulators that have been charged with the responsibility for implementing the Dodd-Frank Act (*i.e.*, the SEC and the CFTC) are reviewing generally and have proposed regulations or guidelines on the use of futures by funds governed by the 1940 Act (in the case of the CFTC) and guidelines on the use of derivatives by 1940 Act funds (in the case of the SEC). It is not clear whether final guidelines for such use will be published, or when these rules will become final.

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. 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, 2011, positions held with the Fund, term of office and length of service and principal occupations during the past five years. Asterisks indicates those Trustees who are interested persons of the Fund within the meaning of the 1940 Act, and they are referred to as Interested Trustees. Trustees who are not interested persons of the Fund are referred to as Independent Trustees. Each of the Trustees serves as a Trustee of other investment companies (19 U. S. registered investment portfolios) for which Calamos serves as investment adviser (collectively, the Calamos Funds). The address for all Independent and Interested Trustees and all officers of the Fund is 2020 Calamos Court, Naperville, Illinois 60563.

Trustees Who Are Interested Persons of the Fund:

| Name and Age | Position(s) with Fund | Portfolios Overseen | Principal Occupation(s) and Other Directorships During Past Five Years |
|---------------------------|--|---------------------|--|
| John P. Calamos, Sr., 71* | Trustee and President (since inception) Term Expires 2014 | 19 | Chairman, CEO, and 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); Director, CAM |

Trustees Who Are Not Interested Persons of the Fund:

| Name and Age | Position(s) with Fund | Portfolios Overseen | Principal Occupation(s) and Other Directorships |
|------------------------|--|----------------------------|--|
| Weston W. Marsh, 61 | Trustee (since inception) Term Expires 2013 | 19 | Of Counsel and, until December 31, 2005, Partner, Freeborn & Peters LLP (law firm) |
| John E. Neal, 61 | Trustee (since inception) Term Expires 2012 | 19 | Private investor; Director, Equity Residential Trust (publicly-owned REIT) and Creation Investments (private international microfinance company); Partner, Linden LLC (health care private equity) |
| William R. Rybak, 61 | Trustee (since inception) Term Expires 2014 | 19 | Private investor; Director, Christian Brothers Investment Services, Inc. (since February 2010); formerly, Executive Vice President and Chief Financial Officer, Van Kampen Investments, Inc. and subsidiaries (investment manager); Director, Howe Barnes Hofer & Arnett (until March 2011); Trustee, JNL Series Trust, JNL Investors Series Trust and JNL Variable Fund LLC** |
| Stephen B. Timbers, 67 | Trustee (since 2004) and Lead Independent Trustee (since 2005) Term Expires 2013 | 19 | Private investor |
| David D. Tripple, 67 | Trustee (since 2006) Term Expires 2012 | 19 | 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 Trust as defined in the 1940 Act because he is an affiliate of Calamos Advisors and CFS. Mr. Calamos is the uncle of Nick P. Calamos, Vice President of the Fund.

** Overseeing 104 portfolios in fund complex.

*** Overseeing three portfolios in fund complex.
The address of the Trustees is 2020 Calamos Court, Naperville, Illinois 60563.

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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, 2011, position with the Fund and date first appointed to that position, and principal occupation(s) during the past five years. Each officer serves until his or her successor is chosen and qualified or until his or her resignation or removal by the board of trustees.

| Name and Age | Position(s) with Fund | Principal Occupation(s) and Other Directorships During Past Five Years |
|-------------------------|--|---|
| Nimish S. Bhatt, 48 | 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 and CFS; prior thereto Director of Operations (since 2004); Member, board of directors of NICSA (a not-for-profit industry trade organization) (since June 2006) |
| James J. Boyne, 45 | Vice President (since 2008) and Assistant Secretary (since 2010) | Executive Vice President and Chief Operating Officer, CAM, CILLC, CWM, Calamos Advisors and CFS (since 2011); prior thereto President of Distribution and Operations (since 2008); prior thereto, Senior Vice President, General Counsel and Secretary, CAM, CILLC, CWM, Calamos Advisors (since 2008); Chief Operating Officer - Distribution, CFS (since 2008); prior thereto, Chief Operating Officer, General Counsel and Executive Managing Director of McDonnell Investment Management, LLC (2001 - 2008) |
| Nick P. Calamos, 50 | Vice President (since inception) | President of Investments and Co-Chief Investment Officer, CAM, CILLC, Calamos Advisors and CFS (since 2009); Senior Executive Vice President of Investments and Co-Chief Investment Officer, CHW; prior thereto Senior Executive Vice President of Investments and Co-Chief Investment Officer, CAM, CILLC, Calamos Advisors, CWM and CFS |
| Curtis Holloway, 44 | Treasurer (since 2010), prior thereto Assistant Treasurer (since 2007) | Treasurer of Calamos Investment Trust, Calamos Advisors Trust, CHI, CHY, CSQ, CGO and CHW (since June 2010); prior thereto Assistant Treasurer (since 2007) |
| Christopher Jackson, 60 | Vice President and Secretary (since 2010) | Senior Vice President, General Counsel and Secretary, CAM, CILLC, Calamos Advisors and CFS (since 2010); Director, Calamos Global Funds PLC (since 2011); Director, U.S. Head of Retail Legal and Co-Global Head of Retail Legal of Deutsche Bank AG (2006-2010); prior thereto, Director, Senior Vice President, General Counsel and Assistant Secretary of Hansberger Global Investors, Inc. (1996-2006) |
| Mark J. Mickey, 60 | Chief Compliance Officer (since inception) | Chief Compliance Officer, Calamos Funds (since 2005) and Chief Compliance Officer, Calamos Advisors (2005-2006) |

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

The Fund's Board of Trustees consists of six members. In accordance with the Fund's Agreement and Declaration of Trust, the Board of Trustees is divided into three classes of approximately equal size. The terms of the trustees of the different classes are staggered. The terms of Weston W. Marsh and Stephen B. Timbers will expire at the annual meeting of shareholders in 2013. The terms of John E. Neal and David D. Tripple will expire at the annual meeting of shareholders in 2012. The terms of John P. Calamos, Sr. and William R. Rybak will expire at the annual meeting of shareholders in 2014. Messrs. Rybak and Timbers are the Trustees who represent the holders of preferred shares, if any. Such classification of the Trustees may prevent the replacement of a majority of the Trustees for up to a two year period. Each of the Fund's officers serves until his or her successor is chosen and qualified or until his or her resignation or removal by the Board of Trustees.

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

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

Audit Committee. 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.

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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.

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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, 2011.

| | Number of Meetings During Fiscal Year Ended October 31, 2011 |
|------------------------------------|---|
| Board of Trustees | 4 |
| Executive Committee ⁽¹⁾ | 0 |
| Audit Committee | 4 |
| Governance Committee | 2 |
| Dividend Committee ⁽²⁾ | 0 |
| Valuation Committee | 4 |

⁽¹⁾ Although the Executive Committee held no meetings, it acted by written consent on one occasion.

⁽²⁾ Although the Dividend Committee held no meetings, it acted by written consent on thirteen 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 Trust on a day-to-day basis. The Board of Trustees oversees Calamos and certain other principal service providers in the operations of the Trust. 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 Trust. 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 the Trustees has served for multiple years as a Trustee 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 Trust, the Board of Trustees oversees risk through various regular board and committee activities. The Board of

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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 Trust and the risk management programs of Calamos and certain service providers. The actual day-to-day risk management with respect to the Trust resides with Calamos and other service providers to the Trust. 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 Trust 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, 2011 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⁾ | \$ 6,511 | \$ 144,000 |
| John E. Neal ⁽¹⁾ | \$ 7,604 | \$ 167,500 |
| William R. Rybak | \$ 7,140 | \$ 157,500 |
| Steve B. Timbers | \$ 8,531 | \$ 187,500 |
| David D. Tripple | \$ 7,140 | \$ 157,500 |
| Mark J. Mickey | \$ 7,032 | \$ 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, 2011, the values of the deferred compensation accounts of each of Messrs. Marsh and Neal were \$1,219,211 and \$1,203,008, 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 Opportunities and 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 as such consists of an annual retainer per trustee of \$86,000, with annual supplemental retainers of \$40,000 to the lead independent trustee, \$20,000 to the chair of the audit committee and \$10,000 to the chair of any other committee. Each non-interested trustee also receives a meeting attendance fee of \$7,000 for any regular board meeting attended in person, \$3,500 for any regular board meeting attended by telephone, \$3,500 for any special board meeting and \$3,000 for any committee meeting attended in person or by telephone. Compensation paid to the non-interested trustees is allocated among the series of the Calamos Funds in accordance with a procedure determined from time to time by the board.

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

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, 2011. 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 202-551-8090. 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

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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.

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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 of 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. Because the fee reimbursement agreement is based on managed assets, to the extent we are engaged in leverage, the gross dollar amount of Calamos' fee reimbursement obligations to us will increase. Subject to the oversight of 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 NYSE or any other national stock exchange.

For the fiscal years ended October 31, 2009, October 31, 2010 and October 31, 2011, the Fund incurred \$7,481,913, \$9,080,206 and \$9,757,740, respectively, in advisory fees. Pursuant to the management fee waiver agreement, Calamos waived \$567,676, \$472,089 and \$211,906 in advisory fees for the fiscal years ended October 31, 2009, October 31, 2010, and October 31, 2011, respectively.

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

Calamos 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 is an affiliated person of the Fund and its advisor by virtue of his position as Trustee and President of the Fund and Chairman, CEO and Co-Chief Investment Officer of Calamos. Nick P. Calamos, Nimish S. Bhatt, James J. Boyne 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 and Assistant Secretary; and Vice President and Secretary of the Fund; respectively, and as President of Investments and Co-Chief Investment Officer; Senior Vice President and Director of Operations; President of Distribution and Operations; and Senior Vice President, General Counsel and Secretary of Calamos, 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, 2011.

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

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

John P. Calamos, Sr. and Nick P. Calamos, Co-CIOs of Calamos, generally focus on firmwide risk management and the top-down approach of diversification by country and industry sector and macro-level investment themes. Nick P. Calamos, Co-CIO and President of Calamos, also focuses on portfolio level risk management, sector and country weightings, bottom-up fundamental security analysis, and corresponding research and analysis for key holdings. As Co-CIOs, Messrs. John P. Calamos and Nick P. Calamos direct the team's focus on macro themes, upon which the fund's strategy is based. The team, as a whole, implements the investment strategies, under the general direction and supervision of the Co-CIOs, as well as the Co-Heads of Research and Investments, Jeff Scudieri and Jon Vacko, and the senior strategy analysts. Nick Calamos, along with Jeff Scudieri and Jon Vacko, are responsible for the day-to-day management of the team, bottom-up research efforts and strategy implementation. John P. Calamos, Jr., John Hillenbrand, Steve Klouda, Christopher Hartman and Joe Wysocki are each senior strategy analysts. The Co-CIOs, Co-Heads of Research and Investments and senior strategy analysts are referred to collectively as Team Leaders. The Fund's Team Leaders are responsible for managing the Fund and other accounts, including separate accounts and unregistered funds.

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:

**NUMBER OF OTHER ACCOUNTS MANAGED AND
ASSETS BY ACCOUNT TYPE AS OF OCTOBER 31, 2011***

| | Registered Investment Companies | | Other Pooled Investment Vehicles | | Other Accounts | |
|----------------------|---------------------------------------|----------------|--|---------------|-------------------|---------------|
| | Accounts | Assets | Accounts | Assets | Accounts | Assets |
| John P. Calamos Sr. | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Nick P. Calamos | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| John P. Calamos, Jr. | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Christopher Hartman | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| John Hillenbrand | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Steve Klouda | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Jeff Scudieri | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Jon Vacko | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |
| Joe Wysocki | 25 | 26,409,198,885 | 11 | 1,572,298,141 | 7,291 | 6,230,460,155 |

Number of Accounts and Assets for which Advisory Fee is Performance Based as of: October 31, 2011*

| | Registered Investment Companies | | Other Pooled Investment Vehicles | | Other Accounts | |
|----------------------|---------------------------------------|-------------|--|--------|-------------------|--------|
| | Accounts | Assets | Accounts | Assets | Accounts | Assets |
| John P. Calamos Sr. | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Nick P. Calamos | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| John P. Calamos, Jr. | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Christopher Hartman | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| John Hillenbrand | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Steve Klouda | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Jeff Scudieri | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Jon Vacko | 3 | 697,181,821 | 0 | 0 | 0 | 0 |
| Joe Wysocki | 3 | 697,181,821 | 0 | 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 the Fund and other accounts, including separate accounts and unregistered funds.

Other than potential conflicts between investment strategies, the side-by-side management of both the Fund and other accounts may raise potential conflicts of interest due to the interest held by Calamos in an account and certain trading practices used by the portfolio managers (e.g., cross-trades between the Fund and another account and allocation aggregated trades). Calamos has developed policies and procedures

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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.

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

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

As of October 31, 2011, Team Leaders John P. Calamos, Sr., Nick P. Calamos and John P. Calamos, Jr. receive all of their compensation from Calamos. Each has entered into an employment agreement that provides for compensation in the form of an annual base salary and a target bonus, both components payable in cash. Their target bonus is set at a percentage of the respective base salary, ranging from 300% to 600%, with a maximum annual bonus opportunity of 150% of the target bonus. For example, the target bonus for a Team Leader who earns \$500,000 would range from \$1,500,000 to \$3,000,000 and the Team Leader's maximum annual bonus opportunity would range from \$2,250,000 to \$4,500,000. Also, due to the ownership and executive management positions with Calamos Asset Management, Inc., additional multiple corporate objectives are utilized to determine the target bonus for John P. Calamos, Sr., Nick P. Calamos and John P. Calamos, Jr. For 2011, the additional corporate objectives were distribution effectiveness, as measured by redemption rates and sales growth; investment performance, as measured by risk-adjusted performance; income growth, as measured by operating margin; management evaluation, based upon several factors including the execution of strategic initiatives; and stockholder return over a 36-month period relative to the industry peer group.

As of October 31, 2011, Jeff Scudieri, Jon Vacko, John Hillenbrand, Steve Klouda, Christopher Hartman and Joe Wysocki receive all of their compensation from Calamos Advisors. They each receive compensation in the form of an annual base salary, a discretionary bonus (payable in cash) and long-term incentive awards. Each of these associates has a bonus range of opportunity which is expressed as a percentage of base salary. Each of these associates is also eligible for discretionary long-term incentive awards, however these awards are not guaranteed from year to year. Long-term incentive awards consist of restricted stock units or a combination of restricted stock units and stock options.

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

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

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

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At October 31, 2011, each portfolio manager beneficially owned (as determined pursuant to Rule 16a-1a(a)(2) under the 1934 Act) shares of the Fund having value within the indicated dollar ranges.

| | Fund |
|----------------------|------------------|
| John P. Calamos | Over \$1,000,000 |
| Nick P. Calamos | None |
| John P. Calamos, Jr. | None |
| Chris Hartman | None |
| John Hillenbrand | None |
| Steve Klouda | None |
| Jeff Scudieri | None |
| Jon Vacko | None |
| Joe Wysocki | None |

Fund Accountant

Under the arrangements with State Street Bank and Trust Company (State Street) to provide fund accounting services, State Street provides certain administrative and accounting services including providing daily reconciliation of cash, trades and positions; maintaining general ledger and capital stock accounts; preparing daily trial balance; calculating net asset value; providing selected general ledger reports; preferred share compliance; calculating total returns; preparing financial statements; and providing monthly distribution analysis to the Fund and such other funds advised by Calamos that may be part of those arrangements. 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;

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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, 2012, the following persons were known to own beneficially or of record more than 5% of the outstanding securities of the Fund:

| Class of Shares Common | Name and Address of Beneficial Owner | Number of Shares Owned | Percent of Class |
|------------------------------|---|---------------------------|---------------------|
| | Citigroup Global Markets 111 Wall Street New York, NY 10005 | 10,549,541 | 14.62% |
| | Bank of New York Mellon 525 William Penn Way Suite 0400 Pittsburgh, PA 15259 | 9,164,766 | 12.70% |
| | Charles Schwab & Co., Inc. 101 Montgomery St. San Francisco, CA 94104 | 6,107,744 | 8.47% |
| | First Clearing, LLC One North Jefferson Street St. Louis, MO 63103 | 5,673,886 | 7.86% |
| | National Financial Services LLC 200 Liberty Street, NY4F New York, NY 10281 | 4,837,517 | 6.70% |
| | Pershing LLC 1 Pershing Plaza Jersey City, NJ 07399 | 3,882,674 | 5.38% |
| | Merrill Lynch Pierce Funnner & Smith 101 Hudson Street, 9 th Floor Jersey City, NJ 07302 | 3,748,216 | 5.20% |

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At January 31, 2012, 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, 2009, October 31, 2010, 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, 2010 and October 31, 2011 the portfolio turnover rate was 39% and 42%, respectively. However, portfolio turnover rate is not considered a limiting factor in the execution of investment decisions for us. A higher turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by us. High portfolio turnover also may result in the realization of capital gains or losses and, to the extent net short-term capital gains are realized, any distributions resulting from such gains will be considered ordinary income for federal income tax purposes. See Certain Federal Income Tax Matters.

NET ASSET VALUE

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

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.

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

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

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

REPURCHASE OF COMMON SHARES

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

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

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

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

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

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

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

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

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

CERTAIN FEDERAL INCOME TAX MATTERS

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a shareholder that acquires, holds and/or disposes of the Fund's securities. This discussion only addresses certain U.S. federal income tax consequences to U.S. shareholders who hold their shares as capital assets and does not address all of the U.S. federal income tax consequences that may be relevant to particular shareholders in light of their individual circumstances. This discussion also does not address the tax consequences to shareholders who are subject to special rules, including, without limitation, financial institutions, regulated investment companies, insurance companies, brokers and dealers in securities or foreign currencies, certain securities traders, foreign holders, persons who hold their shares as or in a hedge against currency risk, a constructive sale, or conversion transaction, holders who are subject to the alternative minimum tax, or tax-exempt or tax-deferred plans, accounts, or entities. In addition, the discussion does not address any state, local, or foreign tax consequences. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (IRS) retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting the Fund and its shareholders, and the discussion set forth herein does not constitute tax advice. **Investors are urged to consult their own tax advisers to determine the specific tax consequences to them of investing in the fund, including the applicable federal, state, local and foreign tax consequences to them and the effect of possible changes in tax laws.**

Federal Income Taxation of the Fund

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

If for any taxable year the Fund 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 in taxable years beginning on or before December 31, 2012 under Section 1(h)(11) of the Code, as described below.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Common Shares and Preferred Shares

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

Distributions of investment company taxable income (determined without regard to the deduction for dividends paid), which includes dividends, taxable interest, net short-term capital gain in excess of net long-term capital loss and certain net foreign exchange gains, are, except as discussed below, taxable as ordinary income to the extent of the Fund's current and accumulated earnings and profits. A portion of such dividends may qualify for the dividends received deduction available to corporations under Section 243 of the Code and the reduced rate of taxation under Section 1(h)(11) of the Code that applies to qualified dividend income received by noncorporate shareholders. For taxable years beginning on or before December 31, 2012, qualified dividend income received by noncorporate shareholders is taxed at rates equivalent to long-term capital gain tax rates, which currently reach a maximum of 15%. Qualified dividend income generally includes dividends from domestic corporations and dividends from foreign corporations that meet certain specified criteria, although dividends paid by REITs will not generally be eligible for treatment as qualified dividend income. The Fund generally can pass the tax treatment of qualified dividend income it receives through to Fund shareholders. For the Fund to receive qualified dividend income, the Fund must meet certain holding period and other requirements with respect to the stock on which the otherwise qualified dividend is paid. In addition, the Fund cannot be obligated to make payments (pursuant to a short sale or otherwise) with respect to substantially similar or related property. The same provisions, including the holding period requirements, apply to each shareholder's investment in the Fund for the dividends received by the shareholder to be eligible for such treatment. The provisions of the Code applicable to qualified dividend income and the 15% maximum individual tax rate on long-term capital gains are currently effective for taxable years beginning on or before December 31, 2012. Thereafter, unless Congress enacts legislation providing otherwise, qualified dividend income will no longer be taxed at the rates applicable to long-term capital gains, but rather will be taxed at ordinary federal income tax rates, which reach a current maximum rate of 35%. Distributions of net capital gain, if any, are taxable as long term capital gains for U.S. federal income tax purposes without regard to the length of time the shareholder has held shares of the Fund. A distribution of an amount in excess of the Fund's current and accumulated earnings and profits, if any, will be treated by a shareholder as a tax-free return of capital which is applied against and reduces the shareholder's basis in his or her shares. To the extent that the amount of any such distribution exceeds the shareholder's basis in his or her shares, the excess will be treated by the shareholder as gain from the sale or exchange of shares. The U.S. federal income tax status of all distributions will be reported to the shareholders annually.

If the Fund retains any net capital gain, the Fund may report the retained amount as undistributed capital gains 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. For U.S. federal income tax purposes, 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.

Gain or loss will generally be long-term capital gain or loss if the shares disposed of were held for more than one year and will be short-term capital gain or loss if the shares disposed of were held for one year or less. Net long-term capital gain recognized by a noncorporate U.S. shareholder generally will be subject to federal income tax at a lower rate (currently a maximum rate of 15%, although this rate will increase to 20% for taxable years beginning after December 31, 2012) than net short-term capital gain or ordinary income (currently a maximum rate of 35%). For corporate holders, capital gain is generally taxed for federal income tax purposes at the same rate as ordinary income, that is, currently at a maximum rate of 35%. A holder's ability to deduct capital losses may be limited.

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

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

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

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

The description of certain federal income tax provisions above relates only to U.S. federal income tax consequences for shareholders who are U.S. persons (i.e., U.S. citizens or resident aliens or U.S. corporations, partnerships, trusts or estates who are subject to U.S. federal income tax on a net income basis). Investors other than U.S. persons, including non-resident alien individuals, may be subject to different U.S. federal income tax treatment. With respect to such persons, the Fund must generally withhold U.S. federal withholding tax at the rate of 30% (or, if the Fund receives certain certifications from such non-U.S. shareholder, such lower rate as prescribed by an applicable tax treaty) on amounts treated as ordinary dividends from the Fund. However, effective for taxable years of the Fund beginning before January 1, 2012, the Fund generally is not required to withhold tax on any amounts paid to a non-U.S. person with respect to dividends attributable to qualified short-term gain (i.e., the excess of net short-term capital gain over net long-term capital loss) 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. **Shareholders should consult their own tax advisors on these matters and on any specific question of U.S. federal, state, local, foreign and other applicable tax laws before making an investment in the fund.**

Debt Securities

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

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

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

Except as discussed below with respect to market discount, the gain or loss recognized on the sale, exchange or redemption of any debt securities generally will be capital gain or loss. Such gain or loss will generally be long-term capital gain or loss if the disposed debt securities were held for more than one year and will be short-term capital gain or loss if the disposed debt securities were held for one year or less. Net long-term capital gain recognized by a noncorporate U.S. holder generally will be subject to federal income tax at a lower rate (currently a maximum rate of 15%, although this rate will increase to 20% for taxable years beginning after December 31, 2012) than net short-term capital gain or ordinary income (currently a maximum rate of 35%). For corporate holders, capital gain is generally taxed for federal income tax purposes at the same rate as ordinary income, that is, currently at a maximum rate of 35%. A holder's ability to deduct capital losses may be limited.

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

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

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

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

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

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

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

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

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

CUSTODIAN, TRANSFER AGENT, DIVIDEND DISBURSING AGENT AND REGISTRAR

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

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

ADDITIONAL INFORMATION

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

ADDITIONAL INFORMATION CONCERNING THE AGREEMENT AND DECLARATION OF TRUST

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

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

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Calamos Convertible and High Income Fund (the Fund) as of October 31, 2011, 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, 2011, 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, 2011, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois

December 16, 2011

CALAMOS CONVERTIBLE AND HIGH INCOME FUND ANNUAL REPORT

F-1

Statement of Assets and Liabilities October 31, 2011

| | |
|--|---------------------------|
| ASSETS | |
| Investments in securities, at value (cost \$1,194,295,385) | \$ 1,217,117,311 |
| Receivables: | |
| Accrued interest and dividends | 18,481,016 |
| Investments sold | 5,785,808 |
| Prepaid expenses | 21,773 |
| Other assets | 153,022 |
| Total assets | 1,241,558,930 |
| LIABILITIES | |
| Unrealized depreciation on interest rate swaps | 6,576,909 |
| Payables: | |
| Note payable | 314,000,000 |
| Investments purchased | 2,299,825 |
| Affiliates: | |
| Investment advisory fees | 807,431 |
| Deferred compensation to trustees | 153,022 |
| Financial accounting fees | 11,561 |
| Trustees fees and officer compensation | 2,346 |
| Other accounts payable and accrued liabilities | 168,988 |
| Total liabilities | 324,020,082 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | \$ 917,538,848 |
| COMPOSITION OF NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | |
| Common stock, no par value, unlimited shares authorized 72,148,383 shares issued and outstanding | \$ 1,009,053,014 |
| Undistributed net investment income (loss) | (20,024,785) |
| Accumulated net realized gain (loss) on investments, foreign currency transactions and interest rate swaps | (87,733,740) |
| Unrealized appreciation (depreciation) of investments, foreign currency translations and interest rate swaps | 16,244,359 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | \$ 917,538,848 |
| Net asset value per common shares based upon 72,148,383 shares issued and outstanding | \$ 12.72 |

See accompanying Notes to Financial Statements

CALAMOS CONVERTIBLE AND HIGH INCOME FUND ANNUAL REPORT

Statement of Operations Year Ended October 31, 2011

| | |
|--|----------------------|
| INVESTMENT INCOME | |
| Interest | \$ 66,499,016 |
| Dividends | 13,228,141 |
| Securities lending income | 140,698 |
| Total investment income | 79,867,855 |
| EXPENSES | |
| Investment advisory fees | 9,757,740 |
| Interest expense and related fees | 3,883,547 |
| Deferred debt structuring fee | 879,453 |
| Financial accounting fees | 138,939 |
| Printing and mailing fees | 100,771 |
| Accounting fees | 85,387 |
| Audit fees | 67,239 |
| Registration fees | 67,065 |
| Custodian fees | 62,129 |
| Trustees fees and officer compensation | 47,000 |
| Transfer agent fees | 30,571 |
| Legal fees | 12,799 |
| Other | 68,907 |
| Total expenses | 15,201,547 |
| Less expense reductions | (211,906) |
| Net expenses | 14,989,641 |
| NET INVESTMENT INCOME (LOSS) | 64,878,214 |
| REALIZED AND UNREALIZED GAIN (LOSS) | |
| Net realized gain (loss) from: | |
| Investments, excluding purchased options | (15,555,078) |
| Purchased options | 1,625,553 |
| Foreign currency transactions | 47,050 |
| Interest rate swaps | (4,552,188) |
| Change in net unrealized appreciation/(depreciation) on: | |
| Investments, excluding purchased options | 2,374,984 |
| Purchased options | (1,571,245) |
| Foreign currency translations | (17,390) |
| Interest rate swaps | 2,994,878 |
| NET GAIN (LOSS) | (14,653,436) |
| NET INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS RESULTING FROM OPERATIONS | \$ 50,224,778 |

See accompanying Notes to Financial Statements

CALAMOS CONVERTIBLE AND HIGH INCOME FUND ANNUAL REPORT

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Statements of Changes in Net Assets

| | YEAR ENDED OCTOBER 31, | |
|---|---------------------------|-------------------|
| | 2011 | 2010 |
| OPERATIONS | | |
| Net investment income (loss) | \$ 64,878,214 | \$ 66,997,923 |
| Net realized gain (loss) | (18,434,663) | (4,440,865) |
| Change in unrealized appreciation/(depreciation) | 3,781,227 | 86,549,294 |
| Net increase (decrease) in net assets applicable to common shareholders resulting from operations | 50,224,778 | 149,106,352 |
| DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM | | |
| Net investment income | (61,184,118) | (71,413,706) |
| Return of capital | (11,859,447) | |
| Net decrease in net assets from distributions to common shareholders | (73,043,565) | (71,413,706) |
| CAPITAL STOCK TRANSACTIONS | | |
| Proceeds from common shares sold | 17,073,138 | 8,469,828 |
| Offering costs on common shares | (273,639) | (86,344) |
| Reinvestment of distributions resulting in the issuance of common stock | 2,279,690 | 2,433,586 |
| Net increase (decrease) in net assets from capital stock transactions | 19,079,189 | 10,817,070 |
| TOTAL INCREASE (DECREASE) IN NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | (3,739,598) | 88,509,716 |
| NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS | | |
| Beginning of year | \$ 921,278,446 | \$ 832,768,730 |
| End of year | 917,538,848 | 921,278,446 |
| Undistributed net investment income (loss) | \$ (20,024,785) | \$ (20,682,900) |

See accompanying Notes to Financial Statements

CALAMOS CONVERTIBLE AND HIGH INCOME FUND ANNUAL REPORT

Statement of Cash Flows Year Ended October 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

| | |
|---|---------------|
| Net increase/(decrease) in net assets from operations | \$ 50,224,778 |
| Adjustments to reconcile net increase/(decrease) in net assets from operations to net cash used for operating activities: | |
| Purchase of investment securities | (590,835,386) |
| Net proceeds from disposition of short term investments | (1,938,212) |
| Proceeds from disposition of investment securities | 544,912,340 |
| Amortization and accretion of fixed-income securities | (1,035,875) |
| Net realized gains/losses from investments, excluding purchased options | 15,555,078 |
| Net realized gains/losses from purchased options | (1,625,553) |
| Change in unrealized appreciation or depreciation on investments, excluding purchased options | (2,374,984) |
| Change in unrealized appreciation or depreciation on purchased options | 1,571,245 |
| Change in unrealized appreciation or depreciation on interest rate swaps | (2,994,878) |
| Net change in assets and liabilities: | |
| (Increase)/decrease in assets: | |
| Accrued interest and dividends receivable | (1,592,102) |
| Prepaid expenses | 267,517 |
| Other assets | (15,738) |
| Increase/(decrease) in liabilities: | |
| Payables to affiliates | 53,116 |
| Other accounts payable and accrued liabilities | (270,680) |
| Net cash provided by/(used in) operating activities | \$ 9,900,666 |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|---|----------------|
| Proceeds from common shares sold | 17,136,848 |
| Offering costs related to common shares sold | (273,639) |
| Distributions to common shareholders | (70,763,875) |
| Proceeds from note payable | 44,000,000 |
| Net cash provided by/(used in) financing activities | \$ (9,900,666) |

Cash at beginning of year \$

Cash at end of year \$

Supplemental disclosure

Cash paid for interest and related fees \$ 3,890,015

Non-cash financing activities not included herein consists of reinvestment of dividends and distributions of: \$2,279,690

See accompanying Notes to Financial Statements

CALAMOS CONVERTIBLE AND HIGH INCOME FUND ANNUAL REPORT

Note 1 Organization and Significant Accounting Policies

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

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

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

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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. 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 period end.

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

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

Other Assets. Other assets include amounts of deferred compensation to trustees and certain recoverable legal expenses under an insurance policy.

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 2007-2010 remain subject to examination by the U.S. and the State of Illinois tax jurisdictions.

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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.

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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. Calamos Advisors has contractually agreed to waive a portion of its management fee at the annual rate of 0.03% of the average managed assets of the Fund through the period ending May 31, 2011. For the year ended October 31, 2011, the total advisory fee waived pursuant to such agreement was \$211,906 and is included in the Statement of Operations under the caption Less expense reductions .

Pursuant to a financial accounting services agreement, during the year the Fund paid Calamos Advisors a fee for financial accounting services payable monthly at the annual rate of 0.0175% on the first \$1 billion of combined assets, 0.0150% on the next \$1 billion of combined assets and 0.0110% on combined assets above \$2 billion (for purposes of this calculation combined assets means the sum of the total average daily net assets of Calamos Investment Trust, Calamos Advisors Trust, and the total average weekly managed assets of Calamos Convertible and High Income Fund, Calamos Strategic Total Return Fund, Calamos Convertible Opportunities and Income Fund, Calamos Global Total Return Fund and Calamos Global Dynamic Income Fund). 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 \$153,022 is included in Other assets on the Statement of Assets and Liabilities at October 31, 2011. 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, 2011.

Note 3 Investments

The cost of purchases and proceeds from sale of long-term investments for the year ended October 31, 2011 were as follows:

| | |
|---------------------|----------------|
| Cost of purchases | \$ 540,292,643 |
| Proceeds from sales | 483,793,940 |

The following information is presented on a federal income tax basis as of October 31, 2011. 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, 2011 was as follows:

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| | |
|--|------------------|
| Cost basis of investments | \$ 1,230,204,454 |
| Gross unrealized appreciation | 42,416,885 |
| Gross unrealized depreciation | (55,504,028) |
| Net unrealized appreciation (depreciation) | \$ (13,087,143) |

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Notes to Financial Statements

Note 4 Income Taxes

For the year ended October 31, 2011, 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 | \$ (11,859,448) |
| Undistributed net investment income/(loss) | 8,823,466 |
| Accumulated net realized gain/(loss) on investments | 3,035,982 |

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, 2011 | YEAR ENDED OCTOBER 31, 2010 |
|---------------------------------|--------------------------------|--------------------------------|
| Distributions paid from: | | |
| Ordinary income | \$ 61,184,118 | \$ 71,413,706 |
| Long-term capital gains | | |
| Return of capital | 11,859,447 | |

As of October 31, 2011, 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 | (71,719,917) |
| Net unrealized gains/(losses) | (19,664,710) |
| Total accumulated earnings/(losses) | (91,384,627) |
| Other | (129,539) |
| Paid-in capital | 1,009,053,014 |
| Net assets applicable to common shareholders | \$ 917,538,848 |

As of October 31, 2011, the Fund had capital loss carryforwards which, if not used, will expire as follows:

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| | |
|------|-----------------|
| 2017 | \$ (65,477,489) |
| 2018 | (4,324,027) |
| 2019 | (1,918,401) |

Note 5 Common Shares

There are unlimited common shares of beneficial interest authorized and 72,148,383 shares outstanding at October 31, 2011. Calamos Advisors owned 30,179 of the outstanding shares at October 31, 2011. Transactions in common shares were as follows:

| | YEAR ENDED OCTOBER 31, 2011 | YEAR ENDED OCTOBER 31, 2010 |
|--|--|--|
| Beginning shares | 70,707,940 | 69,837,235 |
| Shares sold | 1,269,066 | 676,079 |
| Shares issued through reinvestment of distribution | 171,377 | 194,626 |
| Ending shares | 72,148,383 | 70,707,940 |

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Notice is hereby given in accordance with Section 23(c) of the Investment Act of 1940 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. Transactions for the fiscal year had net proceeds received in excess of net value of \$170,488.

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. There were no open forward foreign currency contracts at October 31, 2011.

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.

As of October 31, 2011, the Fund had outstanding purchased options and/or written options as listed on the Schedule of Investments.

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.

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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

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Notes to Financial Statements

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, 2011, the Fund had outstanding interest rate swap agreements as listed on the Schedule of Investments.

Below are the types of derivatives in the Fund by gross value as of October 31, 2011:

| | ASSETS | | LIABILITIES | |
|--------------------------|--|--------------|--|--------------|
| | STATEMENT OF ASSETS & LIABILITIES LOCATION | VALUE | STATEMENT OF ASSETS & LIABILITIES LOCATION | VALUE |
| Derivative Type: | | | | |
| Equity-Purchased options | Investments in securities | \$ 7,767,025 | | |
| Interest Rate Swaps | Unrealized appreciation on swaps | | Unrealized depreciation on swaps | \$ 6,576,909 |

Volume of Derivative Activity for the Twelve Months Ended October 31, 2011*

Equity:

| | |
|-------------------|-------|
| Purchased Options | 7,890 |
|-------------------|-------|

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

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 Agreement) with BNP Paribas Prime Brokerage, Inc. (as successor to Bank of America N.A.) (BNP) that allows the Fund to borrow up to \$400,000,000, and a Lending Agreement, as defined below. Borrowings under the Agreement are secured by assets of the Fund that are held with the Fund s custodian in a separate account (the pledged collateral). Interest is charged at the quarterly LIBOR (London Inter-bank Offered Rate) plus .65% on the amount borrowed and .55% on the undrawn balance. For the year ended October 31, 2011, the average borrowings and the average interest rate were \$291,378,082 and 1.07%, respectively. As of October 31, 2011, the amount of such outstanding borrowings was \$314,000,000. The interest rate applicable to the borrowings on October 31, 2011 was 1.08%.

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

Under the terms of the Lending Agreement, the Lent Securities are marked to market daily, and if the value of the Lent Securities exceeds the value of the then-outstanding borrowings owed by the Fund to BNP under the Agreement (the Current Borrowings), BNP must, on that day,

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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

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equivalent securities, and for any buy-in costs that the executing broker for the sales transaction may impose with respect to the failure to deliver. The Fund shall also have the right to apply and set-off an amount equal to one hundred percent (100%) of the then-current fair market value of such Lent Securities against the Current Borrowings.

Note 8 Synthetic Convertible Securities

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

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

Note 9 Structured Equity-Linked Securities

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

Note 10 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.

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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 Funds' investments. Transfers between the levels for investment securities or other financial instruments are measured at the end of the reporting period and no significant transfers between levels occurred during the period.

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Notes to Financial Statements

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 | \$ | \$ 792,704,771 | \$ | \$ 792,704,771 |
| Convertible Bonds | | 146,107,835 | | 146,107,835 |
| U.S. Government and Agency Securities | | 7,613,838 | | 7,613,838 |
| Sovereign Bonds | | 14,225,304 | | 14,225,304 |
| Synthetic Convertible Securities (Corporate Bonds) | | 42,311,180 | | 42,311,180 |
| Synthetic Convertible Securities (U.S. Government and Agency Securities) | | 411,288 | | 411,288 |
| Synthetic Convertible Securities (Sovereign Bonds) | | 767,642 | | 767,642 |
| Synthetic Convertible Securities (Purchased Options) | 7,767,025 | | | 7,767,025 |
| Convertible Preferred Stocks | 75,965,077 | 44,391,191 | | 120,356,268 |
| Structured Equity-Linked Securities | | 28,892,218 | | 28,892,218 |
| Common Stocks | 11,179,787 | | | 11,179,787 |
| Short Term Investment | 44,780,155 | | | 44,780,155 |
| Net decrease in cash and cash equivalents from changes in consolidated subsidiaries | | 381 | (16,097) | 368 |
| Net increase (decrease) in cash and cash equivalents | (105,615) | 326,271 | (139,434) | (102,034) |
| | 593,946 | 267,675 | 407,109 | 573,806 |

Cash and cash equivalents at the beginning of the year**Cash and cash equivalents at the end of the year**

| | | | |
|-----------|-----------|-----------|------------|
| W 488,331 | W 593,946 | W 267,675 | \$ 471,772 |
|-----------|-----------|-----------|------------|

Supplemental disclosure of cash flow information:

Cash paid during the year for interest

| | | | |
|-----------|-----------|-----------|------------|
| W 214,845 | W 255,762 | W 327,575 | \$ 207,560 |
|-----------|-----------|-----------|------------|

Cash paid during the year for income tax

| | | | |
|-----------|-----------|-----------|------------|
| W 854,899 | W 589,052 | W 264,729 | \$ 825,910 |
|-----------|-----------|-----------|------------|

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

1. Consolidated Companies

General descriptions of POSCO, the controlling company, and its controlled subsidiaries (the Company), including POSCO Engineering & Construction Co., Ltd. (POSCO E & C) and thirteen other domestic subsidiaries and twenty-three overseas subsidiaries, whose accounts are included in the consolidated financial statements, and sixteen equity method investees, which are excluded from the consolidation, are as follows:

The Controlling Company

POSCO, the controlling company, was incorporated on April 1, 1968, under the Commercial Code of the Republic of Korea, to manufacture and distribute steel rolled products and plates in the domestic and overseas markets. Annual production capacity is 30,000 thousand tons; 13,300 thousand tons at the Pohang mill and 16,700 thousand tons at the Gwangyang mill. The shares of POSCO have been listed on the Korea Stock Exchange since 1988. POSCO operates two plants and one office in Korea, and seven liaison offices overseas. The principal market for POSCO's products is the domestic market in Korea, while export and overseas sales are concentrated in Japan, China and other countries in the Asia Pacific region.

Under its Articles of Incorporation, the Company is authorized to issue 200 million shares of common stock with a par value of W5,000 per share. The Company retired 2,891,140; 2,807,690; and 1,815,640 shares of treasury stock with the approval of the Board of Directors on August 25, 2001, November 20, 2002 and July 22, 2003, respectively. In addition, the Company retired 1,779,320 shares of treasury stock on October 19, 2004 in accordance with the resolution of the Board of Directors on July 23, 2004. Accordingly, total issued shares were reduced to 87,186,835 from 88,966,155 as of December 31, 2004.

As of December 31, 2004, POSCO's shareholders are as follows:

| | Number of Shares | Percentage of Shares (%) |
|---|-----------------------------|---|
| National Pension Corporation | 3,084,186 | 3.54 |
| SK Telecom Co., Ltd. | 2,481,310 | 2.85 |
| Pohang University of Science and Technology | 2,475,000 | 2.84 |
| Others | 79,146,339 | 90.77 |
| | 87,186,835 | 100.00 |

As of December 31, 2004 and 2003, the shares of POSCO are listed on the Korea Stock Exchange, and its depository receipts are listed on the New York and London Stock Exchanges.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Consolidated Subsidiaries

The consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. The following table sets forth certain information with regard to consolidated subsidiaries as of December 31, 2004.

| Subsidiaries | Primary Business | Capital (In millions of Korean Won) | Number of Outstanding (1) Shares | Number of Shares POSCO | Subsidiaries | Total | Percentage of Ownership (%) | Location | Percentage Ownership Subsidiaries |
|------------------------------------|---|---|--|---------------------------|--------------|------------|--------------------------------------|-----------|---|
| POSCO E & S (SEC) | Engineering and construction | W 788,126 | 30,000,000 | 27,281,080 | | 27,281,080 | 90.94 | Pohang | |
| POSCO Steel Co., Ltd. | Steel sales and service | 274,282 | 18,000,000 | 17,155,000 | | 17,155,000 | 95.31 | Pohang | |
| POSCO CON Ltd. | Electronic control devices manufacturing | 83,228 | 3,519,740 | 3,098,610 | | 3,098,610 | 88.04 | Pohang | |
| POSCO Eng Ltd. | Coated steel manufacturing | 280,599 | 6,000,000 | 4,000,000 | | 4,000,000 | 66.67 | Pohang | |
| POSCO Machinery & Engineering Ltd. | Steel work maintenance | 34,632 | 1,700,000 | 1,700,000 | | 1,700,000 | 100.00 | Pohang | |
| POSCO DATA Ltd. | Computer hardware and software distribution | 111,806 | 6,155,160 | 4,000,000 | | 4,000,000 | 64.99 | Sungnam | |
| POSCO Research Institute | Economic research and consulting | 22,645 | 3,800,000 | 3,800,000 | | 3,800,000 | 100.00 | Seoul | |
| POSCO Kwang Ltd. | Athletic facilities operation | 42,529 | 4,145,000 | 2,737,000 | 1,208,000 | 3,945,000 | 95.17 | Suncheon | POSCO E&S (29.14) |
| POSCO-AC Co., Ltd. | Architecture and consulting | 10,187 | 130,000 | 130,000 | | 130,000 | 100.00 | Seoul | |
| POSCO Gwangwon Specialty Co., Ltd. | Specialty steel manufacturing | 388,899 | 30,000,000 | 26,000,000 | 4,000,000 | 30,000,000 | 100.00 | Changwon | Posteel (6.6) POSCON (6.6) |
| POSCO Machinery Ltd. | Machinery installation | 27,131 | 1,000,000 | 1,000,000 | | 1,000,000 | 100.00 | Gwangyang | |
| | | 34,433 | 6,000,000 | 5,700,000 | | 5,700,000 | 95.00 | Pohang | |

| | | | | | | | | | |
|----------------------------------|---|----------|-----------|-----------|-------|-----------|--------|----------|-----------|
| TECH ure tal Co., | Investment in venture companies | | | | | | | | |
| CO actories | | | | | | | | | |
| ronment (REC) | Manufacturing | 98,439 | 5,907,000 | 3,544,200 | | 3,544,200 | 60.00 | Pohang | |
| EUN elopment | Real estate, rental and construction | (17,386) | 30,000 | | | | | (2)Busan | |
| ign: CO rica . (SAM) | Steel trading | 136,073 | 308,610 | 306,855 | 1,755 | 308,610 | 100.00 | U.S.A. | POSCAN (0 |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

| Subsidiaries | Primary Business | Capital (In millions of Korean Won) | Number of Outstanding (1) Shares | Number of Shares | | | Percentage of Ownership | | Location | Percentage Ownership Subsidiaries |
|---|---------------------------------------|---|---|------------------|--------------|-----------|-------------------------------|-----------|---------------------------------------|---|
| | | | | POSCO | Subsidiaries | Total | (%) | | | |
| POSCO Australia Ltd. (POSA) | Steel trading | W 43,629 | 761,775 | 761,775 | | 761,775 | 100.00 | Australia | | |
| POSCO Canada (POSCAN) | Coal trading | 45,736 | 1,099,885 | | 1,099,885 | 1,099,885 | 100.00 | Canada | Posteel (100.00) | |
| POSCO Asia Co., Ltd. (POA) | Steel trading | 17,788 | 9,360,000 | 9,360,000 | | 9,360,000 | 100.00 | Hongkong | | |
| POSCO Steel Corporation (VPS) | Steel manufacturing | 15,229 | N/A | N/A | N/A | N/A | 40.00 | Vietnam | Posteel (5.00) | |
| SHANGHAI POSCO I Coated Steel Ltd. | Coated steel manufacturing | 33,203 | N/A | N/A | N/A | N/A | 55.00 | China | Posteel (15.00) | |
| POSCO Tianjin Coil Processing Co., Ltd. | Steel service center | 12,471 | N/A | N/A | N/A | N/A | 70.00 | China | Posteel (60.00) | |
| POSCO METAL Co., Ltd. | Steel service center | 7,282 | 6,000 | | 3,000 | 3,000 | 50.00 | Japan | Posteel (50.00) | |
| Shanghai Real Estate Development Co., Ltd. | Real estate rental | 66,743 | N/A | N/A | N/A | N/A | 100.00 | China | POSCO E & S (100.00) | |
| POSCO Vietnam Corporation | Real estate rental | 15,677 | N/A | N/A | N/A | N/A | 60.00 | Vietnam | POSCO E & S (60.00) | |
| POSCO LILAMA Steel Structure Ltd. | Steel structure fabrication and sales | (6,895) | N/A | N/A | N/A | N/A | 70.00 | Vietnam | POSCO E & S (60.00), Posteel (10.00) | |
| POSCO Gyeonggiang Stainless Steel Co., Ltd. | Stainless steel manufacturing | 262,468 | N/A | N/A | N/A | N/A | 87.08 | China | POSCO-Changwon Holding Co. (13.79) | |
| POSCO INDE Pohang Coated Steel Co., Ltd. | Coated steel manufacturing | 32,428 | N/A | N/A | N/A | N/A | 93.80 | China | POSCO-Changwon Holding Co. (10.00) | |
| POSCO THAI Steel Processing Co., Ltd. | Steel service center | 8,209 | 4,091,570 | 477,288 | 2,136,208 | 2,613,496 | 63.87 | Thailand | Posteel (52.00) | |
| POSCO Gyeonggiang Stainless Steel Co., Ltd. | Stainless steel manufacturing | 60,581 | N/A | N/A | N/A | N/A | 80.00 | China | POSCO-Changwon Holding Co. (10.00)(3) | |
| POSCO Myanmar-POSCO Ltd. | Steel manufacturing | 6,216 | 19,200 | 13,440 | | 13,440 | 70.00 | Myanmar | | |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

| Subsidiaries | Primary Business | Capital (In millions of Korean Won) | Number of Outstanding (1) Shares | Number of Shares | | | Percentage of Ownership | | Location | Percentage Ownership Subsidiaries |
|---|-------------------------|---|--|------------------|--------------|------------|-------------------------------|-----------|--|---|
| | | | | POSCO | Subsidiaries | Total | (%) | | | |
| Zhangjiagang POSCO Steel Co., Ltd. | Depot service | W 9,938 | N/ A | N/ A | N/ A | N/ A | 90.00 | China | POSCO E & C (25.00), Zhangjiagang Pohang Stair Steel (65.00) | |
| POSCO Investment Co., Ltd. | Finance | 34,415 | 2,000,000 | 2,000,000 | | 2,000,000 | 100.00 | Hongkong | | |
| POSCO (ZHOUSHI) Automotive Pressing Co., Ltd. | Steel service center | 20,778 | N/ A | N/ A | N/ A | N/ A | 100.00 | China | POSCO-China Holding Corp.(10.00) | |
| POSCO -Qingdao Center Co., Ltd. | Steel service center | 8,871 | N/ A | N/ A | N/ A | N/ A | 69.08 | China | Posteel (69.00) | |
| POSCO-China Investing Corp. -KOREA Pty. Ltd. | Investment | 53,675 | N/ A | N/ A | N/ A | N/ A | 100.00 | China | (3) POSCO (100.00)(3) | |
| POSCO-JAPAN Co., Ltd. | Soft coal | 20,953 | 17,500,001 | | 17,500,001 | 17,500,001 | 100.00 | Australia | (100.00)(3) | |
| | Steel trading | 49,212 | 88,038 | 88,038 | | 88,038 | 100.00 | Japan | (4) | |

- (1) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) The Company does not have any equity interest in SEO MUEUN Development Inc. However, in accordance with the contract terms, the Company has the power to control or to direct the operations and management. In addition, all the members of SEO MUEUN Development Inc.'s Board of Directors are composed of employees of POSCO E & C.
- (3) No shares have been issued in accordance with the local laws and regulations.
- (4) During the year ended December 31, 2004, the Company incorporated POSCO-Japan Co., Ltd. by contributing building and a piece of land with a total book value of W44,808 million and additional cash amounting to W1,058 million after closing down the Japanese branch.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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Equity Method Investees

The following table sets forth certain information with regard to equity method investees as of December 31, 2004.

| Investees | Primary Business | Capital (In millions of Korean Won)(1) | Number of Shares | | | Percentage of Ownership | | Location | Percentage of Ownership of Subsidiaries (%) |
|---|--|---|------------------|-------------------|----------------------|-------------------------------|---|---|---|
| | | | POSCO | Subsidiaries | Total | (%) | | | |
| Domestic: | | | | | | | | | |
| POSCO Information Technologies Ltd. | E-business | W 17,393 | 560,000 | 180,000 | 740,000 | 23.13 | Seoul | POSDATA and others (5.00) | |
| POSCO Engineering GDO New | Engineering | 10,211 | | 866,190 | 866,190 | 25.92 | Seoul | POSCO E & C (25.00) | |
| POSCO Development Subway Railway 9 | Real estate rental Railway management | (44,800) 7,322 | | 78,338 430,534 | 78,338 430,534 | 29.90 29.40 | Seoul | POSCO E & C (29.90) POSCON (14.70) PODATA (14.70) | |
| Foreign: | | | | | | | | | |
| POSCO Pura Butsuryu Co., Ltd. | Pellet Warehousing | 26,481 2,201 | 2,010,719,185 | | 2,010,719,185 600 | 50.00 30.00 | Brazil Japan | | |
| POSCO Industries (UPI) Dongshin Metal Co., Ltd. | Material processing Coloring | 179,248 11,465 | N/A | N/A | N/A | 50.00 30.00 | U.S.A. China Republic of South Africa | POSAM (50.00)(2) Posteel (30.00)(3) | |
| POSCO Xingpu Center Co., HYUNDAI L | Fe-Cr Metal processing Metal processing | 31,762 14,901 7,715 | 21,675 N/A | 21,675 N/A | 21,675 N/A | 25.00 21.00 29.50 | | | |
| POSCO Ventures LP. | Investment in companies in the bio-tech industry | 33,221 | N/A | N/A | N/A | 100.00 | U.S.A. | POSAM (80.00)(3) | |

| | | | | | | | | |
|------------------------------------|-------------------------|--------|-----------|-------|-----------|-------|-----------|--------------------------------------|
| OSMI PT Indonesia Steel (MI) | Steel service center | 3,504 | 743 | 2,229 | 2,972 | 36.69 | Indonesia | Posteel (27.52) |
| mit Steel e SDN | | | | | | | | |
| MMIT) | Steel service center | 10,559 | 4,200,000 | | 4,200,000 | 30.00 | Malaysia | |
| VINA Co., | Steel manufacturing | 6,954 | N/A | N/A | N/A | 50.00 | Vietnam | |
| VEN | Steel manufacturing | | 4,480 | 2,240 | 6,720 | 60.00 | Venezuela | POSCO E & (10.00) POSTEEL (10.00) |

- (1) Capital of the Company's overseas subsidiaries are translated at the exchange rate as of the balance sheet date.
- (2) The Company owns over 30% of equity interest in KOBRASCO, UPI, PT POSMI STEEL Indonesia and POSVINA Co., Ltd. However, the Company is not the major shareholder of these companies. Therefore, these companies were excluded from consolidation. As of December 31, 2004, POSVEN is in the process of liquidation and is accordingly excluded from consolidation.
- (3) No shares have been issued in accordance with the local laws and regulations.
- (4) The Company owns 100% of equity interest in POSCO Bioventures LP. However, due to an agreement with POSCO Bioventures LP., which prohibits the Company to engage in management activities, POSCO Bioventures LP. was excluded from consolidation.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Subsidiaries Excluded from the Consolidated Financial Statements

| | | Shareholders | | Percentage of Ownership (%) | Location | Percentage of Ownership of Subsidiaries (%) |
|---|---|--|--|-----------------------------|-----------|---|
| | | Equity (In millions of Korean Won)(1) | Number of shares Subsidiaries Total | | | |
| Domestic: | | | | | | |
| POSCO Terminal Co., Ltd. | Distribution and warehousing | W 14,738 | 51,000 | 51.00 | Kwangyang | (2) |
| Metapolis Co., Ltd. | Construction | 2,063 | 320,400 | 40.05 | Hwasung | POSCO E & C (40.05)(2) |
| Foreign: | | | | | | |
| PT. POSNESIA Stainless Steel Industry | STS/CR | | 29,610,000 | 70.00 | Indonesia | (3) |
| POSEC-HAWAII Inc. | Construction | 5,343 | 18,100 | 100.00 | U.S.A. | POSCO E & C (100.00)(4) |
| POSCO E&C (ZHANGJIAGANG) Engineering & Consulting Co., Ltd. | Facilities manufacturing | (229) | N/A | 100.00 | China | POSCO E & C (100.00)(2) |
| Dalian Poscondongbang Automatic Co., LTd | Electronic use facilities manufacturing | 1,177 | 100,000 | 70.00 | China | POSCON (70.00)(2) |
| Qingdao Posco Steel Processing Co., Ltd | Steel service center | 4,175 | N/A | 100.00 | China | POA (100.00)(2) |
| POSCO-FOSHAN Steel Processing Center Co., Ltd | Steel service center | 887 | N/A | 100.00 | China | POA (40.00) POSCO-CHINA (60.00)(2) |

(1) Capital of the Company's overseas subsidiaries is translated at the exchange rate as of the balance sheet date.

(2) Capital investment was less than W7,000 million as of December 31, 2004.

(3) As of December 31, 2004, the company is in the process of the liquidation.

(4) As of December 31, 2004, the company's operations have been suspended for more than one year.

Change in Scope of Consolidation

The consolidated financial statements include the accounts of POS-ORE Pty. Ltd., which was excluded from consolidation as of December 31, 2003, due to the increase in its total assets to exceed W7,000 million as of December 31, 2004. Also, the consolidated financial statements include the accounts of SEO MUEUN Development

Inc., POSCO-China Holding Corp. and POSCO-Japan Co., Ltd., which were newly incorporated, since POSCO has obtained a controlling financial interest in such companies. POSCO does not have any equity interest in SEO MUEUN Development Inc., however, in accordance with the contract terms, POSCO has the power to control or to direct its operations and management. In addition, all the members of SEO MUEUN Development Inc.'s Board of Directors are composed of employees of POSCO E & C, which is a controlled subsidiary of POSCO. POSCO International Osaka, Inc. was excluded from consolidation as of December 31, 2004 since POSCO International Osaka, Inc. was acquired by POSCO-Japan Co., Ltd. As a result of such change in scope of consolidation, the total assets, sales, net income and the shareholders' equity of the consolidated financial statements as of and for the year ended December 31, 2004 increased by W482,413 million, W165,354 million, W350 million and W102,943 million, respectively.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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2. Summary of Significant Accounting Policies

The significant accounting policies followed by the Company in the preparation of its consolidated financial statements are summarized below:

Basis of Consolidated Financial Statements Presentation

POSCO and its domestic subsidiaries maintain their accounting records in Korean won and prepare statutory financial statements in the Korean language (Hangul) in conformity with accounting principles generally accepted in the Republic of Korea. Certain accounting principles applied by the Company that conform with financial accounting standards and accounting principles in the Republic of Korea may not conform with generally accepted accounting principles in other countries. Accordingly, these consolidated financial statements are intended for use by those who are informed about Korean accounting principles and practices. The accompanying consolidated financial statements have been condensed, restructured and translated into English from the Korean language consolidated financial statements. Certain information attached to the Korean language consolidated financial statements, but not required for a fair presentation of POSCO and its domestic subsidiaries' financial position, results of operations or cash flows, is not presented in the accompanying consolidated financial statements.

Application of the Statements of Korean Financial Accounting Standards

The Korean Accounting Standards Board (KASB) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards, established by the Korean Financial Supervisory Commission. As SKFAS No. 2 through No. 9 became applicable to the Company on January 1, 2003, the Company adopted these standards in its financial statements covering periods beginning on or after this date. And as SKFAS Nos. 10, 12 and 13 became applicable to the Company on January 1, 2004, the Company adopted these statements in its financial statements, as of and for the year ended December 31, 2004.

Accounting Estimates

The preparation of the non-consolidated financial statements requires management to make estimates and assumptions that affect amounts reported therein. Although these estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future, actual results may differ from those estimates.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of POSCO and its controlled subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company records differences between the investment account and corresponding capital account of subsidiaries as a goodwill or a negative goodwill, and such differences are amortized over the estimated useful lives using the straight-line method. However, differences which occur from additional investments acquired in consolidated subsidiaries are reported in a separate component of shareholders' equity, and are not included in the determination of the results of operations. In accordance with accounting principles generally accepted in the Republic of Korea, minority interest in consolidated subsidiaries is presented as a component of shareholders' equity in the consolidated balance sheet.

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POSCO AND SUBSIDIARIES
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Cash, Cash Equivalent and Financial Instruments

Cash and cash equivalents include cash on hand, cash in banks, and highly liquid temporary cash investments with original maturities of three months or less. Investments which are readily convertible into cash within four months or more of purchase are classified in the balance sheet as financial instruments. The carrying amount of short-term financial instruments is approximate fair value.

Revenue Recognition

Revenue from sale of products is generally recognized when significant risks and rewards are transferred to the buyer. Revenue from construction and machinery installation is recognized using the percentage-of-completion method based on the ratio of actual costs incurred to the total estimated cost to complete. Adjustments to cost estimates are made periodically, and losses expected to be incurred on contracts in-progress are charged to current operations, in the period such losses are determined. The aggregate of costs incurred and income recognized on uncompleted contracts in excess of related billings is shown as a current asset, and the aggregate of billings on uncompleted contracts in excess of related costs incurred and income recognized is shown as a current liability. Revenue from consulting and other services are generally recognized when the service is provided to the customer. Revenue from long-term service contracts is deferred and recognized over the life of the contract.

Allowance for Doubtful Accounts

The Company provides an allowance for doubtful accounts based on management's estimate of the collectibility of individual accounts and historical collection experience.

Inventories

The quantity of inventory on hand is verified using the perpetual inventory system, which continuously updates the quantity of the inventory during the period, and by physical count as of the balance sheet date. Inventories are stated at the lower of cost or market, with cost being determined using the moving-average method, except for materials-in-transit, which are stated at actual cost using the specific identification method. If the net realizable (replacement cost for raw materials) value of inventories is lower than its cost, the carrying amount is reduced to the net realizable value (replacement cost for raw materials) and the difference between the cost and revalued amount is charged to current operations. If, however, the circumstances which caused the valuation loss ceased to exist, causing the market value to rise above the carrying amount, the valuation loss is reversed limited to the original carrying amount before valuation. The said reversal is a deduction from cost of sales.

For certain other subsidiaries, inventories are stated at the lower of cost or market, with cost being determined using the gross average method or FIFO method. Individual accounting policies on inventories of POSCO and each subsidiary are enumerated on page 25 and 26.

Investments in Securities

The Company accounts for equity and debt securities under the provision of SKFAS No. 8, *Investments in Securities*. This statement requires investments in equity and debt securities to be classified into one of three categories: trading, available-for-sale and held-to-maturity.

Securities that are bought and held principally for sale in the near-term to generate profits from short-term price differences are classified into Trading. Trading generally involves active and frequent buying and selling. Debt securities that have fixed or determinable payments and fixed maturity shall be classified as held-to-maturity only if the reporting entity has both the positive intent and ability to hold those securities

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

to maturity. Securities that are not classified as either held-to-maturity securities or trading securities are classified into available-for-sale.

Securities are initially carried at cost, including incidental expenses, with cost being determined using the gross average method or moving-average method. Debt securities, which the Company has the intent and ability to hold to maturity, are generally carried at cost, adjusted for the amortization of discounts or premiums. Premiums and discounts on debt securities are amortized over the term of the debt using the effective interest rate method. Trading and available-for-sale securities are carried at fair value, except for non-marketable securities classified as available-for-sale securities, which are carried at cost. Non-marketable debt securities are carried at a value using the present value of future cash flows, discounted at a reasonable interest rate determined considering the credit ratings by the independent credit rating agencies.

Unrealized valuation gains or losses on trading securities are charged to current operations, and those resulting from available-for-sale securities are recorded as a capital adjustment, the accumulated amount of which shall be charged to current operations when the related securities are sold, or when an impairment loss on the securities is recognized. Impairment losses of available-for-sale and held-to-maturity securities are recognized in the statement of income when the recoverable amounts are less than the acquisition costs of securities or adjusted costs of debt securities for the amortization of discounts or premiums.

Investments in Affiliates

Investments in equity securities of companies, over which the Company exercises significant influence are recorded using the equity method of accounting. Under the equity method, the Company records changes in its proportionate ownership of the book value of the investee in current operations, as capital adjustments or as adjustments to retained earnings, depending on the nature of the underlying change in the book value of the investee. The Company discontinues the equity method of accounting for investments in equity method investees when the Company's share in the accumulated losses equals the cost of the investments, and until the subsequent cumulative changes in its proportionate net income of the investees equals its cumulative proportionate net losses not recognized during the periods when the equity method was suspended.

Differences between the initial purchase price and the Company's initial proportionate ownership of the net book value of the investee are amortized over five years using the straight-line method.

Unrealized profit arising from sales by the Company to equity method investees is fully eliminated. The Company's proportionate unrealized profit arising from sales by the equity method investees to the Company or sales between equity method investees is also eliminated.

Foreign currency financial statements of equity method investees are translated into Korean won using the current exchange rate in effect as of the balance sheet date for assets and liabilities, and annual average exchange rates for income and expenses. Any resulting translation gain or loss is included in the capital adjustments account, a component of shareholders' equity.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation, except for certain assets subject to upward revaluations in accordance with the Asset Revaluation Law. Individual depreciation methods for property, plant and equipment of POSCO and each subsidiary are enumerated on

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page 25 and 26. Depreciation is computed using the straight-line method or declining-balance method over the estimated useful lives of the assets, as follows:

| | Estimated Useful Lives |
|--------------------------|-------------------------------|
| Buildings and structures | 5 - 60 years |
| Machinery and equipment | 3 - 25 years |
| Tools | 4 - 20 years |
| Vehicles | 4 - 10 years |
| Furniture and fixtures | 3 - 20 years |

The acquisition cost of an asset is comprised of its purchase price and any directly attributable cost of bringing the asset to working condition for its intended use. When the estimated cost of dismantling and removing the asset and restoring the site, after the termination of the asset's useful life, meets the criteria for the recognition of provisions, the present value of the estimated expenditure shall be included in the cost of the asset.

Subsequent expenditure on property, plant and equipment shall be capitalized only when it increases future economic benefits beyond its most recently assessed standard of performance; all other subsequent expenditures shall be recognized as an expense in the period in which they are incurred.

Intangible Assets

Intangible assets are stated at acquisition cost, including incidental expenses, net of accumulated amortization. Amortization is computed using the straight-line method over the estimated useful lives as described below.

| | Estimated Useful Lives |
|-------------------------------|-------------------------------|
| Goodwill | 5 - 10 years |
| Negative goodwill | 5 years |
| Intellectual property rights | 5 - 50 years |
| Port facilities usage rights | 2 - 33 years(2) |
| Land usage rights | 25 - 50 years(2) |
| Deferred development expenses | (1) |
| Other intangible assets | 2 - 50 years |

- (1) The costs incurred in relation to the development of new products and new technologies, including the development cost of internally used software and related costs, are recognized and recorded as development costs only if it is probable that future economic benefits that are attributable to the asset will flow into the entity and the cost of the asset can be measured reliably. The useful life of development costs is based on its estimated useful life, not to exceed 20 years from the date when the asset is available for use.
- (2) Port facilities usage rights and land usage rights, which represent right to use certain port facilities and land, are amortized over the term of exclusive rights.

Port facilities usage rights are related to the quay and inventory yard donated by POSCO since April 1987 to the local bureaus of the Maritime Affairs and Fisheries in Kwangyang, Pohang, Pyoungtaek and Masan. The related amortization expense amounted to W22,602 million for the year ended December 31, 2004.

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Impairment of Assets

The Company assesses the potential impairment of assets which are not recorded at fair value when there is evidence that events or changes in circumstances have made the recovery of an asset's carrying value to be unlikely. The carrying value of the assets is reduced to the estimated realizable value, and an impairment loss is recorded as a reduction in the carrying value of the related asset and charged to current operations. However, the recovery of the impaired assets would be recorded in current operations up to the cost of the asset, net of accumulated depreciation or amortization, if any, before impairment, when the estimated value of the assets exceeds the carrying value after impairment.

Discounts on Debentures

Discounts on debentures are amortized over the term of the debenture using the effective interest rate method. The discount is reported on the balance sheet as a direct deduction from the face amount of the debenture. Amortization of the discount is treated as an interest expense.

Government Grants

POSCO and domestic subsidiaries accounted for the government grants intended to be used for the acquisition of certain assets as deduction from the cost of the acquired assets. Before the acquisition of the assets specified by the grant, the amounts are recognized as a deduction from the account under which the asset to be acquired is to be recorded, or from the other assets acquired as a temporary investment of the grant received.

The government grants, contributed to compensate for specific expenses, are offset against the related expenses. Other government grants, for which the use or purpose is not specified, are recorded as gains from assets contributed, and are recognized in current operations.

Valuation of Assets and Liabilities at Present Value

POSCO and domestic subsidiaries value long-term loans receivable and long-term trade accounts and notes receivable at their present value as discounted at an appropriate discount rate. Discounts are amortized using the effective interest rate method and recognized as an interest income over the life of the related assets.

Income Taxes

Income taxes are accounted for under the asset and liability method. In accordance with the applicable tax laws, POSCO and POSCO E & C and 13 other domestic subsidiaries, and POSA and four other overseas subsidiaries, recognize the temporary differences between the amount reported for financial reporting and income tax purposes as deferred income tax assets and liabilities. POSAM and 17 other overseas subsidiaries record taxes payable as income tax expense in accordance with the applicable tax laws.

Accrued Severance Benefits

Employees and directors with at least one year of service are entitled to receive a lump-sum payment upon termination of their employment, based on their length of service and rate of pay at the time of termination. Accrued severance benefits represent the amount which would be payable assuming all eligible employees and directors were to terminate their employment as of the balance sheet date. In addition, in accordance with the applicable laws and regulations, POSAM and 22 other overseas

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subsidiaries recorded the amount, which would be payable to employees at the time of termination, as accrued severance benefits.

POSCO and domestic subsidiaries have partially funded the accrued severance benefits through group severance insurance deposits with Samsung Life Insurance Company and others. The amounts funded under these insurance deposits are classified as a deduction from the accrued severance benefits liability. Subsequent accruals are to be funded at the discretion of the companies.

The Company made deposits to the National Pension Fund in accordance with the National Pension Act of the Republic of Korea. The use of the deposit is restricted to the payment of severance benefits. Accordingly, accrued severance benefits in the accompanying balance sheet are presented net of this deposit.

Derivative Instruments

The Company enters into derivative transactions to hedge against financial risks. Derivatives are required to be recorded on the balance sheets at fair value and classified into: cash flow hedges, fair market value hedges and transactions entered into for nontrading purposes that do not qualify for hedge accounting treatment or otherwise hedge accounting treatment is not applied. When derivatives qualify for cash flow hedges, unrealized holding gains and losses of the derivatives are recorded as capital adjustments in the balance sheet and recognized in the statement of earnings when the hedged item affects earnings. When derivatives qualify for fair market value hedge, unrealized holding gains and losses of the derivatives as well as the changes in the fair value of the hedged items are recorded in the statement of earnings. If the contract expires, the gains and losses from fair value hedge transactions are charged to earnings and the gains and losses from cash flow hedged are offset against the purchasing price of inventories.

Lease Transactions

The Company accounts for lease transactions as either operating leases or capital leases, depending on the terms of the underlying lease agreement. Machinery and equipment, acquired under capital lease agreements, are recorded at cost as property, plant and equipment, and depreciated using the straight-line method over their estimated useful lives. In addition, the aggregate lease payments are recorded as obligations under capital leases, net of accrued interest. Accrued interest is amortized over the lease period using the effective interest rate method.

Machinery and equipment acquired under operating lease agreements are not included in property, plant and equipment. The related lease rentals are charged to expense when incurred.

Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies are translated into Korean won at the current rates in effect at the balance sheet date, and resulting translation gains and losses are recognized in current operations.

Translation of Foreign Operations

Foreign currency assets and liabilities of the Company's overseas business branches and offices are translated at the exchange rate as of the balance sheet date, and income and expenses are translated at the weighted-average exchange rate of the reporting period. Gains or losses on translation are offsetted, and the net amount is recognized as an overseas operations translation debit or credit in the capital adjustments account. Overseas operations translation credit or debit is treated as an extraordinary gain or loss upon closing the foreign branch or office. Since the Japanese branch was closed, the foreign-based

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operations translation amounting to W29,538 million from the Japanese branch was reclassified as extraordinary income amounting to W3,387 million and gain on valuation of equity method investments amounting to W26,151 million.

Stock Appreciation Rights

Compensation expenses for stock appreciation rights, either partially or fully vested, is recorded based on the difference between the base unit price at the date of grant and the moving weighted average of quoted market price at the end of the period proportionally recognized over the vesting period and adjusted for previous recognized expense (Note 21).

Capitalization of Financing Expenses

Financing expense on borrowing associated with certain qualifying assets during the construction period that meet certain criteria for capitalization can be either capitalized or expensed as incurred. The Company has chosen to expense as a financing expense the cost of manufacturing, acquisition, and construction of property, plant, and equipment that require more than one year from the initial date of manufacture, acquisition, and construction to the date of the estimated completion of the manufacture, acquisition and construction.

Basic and Diluted Earnings Per Share and Basic and Diluted Ordinary Income Per Share

Basic earnings per share is computed by dividing net income allocated to common stock by the weighted average number of common shares outstanding during the year. Basic ordinary income per share is computed by dividing ordinary income allocated to common stock as adjusted by extraordinary gains or losses and net of related income taxes, by the weighted average number of common shares outstanding during the year.

Cash Flow Statement

The cash flow statements are prepared under the basis of accounting used in the primary financial statements complies with U.S. generally accepted accounting principles. Cash flows from forward contracts and swap contracts accounted for as hedges are classified in the same category as the item being hedged.

United States Dollar Amounts

The Company operates primarily in Korean won and its accounting records are maintained in Korean won. The U.S. dollars amounts, provided herein, represent supplementary information, solely for the convenience of the reader. All won amounts are expressed in U.S. dollars at US\$1:W1,035.10, the US Federal Reserve Bank of New York noon buying exchange rate in effect on December 31, 2004. The U.S. dollar amounts are unaudited and are not presented in accordance with accounting principles generally accepted in either the Republic of Korea or the United States, and should not be construed as a representation that the won amounts shown could be readily converted, realized or settled in U.S. dollars at this or any other rate.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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Accounting Policies on Inventories and Depreciation of property, plant and equipment of POSCO and its Controlled Subsidiaries are as follows:

| Company | Inventories(1) | Depreciation of property, plant and equipment |
|---|---|--|
| POSCO | Moving-average method | Straight-line method |
| POSCO E & C | Moving-average method | Straight-line method |
| Posteel Co., Ltd. | Moving-average method | Straight-line method |
| POSCON Co., Ltd. | Moving-average method | Straight-line method, Declining-balance method |
| Pohang Coated Steel Co., Ltd. | Gross average method | Straight-line method |
| POSCO Machinery & Engineering Co., Ltd. | Moving-average method | Straight-line method |
| POSDATA Co., Ltd. | Moving-average method | Straight-line method |
| POSCO Research Institute | N/ A | Straight-line method |
| Seung Kwang Co., Ltd. | Gross average method | Straight-line method, Declining-balance method |
| POS-AC Co., Ltd. | N/ A | Straight-line method, Declining-balance method |
| Changwon Specialty Steel Co., Ltd. | Moving-average method | Straight-line method |
| POSCO Machinery Co., Ltd. | Moving-average method | Straight-line method |
| POSTECH Venture Capital Co., Ltd. | N/ A | Declining-balance method |
| POSCO Refractories & Environment (POSREC) | First-in, First-out Method; Moving-average method | Straight-line method, Declining-balance method |
| SEO MUEUN Development Inc. | Specific identification method | Straight-line method |
| POSCO America Corp. (POSAM) | Moving-average method | Straight-line method |
| POSCO Australia Pty. Ltd. (POSA) | Gross average method | Straight-line method |
| POSCO Canada Ltd. (POSCAN) | Gross average method | Straight-line method, unit of production method |
| POSCO Asia Co., Ltd. (POA) | N/ A | Declining-balance method |
| VSC POSCO Steel Corporation (VPS) | Moving-average method | Straight-line method |
| DALIAN POSCO CFM Coated Steel Co., Ltd. | Moving-average method | Straight-line method |
| POS-Tianjin Coil Center Co., Ltd. | Moving-average method | Straight-line method |

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| | | |
|---|--------------------------------|----------------------|
| POSMETAL Co., Ltd. | Moving-average method | Straight-line method |
| Shanghai Real Estate Development Co., Ltd. | N/ A | Straight-line method |
| IBC Corporation | Specific identification method | Straight-line method |
| POSLILAMA Steel Structure Co., Ltd. | Moving-average method | Straight-line method |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | Moving-average method | Straight-line method |
| SHUNDE Pohang Coated Steel Co., Ltd. | Moving-average method | Straight-line method |
| POS-THAI Service Steel Center Co., Ltd. | Moving-average method | Straight-line method |
| Qingdao Pohang Stainless Steel Co., Ltd. | Moving-average method | Straight-line method |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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| Company | Inventories(1) | Depreciation of property, plant and equipment |
|--|--------------------------|--|
| Myanmar-POSCO Co., Ltd. | Moving-average method | Straight-line method |
| Zhangjiagang POSHA Steel Port Co., Ltd. | Moving-average method | Straight-line method |
| POSCO Investment Co., Ltd. | N/ A | Straight-line method |
| POSCO (SUZHOU) Automotive Processing Center Co., Ltd. | Moving-average method | Straight-line method |
| POS-Qingdao Coil Center Co., Ltd. | Moving-average method | Straight-line method |
| POSCO-China Holding Corp. | N/ A | Straight-line method |
| POS-ORE Pty. Ltd. | N/ A | Straight-line method |
| POSCO-Japan Co., Ltd. | Gross-average method | Straight-line method |

(1) Specific identification method is used for materials-in-transit.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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3. Cash and Cash Equivalents and Financial Instruments

Cash and cash equivalents and short-term and long-term financial instruments as of December 31, 2004 and 2003 consist of the following:

| | Annual interest rates (%) as of December 31, 2004 | | 2004 | | 2003 |
|--|--|---|---------|---|---------|
| (in millions of Korean Won) | | | | | |
| Cash and cash equivalents | | | | | |
| Cash on hand and bank deposits | 0.00 - 3.00 | W | 16,106 | W | 9,732 |
| Corporate bank deposits | 0.10 - 5.00 | | 20,655 | | 37,874 |
| Checking accounts | | | 2,927 | | 4,704 |
| Time deposits in foreign currency and others | 0.00 - 2.00 | | 246,891 | | 351,430 |
| Maintained by overseas affiliates | 1.00 - 5.00 | | 201,752 | | 190,206 |
| | | | 488,331 | | 593,946 |
| Government grants | | | (1,961) | | (1,344) |
| | | W | 486,370 | W | 592,602 |
| Short-term financial instruments | | | | | |
| Time deposits | 3.00 - 6.00 | W | 113,000 | W | 285,850 |
| Installment accounts | 4.00 | | 656 | | 77,276 |
| Time deposits in foreign currency | | | | | 2,463 |
| Money in trust | | | 2,140 | | 2,121 |
| Negotiable certificates of deposit | 4.00 - 5.00 | | 185,000 | | 259,000 |
| Commercial Paper | 3.50 - 5.00 | | 43,893 | | 42,109 |
| Trust type savings accounts | 3.70 - 4.80 | | 270,000 | | |
| Others | 3.00 | | 9,909 | | 10,322 |
| Maintained by overseas affiliates | 2.50 - 3.31 | | 16,390 | | 16,028 |
| | | W | 640,988 | W | 695,169 |
| Long-term financial instruments | | | | | |
| Installment accounts | 1.00 - 5.00 | W | 1,307 | W | 498 |
| Guarantee deposits for opening accounts | | | 108 | | 113 |
| Time deposits in foreign currency and others | 0.00 - 4.00 | | 291 | | 17,391 |
| | | W | 1,706 | W | 18,002 |

As of December 31, 2004, the Company's financial assets amounting to W7,649 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to W7,000 million and W541 million, respectively, in relation to performance guarantee deposits, and long-term financial instruments amounting to W108 million in relation to collateral deposits for opening checking accounts and others (Note 13).

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POSCO AND SUBSIDIARIES
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As of December 31, 2003, the Company's financial assets amounting to W8,255 million are pledged as collateral and, accordingly, withdrawal of such financial assets is restricted. The financial assets pledged as collateral include short-term financial instruments and long-term financial instruments amounting to W8,000 million and W142 million, respectively, in relation to performance guarantee deposits, and long-term financial instruments amounting to W113 million in relation to collateral deposits for opening checking accounts and others (Note 13).

4. Trading Securities

Trading securities as of December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | |
|-----------------------------|------------------------------------|-----------|-------------|-----------|
| | (in millions of Korean Won) | | | |
| Beneficiary certificates(1) | W | 2,658,756 | W | 1,147,219 |
| Mutual funds | | 30,837 | | 174,082 |
| | W | 2,689,593 | W | 1,321,301 |

(1) Beneficiary certificates mainly consist of money market fund.

5. Accounts and Notes Receivable and Others

Accounts and notes receivable and their allowance for doubtful accounts and others as of December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | |
|---|------------------------------------|-----------|-------------|-----------|
| | (in millions of Korean Won) | | | |
| Trade accounts and notes receivable | W | 3,163,644 | W | 2,332,737 |
| Less: Allowance for doubtful accounts | | (69,509) | | (23,327) |
| Present value discount | | (624) | | (965) |
| | W | 3,093,511 | W | 2,308,445 |
| Other accounts and notes receivable | W | 226,236 | W | 152,053 |
| Less: Allowance for doubtful accounts | | (63,032) | | (56,489) |
| Present value discount | | (86) | | |
| | W | 163,118 | W | 95,564 |
| Long-term trade accounts and notes receivable | W | 50,266 | W | 61,734 |
| Less: Allowance for doubtful accounts | | (2,081) | | (2,090) |
| Present value discount | | (12,091) | | (15,979) |
| | W | 36,094 | W | 43,665 |
| Long-term loans | W | 82,296 | W | 83,346 |

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| | | |
|---------------------------------------|----------|----------|
| Less: Allowance for doubtful accounts | (746) | (384) |
| Present value discount | (54) | (85) |
| | W 81,496 | W 82,877 |

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POSCO AND SUBSIDIARIES
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Accounts stated at present value under rescheduled payment and long-term deferred payment included as part of accounts and notes receivable and others are as follows:

| Accounts | Company | Face value | Present value discount | Book value | Maturity (year) | Discount rate (%) |
|---|---|------------|------------------------|------------|-----------------|-------------------|
| (in millions of Korean Won) | | | | | | |
| Long-term deferred payment: | | | | | | |
| Long-term loans | Employees | W 159 | W 19 | W 140 | 2017 | 7.54 |
| | Others | 260 | 35 | 225 | 2006 | 7.54 |
| | | 419 | 54 | 365 | | |
| Other long-term assets | Cointop Software Corp. | 201 | 38 | 163 | 2008 | 6.50 |
| | Softpark Corp. | 198 | 46 | 152 | 2009 | 6.32 |
| | | 399 | 84 | 315 | | |
| | | 818 | 138 | 680 | | |
| Rescheduled payment: | | | | | | |
| Long-term trade accounts and notes receivable | BNG Steel Co., Ltd. | W 53,259 | W 12,212 | W 41,047 | 2005 2009 | 8.00 8.62 |
| | Hanbo Iron and Steel Co., Ltd. and Others | 2,114 | 503 | 1,611 | 2010 2014 | 4.97 7.54 |
| | | 55,373 | 12,715 | 42,658 | | |
| Less: Current portion | | (8,569) | (624) | (7,945) | | |
| | | 46,804 | 12,091 | 34,713 | | |
| Other long-term assets | Dong Sung Construction Co., Ltd. and Others | 16,157 | 375 | 15,782 | 2005 2018 | 5.09 8.00 |
| Less: Current portion | | (3,504) | (86) | (3,418) | | |

W 59,457 W 12,380 W 47,077

The Company recorded discounts on accounts receivable using the Company's weighted-average borrowing rate incurred as of the nearest date of the Company's period-end.

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POSCO AND SUBSIDIARIES
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Valuation and qualifying accounts for allowance for doubtful accounts for the years ended December 31, 2004, 2003 and 2002 are as follows:

| Description | Balance at beginning of period | Additions | | | Balance at the end of period |
|--|--------------------------------|-------------------------------|------------------------------|---------------|------------------------------|
| | | Charged to costs and expenses | Charged to other accounts(2) | Deductions(1) | |
| (in millions of Korean Won) | | | | | |
| Year ended December 31, 2004: | | | | | |
| Reserves deducted in the balance sheet from the assets to which the apply: | | | | | |
| Allowance for doubtful accounts | W 325,187 | W (56,961) | W | W 121,444 | W 146,782 |
| Year ended December 31, 2003: | | | | | |
| Reserves deducted in the balance sheet from the assets to which the apply: | | | | | |
| Allowance for doubtful accounts | 321,534 | (3,843) | | (7,496) | 325,187 |
| Year ended December 31, 2002: | | | | | |
| Reserves deducted in the balance sheet from the assets to which the apply: | | | | | |
| Allowance for doubtful accounts | 44,047 | 184,886 | 103,954 | 11,353 | 321,534 |

(1) Deduction for allowance for doubtful accounts includes amount written off as uncollectible and others.

(2) Includes W104 billion related to the consolidation adjustment resulting from the change in scope of consolidation.

6. Inventories

Inventories as of December 31, 2004 and 2003 consist of the following:

| 2004 | 2003 |
|-----------------------------|------|
| (in millions of Korean Won) | |

| | | | | |
|----------------------|---|-----------|---|-----------|
| Finished goods | W | 448,659 | W | 340,814 |
| By-products | | 2,842 | | 3,226 |
| Semi-finished goods | | 640,672 | | 457,954 |
| Raw materials | | 1,215,136 | | 699,970 |
| Materials in-transit | | 563,470 | | 513,645 |
| Others | | 194,742 | | 52,762 |
| | W | 3,065,521 | W | 2,068,371 |

7. Investment Securities

Investment securities as of December 31, 2004 and 2003 consist of the following:

| | | 2004 | | 2003 |
|-------------------------------|---|-----------------------------|---|-----------|
| | | (in millions of Korean Won) | | |
| Available-for-sale securities | W | 2,164,129 | W | 2,147,013 |
| Held-to-maturity securities | | 38,741 | | 17,481 |
| Equity method investments | | 142,206 | | 154,336 |
| | W | 2,345,076 | W | 2,318,830 |

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Notes to Consolidated Financial Statements (Continued)
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Available-For-Sale Securities

| | 2004 | | 2003 | |
|--|-----------------------------|-----------|------|-----------|
| | (in millions of Korean Won) | | | |
| Current portion of debt security investments | W | 141,573 | W | |
| Marketable equity securities | | 1,682,772 | | 1,647,038 |
| Non-marketable equity securities | | 321,000 | | 226,793 |
| Debt security investments | | 145,640 | | 243,691 |
| Other investments | | 14,717 | | 29,491 |
| | | 2,164,129 | | 2,147,013 |
| | W | 2,305,702 | W | 2,147,013 |

Investments in marketable equity securities as of December 31, 2004 and 2003 are as follows:

| | Number of shares | Percentage of ownership (%) as of December 31, 2004 | 2004 | | 2003 | | | |
|----------------------------------|---------------------|--|---------------------|---------------|------------|------------|---|-----------|
| | | | Acquisition cost | Book value(1) | Book value | Book value | | |
| (in millions of Korean Won) | | | | | | | | |
| Hanil Iron Steel Co., Ltd. | 206,798 | 10.14 | W | 2,412 | W | 3,102 | W | 2,337 |
| HISTEEL Co., Ltd. | 123,052 | 9.95 | | 1,608 | | 1,747 | | 1,053 |
| MunBae Steel Co., Ltd. | 1,849,380 | 9.02 | | 3,588 | | 2,367 | | 1,840 |
| Chohung Bank | | | | | | | | 529 |
| Hana Bank | 4,617,600 | 2.34 | | 29,998 | | 119,134 | | 101,587 |
| Korea Investment Corporation | 588,000 | 0.76 | | 588 | | 135 | | 185 |
| SK Telecom Co., Ltd.(2) | 5,834,296 | 7.09 | | 1,665,249 | | 1,170,222 | | 1,153,190 |
| Samjung P&A Co., Ltd. | 270,000 | 9.00 | | 2,714 | | 1,944 | | 1,866 |
| DongYang Steel Pipe Co., Ltd. | 1,564,250 | 2.46 | | 3,911 | | 501 | | 508 |
| Nippon Steel Corporation | 147,876,000 | 2.17 | | 285,103 | | 375,649 | | 380,794 |

| | | | | | |
|------------------------|---------|------|-------------|-------------|-------------|
| Korea Line Corporation | 217,373 | 2.17 | 8,067 | 7,695 | |
| Others | | | 266 | 276 | 3,149 |
| | | | W 2,003,504 | W 1,682,772 | W 1,647,038 |

- (1) Marketable equity securities are stated at fair market value and the difference between the acquisition cost and the fair market value is accounted for in the capital adjustments account.
- (2) 1,735,799 SK Telecom Co., Ltd. shares classified as available-for-sale securities have been placed as a collateral for exchangeable bonds (Note 13).

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

Investments in non-marketable equity securities as of December 31, 2004 and 2003 are as follows:

| | Number of shares | Percentage of ownership (%) as of December 31, 2004 | Acquisition | | 2004 | | 2003 | | |
|---|---------------------|--|-------------|-----------------------|---------------|---------------|-----------|-----------|--|
| | | | cost | Net asset value(1) | Book value | Book value | | | |
| (in millions of Korean Won) | | | | | | | | | |
| Dae Kyeong Special Steel Co., Ltd. | 1,786,000 | 19.00 | W 8,930 | W 5,365 | W 8,930 | W 8,930 | W 8,930 | W 8,930 | |
| Kihyup Corporation | 600,000 | 10.34 | 3,000 | 3,425 | 3,000 | 3,000 | 3,000 | 3,000 | |
| Keo Yang Shipping Co., Ltd. | 150,000 | 0.88 | 780 | 1,555 | 780 | 780 | 780 | 780 | |
| Korea Economic Daily | 57,456 | 0.46 | 309 | 169 | 309 | 309 | 309 | 308 | |
| Daewoo Commercial Vehicle Co., Ltd. | | | | | | | | 51 | |
| The Siam United Steel | 9,000,000 | 10.00 | 26,640 | 13,486 | 26,640 | 26,640 | 26,640 | 26,640 | |
| PT-POSNESIA Stainless Steel Industry(2) | 29,610,000 | 70.00 | 9,474 | 1,567 | 1,567 | 1,567 | 2,537 | 2,537 | |
| Global Unity Ltd. | 70,649 | 10.00 | 710 | 1,141 | 710 | 710 | 710 | 710 | |
| Seoul Daily News | 1,614,000 | 19.40 | 17,317 | 6,926 | 9,551 | 9,551 | 9,551 | 9,551 | |
| POSCO Terminal Co., Ltd.(2) | 1,183,200 | 51.00 | 5,916 | 7,517 | 5,916 | 5,916 | 1,020 | 1,020 | |
| Incheon Airport Train Co., Ltd. | 14,865,988 | 12.00 | 74,330 | 74,330 | 74,330 | 74,330 | 44,892 | 44,892 | |
| POS-Ore Pty Ltd.(3) | | | | | | | 15,697 | 15,697 | |
| POSEC-HAWAII Inc.(2) | 18,100 | 100.00 | 10,132 | 5,343 | 5,343 | 5,343 | 8,260 | 8,260 | |
| BX Steel Posco Cold Rolled Sheet Co., Ltd. | | 10.00 | 26,803 | 26,803 | 26,803 | 26,803 | | | |
| Powercomm | 7,500,000 | 5.00 | 246,000 | 76,125 | 76,125 | 76,125 | 68,407 | 68,407 | |
| Others | | | 101,251 | 69,256 | 80,996 | 80,996 | 36,010 | 36,010 | |
| | | | W 531,592 | W 293,008 | W 321,000 | W 321,000 | W 226,793 | W 226,793 | |

- (1) The net asset value of the non-marketable equity securities is determined based on the investee companies' most recent available December 31, 2004 financial information, which has not been reviewed or audited. However, the net asset value of Keo Yang Shipping Co., Ltd. and Seoul Daily News are based on their unaudited financial

statements as of September 30, 2004. And the net asset value of POSCO Terminal is based on its audited financial statements as of December 31, 2004. The net asset value of Incheon Airport Train Co., Ltd. and BX Steel Posco Cold Rolled Sheet Co., Ltd are not available, therefore, book value is estimated based on acquisition costs. In addition, Powercomm shares were valued based on the discounted cash flow method, and the difference between the acquisition cost and the value based on the discounted cash flow was accounted for as a capital adjustment amounting to W169,875 million. Except for Powercomm, shares without an objective market value were based on acquisition costs.

- (2) As of December 31, 2004, PT-POSNESIA Stainless Steel Industry is in the process of liquidation and the operation of POSEC-HAWAII Inc. has been suspended for more than a year. Accordingly, they were no longer included as part of equity method investments. POSCO Terminal Co., Ltd.,

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having total assets of less than W7,000 million since December 31, 2003, was not included as part of equity method investments.

- (3) As of December 31, 2004, due to the increase in its total assets exceeding W7,000 million, POS-ORE Pty. Ltd., was included in the consolidation.

Available-for-sale debt security investments as of December 31, 2004 and 2003 are as follows:

| | Maturity (year) | Acquisition cost | 2004 | | 2003 | |
|--------------------------------|--------------------|---------------------|------------|------------|------------|------------|
| | | | Book value | Book value | Book value | Book value |
| (in millions of Korean Won) | | | | | | |
| Government and municipal bonds | Within one year | W 130,467 | W 132,478 | W | | |
| | 1 - 5 | 89,734 | 92,807 | | | 211,503 |
| | 5 - 10 | 8 | 8 | | | 124 |
| Other bonds | 1 - 5 | 62,855 | 61,920 | | | 32,064 |
| | | 283,064 | 287,213 | | | 243,691 |
| Less: Current portion | | (139,467) | (141,573) | | | |
| | | W 143,597 | W 145,640 | W | | 243,691 |

Other investments as of December 31, 2004 and 2003 are as follows:

| | Acquisition cost | 2004 | | 2003 | |
|------------------------------------|---------------------|---------------|------------|------------|------------|
| | | Book value(1) | Book value | Book value | Book value |
| (in millions of Korean Won) | | | | | |
| Investments in capital | | | | | |
| Stock Market Stabilization Fund | W | W | W | 3,542 | |
| Contractor Financial Fund | 12,589 | 12,589 | | 12,167 | |
| Software Financial Fund and Others | 2,128 | 2,128 | | 13,782 | |
| | W 14,717 | W 14,717 | W | | 29,491 |

(1) As of December 31, 2004, other investments with no readily determinable fair value are carried at cost.

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Details of valuation gains and losses on available-for-sale securities for the year ended December 31, 2004 are as follows:

| | Beginning balance | Increase (decrease) | Ending balance |
|--|----------------------|------------------------|--------------------|
| (in millions of Korean Won) | | | |
| Marketable equity securities: | | | |
| Hanil Iron & Steel Co., Ltd. | W (75) | W 764 | W 689 |
| HISTEEL Co., Ltd. | (555) | 694 | 139 |
| MunBae Steel Co., Ltd. | (1,748) | 527 | (1,221) |
| Chohung Bank | (3,228) | 3,228 | |
| Hana Bank | 71,589 | 17,547 | 89,136 |
| Korea Investment Corporation | (403) | (50) | (453) |
| SK Telecom Co., Ltd. | (504,158) | 9,131 | (495,027) |
| Samjung P&A Co., Ltd. | (848) | 78 | (770) |
| DongYang Steel Pipe Co., Ltd. | (3,403) | (7) | (3,410) |
| Nippon Steel Corporation | 95,692 | (5,145) | 90,547 |
| Daehan Line Corporation | | (372) | (372) |
| Others | 364 | (354) | 10 |
| | (346,773) | 26,041 | (320,732) |
| Non-marketable equity securities: | | | |
| Powercomm | (177,593) | 7,718 | (169,875) |
| Others | (5,411) | 13,513 | 8,102 |
| | (183,004) | 21,231 | (161,773) |
| Total | W (529,777) | W 47,272 | W (482,505) |

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Details of valuation gains and losses on available-for-sale securities for the year ended December 31, 2003 are as follows:

| | Beginning balance | | Increase (decrease) | | Ending balance | |
|--|------------------------------|------------------|--------------------------------|------------------|---------------------------|------------------|
| (in millions of Korean won) | | | | | | |
| Marketable equity securities: | | | | | | |
| Hanil Iron & Steel Co., Ltd. | W | (197) | W | 122 | W | (75) |
| HISTEEL Co., Ltd. | | (131) | | (424) | | (555) |
| MunBae Steel Co., Ltd. | | (2,369) | | 621 | | (1,748) |
| Chohung Bank | | (3,202) | | (26) | | (3,228) |
| Hana Bank | | 45,269 | | 26,320 | | 71,589 |
| Korea Investment Corporation | | (461) | | 58 | | (403) |
| SK Telecom Co., Ltd. | | (330,311) | | (173,847) | | (504,158) |
| Samjung P&A Co., Ltd. | | (419) | | (429) | | (848) |
| DongYang Steel Pipe Co., Ltd. | | (3,332) | | (71) | | (3,403) |
| Nippon Steel Corporation | | (76,909) | | 172,601 | | 95,692 |
| Others | | 129 | | 235 | | 364 |
| | | (371,933) | | 25,160 | | (346,773) |
| Non-marketable equity securities: | | | | | | |
| Powercomm | | | | (177,593) | | (177,593) |
| Others | | (2) | | (5,409) | | (5,411) |
| | | (371,935) | | (183,002) | | (183,004) |
| Total | W | (371,935) | W | (157,842) | W | (529,777) |

Details of gross unrealized gains and losses on available-for-sale securities for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | | | | 2003 | | | |
|--------------------------------|---------------------------|---------------------------------------|--|-----------------------|---------------------------|---------------------------------------|--|-----------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| | | W | W | W | | W | W | W |
| (in millions of Korean Won) | | | | | | | | |
| Government and municipal bonds | W 220,150 | W 5,146 | W 3 | W 225,293 | W 210,509 | W 1,120 | W 2 | W 211,627 |
| Other bonds | 61,034 | 886 | | 61,920 | 32,064 | | | 32,064 |

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| | | | | | | | | |
|----------------------------------|-------------|----------|---------|-------------|-------------|-----------|-----------|-------------|
| | 281,184 | 6,032 | 3 | 287,213 | 242,573 | 1,120 | 2 | 243,691 |
| Marketable equity securities | 1,659,684 | 28,747 | 5,659 | 1,682,772 | 1,621,878 | 199,957 | 174,797 | 1,647,038 |
| Non-marketable equity securities | 304,621 | 16,379 | | 321,000 | 410,913 | | 184,120 | 226,793 |
| | W 2,245,489 | W 51,158 | W 5,662 | W 2,290,985 | W 2,275,364 | W 201,077 | W 358,919 | W 2,117,522 |

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For the years ended December 31, 2004, 2003 and 2002, proceeds from sales of available-for-sale securities amounted to W27,558 million, W234,038 million and W109,523 million, respectively. Gross realized gains and losses amounted to W1,730 million and W3,506 million, respectively, for the year ended December 31, 2004.

Held-To-Maturity Securities

Held-to-maturity securities as of December 31, 2004 and 2003 are as follows:

| | Maturity (year) | 2004 | | 2003 | |
|---|--------------------|---------------------|---------------|------------|---------|
| | | Acquisition cost | Book value | Book value | |
| (in millions of Korean Won) | | | | | |
| Current portion of held-to-maturity securities: | | | | | |
| Government and municipal bonds | Within one year | W 12,721 | W 12,721 | W | 239,129 |
| Corporate bond denominated in US\$ | | 1,321 | 1,048 | | 11,352 |
| | | W 14,042 | 13,769 | | 250,481 |
| Government and municipal bonds | 1 - 5 | W 6,814 | W 6,814 | W | 15,232 |
| Corporate bond denominated in US\$ | 1 - 5 | | | | 1,207 |
| Government and municipal bonds | 5 - 10 | W 31,870 | 31,927 | | 1,042 |
| | | W 38,684 | 38,741 | | 17,481 |
| | | W 52,726 | W 52,510 | W | 267,962 |

The Company provided national treasury bonds, amounting to W29,460 million, and certain government and municipal bonds, amounting to W1,688 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area (Note 13).

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Equity Method Investments

Details of equity method investees as of December 31, 2004 and 2003 are as follows:

| | Number of shares | Percentage of ownership (%) as of December 31, 2004 | Acquisition cost | 2004 | | 2003 | |
|--|---------------------|--|---------------------|-----------------------|---------------|-----------------------|---------------|
| | | | | Net asset value(1) | Book value | Net asset value(1) | Book value |
| (in millions of Korean Won) | | | | | | | |
| KOBRASCO | 2,010,719,185 | 50.00 | W 32,950 | W 13,240 | W 11,203 | W 562 | |
| Fujiura Butsuruyu Center Co., Ltd. | 600 | 30.00 | 632 | 660 | 648 | 538 | |
| USS-POSCO Industries(2) | | 50.00 | 234,293 | 89,624 | 65,084 | 98,653 | |
| Suzhou Dongshin Color Metal Sheet Co., Ltd.(2) | | 30.00 | 2,547 | 3,439 | 3,361 | 4,066 | |
| POSCHROME | 21,675 | 25.00 | 4,859 | 7,941 | 7,000 | 6,711 | |
| Shunde Xingpu Steel Center Co., Ltd.(2) | | 21.00 | 1,852 | 3,129 | 3,094 | 3,291 | |
| POS-HYUNDAI STEEL | 6,919,396 | 29.50 | 3,136 | 2,276 | 2,276 | 1,883 | |
| eNtoB Corporation | 740,000 | 23.13 | 3,700 | 4,023 | 3,762 | 3,295 | |
| POSVINA Co., Ltd.(2) | | 50.00 | 1,527 | 3,477 | 3,145 | 3,970 | |
| POS-MMIT | 4,200,000 | 30.00 | 2,308 | 3,168 | 3,015 | 2,625 | |
| PT POSMI STEEL Indonesia | 2,972 | 36.69 | 1,467 | 1,286 | 1,599 | 1,572 | |
| MIDUS Information Technologies Co., Ltd. | 866,190 | 25.92 | 433 | 2,647 | 2,646 | 2,281 | |
| POSCO Bioventures LP.(2) | | 100.00 | 38,157 | 33,221 | 33,221 | 24,889 | |
| POSVEN(3) | 6,720 | 60.00 | 66,876 | | | | |
| SONGDO New City Development Inc.(3) | 78,338 | 29.90 | 404 | | | | |
| Seoul Subway Metro Railway 9 | 430,534 | 29.40 | 2,152 | 2,152 | 2,152 | | |
| | | | W 397,293 | W 170,283 | W 142,206 | W 154,336 | |

- (1) Due to the delay in the closing of December 31, 2004 accounts and the settlement of closing differences, the equity method of accounting is applied based on the most recent available December 31, 2004 financial information, which has not been audited or reviewed.
- (2) No shares have been issued in accordance with the local laws and regulations. Percentage of ownership has been calculated using proportionate ownership and rights based on initial investments and contracts.
- (3) The application of the equity method has been suspended due to its negative book value.

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Details of equity method valuation for the years ended December 31, 2004 and 2003 are as follows:

| | 2003 | Valuation | Other | 2003 | Valuation | Other | 2004 |
|--|------------------|------------------|------------------|------------------|------------------|-------------------|------------------|
| | Beginning | gain or | increase | Ending | gain or | increase | Ending |
| | balance | loss | or | balance | loss | or | balance |
| | | using | decrease | | using | decrease | |
| | | equity | (1) | | equity | (1) | |
| | | method | | | method | | |
| (in millions of Korean Won) | | | | | | | |
| KOBRASCO | W | W 21,447 | W (20,885) | W 562 | W 10,539 | W 102 | W 11,203 |
| Fujiura Butsuryu Center Co., Ltd. | 553 | (102) | 87 | 538 | 207 | (97) | 648 |
| USS-POSCO Industries | 119,979 | (28,350) | 7,024 | 98,653 | (8,011) | (25,558) | 65,084 |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. | 3,606 | 413 | 47 | 4,066 | 86 | (791) | 3,361 |
| POSCHROME | 4,379 | 695 | 1,637 | 6,711 | 766 | (477) | 7,000 |
| Shunde Xingpu Steel Center Co., Ltd. | 2,992 | 137 | 162 | 3,291 | 248 | (445) | 3,094 |
| POS-HYUNDAI STEEL | 1,379 | 377 | 127 | 1,883 | 746 | (353) | 2,276 |
| eNtoB Corporation | 2,579 | 812 | (96) | 3,295 | 467 | | 3,762 |
| POSVINA Co.,Ltd. | | 2,263 | 1,707 | 3,970 | 485 | (1,310) | 3,145 |
| POS-MMIT | 2,308 | 322 | (5) | 2,625 | 808 | (418) | 3,015 |
| PT POSMI STEEL Indonesia | 1,467 | 817 | (712) | 1,572 | 191 | (164) | 1,599 |
| MIDUS Information Technologies Co., Ltd. | | 1,706 | 575 | 2,281 | 433 | (68) | 2,646 |
| POSCO Bioventures LP. | 10,020 | (2,186) | 17,055 | 24,889 | (3,056) | 11,388 | 33,221 |
| SONGDO New City Development Inc. | | | | | (404) | 404 | |
| Seoul Subway Metro Railway 9 Seoul Shinmun Co., Ltd.(2) | 13,750 | (2,874) | (10,876) | | | 2,152 | 2,152 |
| Total | W 163,012 | W (4,523) | W (4,153) | W 154,336 | W 3,505 | W (15,635) | W 142,206 |

- (1) Other increase or decrease represents the fluctuation of investment securities due to acquisitions (disposals) in the current period, dividends received, valuation gain or loss on investment securities, changes in retained earnings and others.
- (2) In November 2003, the Company donated 3% of its Seoul Shinmun Co., Ltd. holdings to Kumho Culture Center, resulting in the loss of its significant influence over The Seoul Shinmun Co., Ltd. As a result, this investment was accounted as part of available-for-sale securities.

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Details on the elimination of unrealized gain or loss for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | | | 2003 | | |
|--|-------------------|---|----------|-------------------|---|---------|
| | Current assets | Property, plant, equipment and intangible assets | Total | Current assets | Property, plant, equipment and intangible assets | Total |
| (in millions of Korean Won) | | | | | | |
| KOBRASCO | W 1,358 | W | W 1,358 | W 655 | W | W 655 |
| Fujiura Butsuryu Center Co., Ltd. | 12 | | 12 | | | |
| USS-POSCO Industries | 18,303 | | 18,303 | 6,237 | | 6,237 |
| Suzhou Dongshin Color Metal Sheet Co., Ltd. | 79 | | 79 | | | |
| POSCHROME | 908 | | 908 | | | |
| Shunde Xingpu Steel Center Co., Ltd. | 39 | | 39 | | | |
| eNtoB Corporation | 213 | 22 | 235 | 10 | 15 | 25 |
| POSVINA Co., Ltd. | 332 | | 332 | | | |
| POS-MMIT | 211 | | 211 | | | |
| PT POSMI STEEL Indonesia | 182 | | 182 | | | |
| | W 21,637 | W 22 | W 21,659 | W 6,902 | W 15 | W 6,917 |

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8. Property, Plant and Equipment

Property, plant and equipment as of December 31, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|--------------------------------|-----------------------------|--------------|
| | (in millions of Korean Won) | |
| Buildings and structures | W 5,096,042 | W 5,040,909 |
| Machinery and equipment | 19,544,990 | 18,995,021 |
| Tools | 380,744 | 347,664 |
| Vehicles | 173,847 | 166,062 |
| Furniture and fixtures | 207,288 | 195,602 |
| | 25,402,911 | 24,745,258 |
| Less: Accumulated depreciation | (18,268,530) | (17,147,340) |
| Less: Accumulated impairment | (2,786) | (2,786) |
| | 7,131,595 | 7,595,132 |
| Land | 1,109,382 | 1,212,850 |
| Less: Accumulated impairment | (565) | (566) |
| | 1,108,817 | 1,212,284 |
| Construction in-progress | 2,283,496 | 1,121,978 |
| Less: Accumulated impairment | (83,617) | (83,617) |
| | 2,199,879 | 1,038,361 |
| | W 10,440,291 | W 9,845,777 |

The value of land based on the posted price issued by the Korean tax authority amounted to W2,860,565 million as of December 31, 2004 (2003: W2,796,338 million).

As of December 31, 2004, property, plant and equipment are insured against fire and other casualty losses up to W4,755,080 million (2003: W4,568,357 million). In addition, the Company carries general insurance for vehicles and accident compensation insurance for its employees.

Construction-in-progress includes capital investments in Gwangyang No. 2 Minimill. By a resolution of the Board of Directors in May 1998, the construction on the Minimill has been temporarily suspended due to the economic situation in the Republic of Korea and the Asia Pacific region. The continuing unstable economic condition and related decrease in the selling price of products, resulting in the deterioration in profitability, drove the management's operation committee's decision in April 2002 to cease the construction on the No. 2 Minimill, and instead use the buildings for the Tailor Welded Blank (TWB) project designed to manufacture custom-made automobile body panels. The Company previously recognized impairment losses on the construction-in-progress in Gwangyang No. 2 Minimill amounting to W390,764 million and reclassified related machinery held to be disposed in the future as other investment assets as of December 31, 2003. In addition, the Company has recognized an additional impairment loss

amounting to W78,817 million on related machinery recorded as other investment assets based on the estimated net selling price which amounted to W54,309 million as of December 31, 2004.

Due to the decrease of fair value, the Company recognized impairment losses on the building and land of the Japanese branch for the year ended December 31, 2004 amounting to W11,875 million and W50,680 million, respectively.

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The changes in the carrying value of property, plant and equipment for the year ended December 31, 2004 are as follows:

| | As of December 31, 2003 | Acquisition | Disposal | Depreciation | Others(1) | Elimination of intercompany transactions | As of December 31, 2004 |
|-----------------------------|-------------------------------|-------------|-----------|--------------|-------------|---|-------------------------------|
| (in millions of Korean won) | | | | | | | |
| Land | W 1,212,284 | W 7,723 | W 73,091 | W | W (38,044) | W (55) | W 1,108,817 |
| Buildings | 2,314,058 | 91,189 | 29,597 | 152,276 | 106,106 | (130,172) | 2,199,308 |
| Structures | 913,564 | 58,499 | 4,401 | 78,759 | 53,107 | (52,573) | 889,437 |
| Machinery and equipment | 4,178,717 | 894,562 | 22,435 | 1,209,030 | 265,772 | (255,717) | 3,851,869 |
| Vehicles | 33,867 | 15,194 | 865 | 12,098 | (137) | (337) | 35,624 |
| Tools | 101,172 | 49,483 | 868 | 51,317 | 67 | (243) | 98,294 |
| Furniture and equipment | 53,754 | 25,928 | 2,491 | 20,921 | 4,808 | (4,015) | 57,063 |
| Construction-in-progress | 1,038,361 | 2,206,870 | 145,758 | | (777,172) | (122,422) | 2,199,879 |
| | W 9,845,777 | W 3,349,448 | W 279,506 | W 1,524,401 | W (385,493) | W (565,534) | W 10,440,291 |

(1) Includes foreign currency translation adjustments, asset transfers and adjustments resulting from the effect of changes in the scope of consolidation.

9. Intangible Assets

Intangible assets, net of accumulated amortization, as of December 31, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|------------------------------|-----------|-----------|
| (in millions of Korean Won) | | |
| Goodwill | W | W 234 |
| Negative goodwill | (457) | (914) |
| Intellectual property rights | 485 | 523 |
| Port facilities usage rights | 146,396 | 129,698 |
| Development costs | 22,060 | 18,272 |
| Internally used software | 230,758 | 233,000 |
| Land usage rights | 32,416 | 12,750 |
| Others | 64,657 | 80,933 |
| | W 496,315 | W 474,496 |

Port facilities usage rights is related to the quay and inventory yard contributed by the Company, since April 1987, to the local bureaus of the Maritime Affairs and Fisheries in Gwangyang, Pohang, Pyoungtaek and Masan. The related

amortization expense amounted to W22,602 million for the year ended December 31, 2004.

As of December 31, 2004, accumulated amortization of intangible assets amounted to W557,933 million (2003: W433,138 million).

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The estimated aggregated amortization expenses for each of the next five fiscal years are as follows:

| | | (in millions of Korean Won) |
|------|---|--------------------------------|
| 2005 | W | 117,278 |
| 2006 | | 87,300 |
| 2007 | | 64,951 |
| 2008 | | 49,006 |
| 2009 | | 13,766 |
| | W | 332,301 |

10. Research and Development Costs and Others

The changes in the carrying value of development costs, internally used software and other intangible assets for the years ended December 31, 2004 and 2003 are as follows:

| | | 2004 | | 2003 |
|-------------------|---|-----------------------------|---|---------|
| | | (in millions of Korean Won) | | |
| Beginning balance | W | 332,205 | W | 294,395 |
| Increase | | 95,211 | | 125,069 |
| Decrease(1) | | 101,256 | | 78,087 |
| Foreign exchange | | (8,685) | | (9,172) |
| Ending balance | W | 317,475 | W | 332,205 |

(1) Decrease consists of amortization and dispositions.

The Company expensed research and development costs amounting to W277,149 million and for the year ended December 31, 2004 (2003: W255,696 million). For the year ended December 31, 2004, the Company charged research and development costs to cost of goods sold amounting to W206,200 million (2003: W198,871 million) and selling and administrative expenses amounting to W70,949 million (2003: W56,825 million).

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11. Other Assets

Other assets as of December 31, 2004 and 2003 consist of the following:

| | 2004 | 2003 |
|---|-----------------------------|-----------|
| | (in millions of Korean Won) | |
| Other current assets Short-term loans (Notes 27 and 28) | W23,622 | W85,027 |
| Accrued income | 25,032 | 60,440 |
| Advance payments | 120,374 | 125,754 |
| Prepaid expenses | 15,121 | 10,498 |
| Others | 19,903 | 13,059 |
| Less: Allowance for doubtful accounts | (10,679) | (5,113) |
| | W193,373 | W289,665 |
| Other long-term assets | | |
| Other investment assets (Notes 5, 8, 17 and 29) | W145,691 | W526,784 |
| Less: Allowance for doubtful accounts | (733) | (237,782) |
| Present value discount | (373) | (89) |
| | W144,585 | W288,913 |

12. Short-Term Borrowings and Current Portion of Long-Term Debt

Short-term borrowings as of December 31, 2004 and 2003 consist of the following:

| Financial institutions | Annual | 2004 | 2004 | 2003 |
|-----------------------------------|---|------|-----------------------------|-----------|
| | interest rate (%) as of December 31, | | | |
| | | | (in millions of Korean Won) | |
| Won currency borrowings: | | | | |
| Korea Development Bank and others | 4.00 | | W 121,374 | W 164,931 |
| Foreign currency borrowings: | | | | |
| Bank of America and others | 1.00 - 3.00 | | 29,575 | 10,221 |
| Chohung Bank and others | LIBOR + 1.80 | | 506,592 | 556,629 |
| | | | 536,167 | 566,850 |
| | | | W 657,541 | W 731,781 |

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Notes to Consolidated Financial Statements (Continued)
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Current portion of long-term debt as of December 31, 2004 and 2003 consist of the following:

| Financial institutions | Annual interest rate (%) as of December 31, 2004 | | 2004 | | 2003 |
|--------------------------------------|--|---|-----------|---|-----------|
| (in millions of Korean Won) | | | | | |
| Debtures: | | | | | |
| Domestic and foreign debtures | 6.00 - 8.00 | W | 961,607 | W | 789,405 |
| Less: Discount on debtures issued | | | (1,347) | | (1,958) |
| | | | 960,260 | | 787,447 |
| Won currency borrowings: | | | | | |
| Korea Development Bank and others | 3.00 | | 31,511 | | 1,618 |
| Foreign currency borrowings: | | | | | |
| Development Bank of Japan and others | 1.00 - 8.30 | | 52,808 | | 230,493 |
| | | | 84,319 | | 232,111 |
| Lease obligations: | | | | | |
| HP Financial Services | 5.00 | | 2,103 | | 1,307 |
| Unearned revenue: | | | | | |
| Unearned revenue | | | 17 | | |
| | | W | 1,046,699 | W | 1,020,865 |

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Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

13. Long-Term Debt

Long-term borrowings as of December 31, 2004 and 2003 are as follows:

| Financial institutions | Annual interest rate (%) as of December 31, 2004 | 2004 | 2003 |
|--------------------------------------|---|-------------|-------------|
| (in millions of Korean Won) | | | |
| Won currency borrowings: | | | |
| Korea Development Bank and others | 1.0 - 6.00 | W 170,715 | W 11,953 |
| Less: Current portion | | (31,511) | (1,618) |
| | | 139,204 | 10,335 |
| Foreign currency borrowings: | | | |
| Development bank of Japan and others | 1.00 - 5.00 LIBOR + 0.8 | 349,269 | 504,863 |
| Less: Current portion | | (52,808) | (230,493) |
| | | 296,461 | 274,370 |
| Debentures: | | | |
| Domestic debentures | 4.00 - 8.00 | 1,276,060 | 1,796,060 |
| Foreign bonds(1) | 0.00 - 7.40 | 1,308,010 | 1,676,291 |
| | | 2,584,070 | 3,472,351 |
| Less: Current portion | | (961,607) | (789,405) |
| Discount on debentures issued | 6.00 - 8.00 | (7,327) | (15,267) |
| | | 1,615,136 | 2,667,679 |
| | | W 2,050,801 | W 2,952,384 |

Certain current assets, investments and property, plant and equipment are pledged as collateral for the above borrowings.

(1) POSCO issued exchangeable bonds on August 20, 2003. It is exchangeable with 15,267,837 SK Telecom Co., Ltd. American Depository Shares (ADSs).

Details of exchangeable bonds as of December 31, 2004 are as follows:

Issuance date: August 20, 2003

Maturity date: August 20, 2008 (full amount of principal is repaid if not exercised)

| | |
|-----------------------|---|
| Rate: | Interest rate of zero percent |
| Face value: | JPY 51,622,000,000 |
| Issuance price: | JPY 51,880,110,000 |
| Exchangeable price: | JPY 3,304/ADR |
| Exercise call period: | Commencing ten business days following the issuance date until ten business days prior to maturity date |

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Exercise put period: Exactly three years following the payment date

On August 20, 2003, POSCO sold its 15,267,837 SK Telecom Co., Ltd. ADRs to Zeus (Cayman), a tax-exempted subsidiary formed under the laws of Cayman Islands. Zeus then issued zero-coupon, guaranteed and exchangeable bonds amounting to JPY51,622 million which are due in 2008, and are fully and unconditionally guaranteed by POSCO. POSCO may elect to pay the holder cash in lieu of delivering SK Telecom Co., Ltd. ADSs (the Cash Settlement Option). The number of ADSs such holder is entitled to receive will be calculated by dividing the aggregate principal amount of the Notes to be exchanged by the exchangeable price. Under the Cash Settlement Option, such holder is entitled to receive the cash equivalent of the market value of ADSs upon the exercise. These bonds are non-interest bearing and are exchangeable with SK Telecom Co., Ltd. ADRs at the option of the bondholder. The transactions between the POSCO and Zeus is deemed a borrowing transaction under the Korean generally accepted accounting principles. In 2004, in compliance with the terms of the exchangeable bonds, the dividends earned by Zeus from the SK Telecom Co., Ltd. ADRs were used to purchase additional 354,350 ADRs which brought down the exchangeable bond price to JPY3,304/ ADR.

Contractual maturities of long-term debt outstanding as of December 31, 2004 are as follows:

| Year | Debentures | Local currency borrowings | Foreign currency borrowings | Total |
|-----------------------------|-------------|---------------------------------|-----------------------------------|-------------|
| (in millions of Korean Won) | | | | |
| 2006 | W 1,040,012 | W 49,308 | W 96,273 | W 1,185,593 |
| 2007 | 30,000 | 43,120 | 60,737 | 133,857 |
| 2008 | 552,451 | 42,675 | 69,087 | 664,213 |
| 2009 | | 2,099 | 25,065 | 27,164 |
| Thereafter | | 2,002 | 45,299 | 47,301 |
| | W 1,622,463 | W 139,204 | W 296,461 | W 2,058,128 |

Details of assets pledged as collateral for short-term borrowings and long-term debt as of December 31, 2004 and 2003 are as follows:

| Financial institutions | | 2004 | 2003 |
|-------------------------------------|--|----------|----------|
| (in millions of Korean Won) | | | |
| Land | Shinhan Bank and others | W 35,541 | W 52,851 |
| Buildings and structures | Kookmin Bank and others | 55,120 | 46,540 |
| Machinery and equipment | Industrial and Commercial Bank of China and others | 54,918 | 8,583 |
| Cash and cash equivalents | Kyongnam Bank and others | 6,555 | 8,142 |
| Trade accounts and notes receivable | Comerica Bank and others | 62,900 | 70,574 |
| Available-for-sale securities | Exchangeable Bond Creditor | 362,818 | 337,589 |
| Others(1) | Pusan municipal government and others | 32,000 | 36,050 |

W 609,852 W 560,329

- (1) The Company provided certain national treasury bonds and government municipal bonds, amounting to W31,148 million, to the Gyeongsangbuk-do provincial office as a performance guarantee in relation to the development of a waste disposal area (Note 7).

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Details of loans from foreign financial institutions covered by guarantees provided by financial institutions as of December 31, 2004 and 2003 are as follows:

| Financial institution | 2004 | | 2003 | |
|---|------------------|----------------|------------------|----------------|
| | Foreign currency | Won equivalent | Foreign currency | Won equivalent |
| (in millions of Korean Won and in foreign currencies) | | | | |
| Korea Development Bank | EUR7,255,009 | W10,324 | EUR7,900,852 | W11,872 |

14. Capital Lease and Operating Lease Agreement**Capital Lease**

As of December 31, 2004, the Company acquired certain tools and vehicles under capital lease agreements, with acquisition cost amounting to W6,324 million. The assets and liabilities under the capital leases are recognized at the present value of the minimum lease payments over the lease terms. The Company's depreciation expense, with respect to the above lease agreements, for the year ended December 31, 2004 amounted to W1,347 million.

Future minimum lease payments under capital lease agreements are as follows:

| | Principal | Interest | Total |
|-----------------------------|-----------|----------|--------|
| (in millions of Korean Won) | | | |
| 2005 | W2,103 | W165 | W2,268 |
| 2006 | 1,949 | 62 | 2,011 |
| 2007 | 331 | 4 | 335 |
| | W4,383 | W231 | W4,614 |

Operating Lease

As of December 31, 2004, the Company acquired certain tools and equipment under operating lease agreements from Macquarie Capital Korea Co., Ltd. The Company's rent expenses, with respect to the above lease agreements, amounted to W17,521 million for the year ended December 31, 2004. Future lease payments under the above lease agreements are as follows:

| | |
|-----------------------------|---------|
| (in millions of Korean Won) | |
| 2005 | W13,193 |
| 2006 | 3,550 |
| 2007 | 1,212 |
| 2008 | 205 |
| 2009 | 17 |
| | W18,177 |

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15. Accrued Severance Benefits

The changes in the carrying value of accrued severance benefits for the year ended December 31, 2004 are as follows:

| | Accrued severance benefits | National Pension Fund | Group severance insurance deposits | Total |
|---|---|--------------------------------------|---|--------------|
| (in millions of Korean Won) | | | | |
| Beginning balance | W397,430 | W(1,989) | W(232,779) | W162,662 |
| Increase | 196,853 | (99) | (110,970) | 85,784 |
| Decrease | 32,247 | (263) | (13,961) | 18,023 |
| Foreign currency adjustment and others | (56) | | | (56) |
| Ending balance | W561,980 | W(1,825) | W(329,788) | W230,367 |

The Company expects to pay the following future benefits to its employees upon their normal retirement age:

| | (in millions of Korean Won) |
|-----------|--|
| 2005 | W 3,771 |
| 2006 | 6,928 |
| 2007 | 9,107 |
| 2008 | 13,799 |
| 2009 | 15,199 |
| 2010-2014 | 85,928 |
| | W 134,732 |

The above amounts were determined based on the employee current salary rates and the number of service years that will be accumulated upon their retirement date. These amounts do not include amounts that might be paid to employees that will cease working with the Company before their normal retirement age.

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16. Other Liabilities

Other liabilities as of December 31, 2004 and 2003 consist of the following:

| | | 2004 | | 2003 |
|------------------------------------|---|-------------|---|-------------|
| (in millions of Korean Won) | | | | |
| Other current liabilities | | | | |
| Advances received | W | 316,778 | W | 215,489 |
| Unearned revenue | | 2,397 | | 2,082 |
| Others | | 90,468 | | 92,275 |
| | W | 409,643 | W | 309,846 |
| Other long-term liabilities | | | | |
| Reserve for allowance | W | 10,667 | W | 16,553 |
| Others | | 185,410 | | 95,486 |
| | W | 196,077 | W | 112,039 |

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17. Commitments and Contingencies

As of December 31, 2004, contingent liabilities for outstanding guarantees provided for the repayment of loans of affiliated companies are as follows:

| Grantors | Entity being guaranteed | Financial institutions | Amount guaranteed(1) | Won equivalent (in millions of Korean Won) |
|----------------------------|---|---|----------------------|---|
| POSCO | POSAM | Bank of America | US\$ 13,600,000 | W 14,196 |
| | VPS | Credit Lyonnais | 821,052 | 857 |
| | POS-HYUNDAI STEEL | Infrastructure Leasing and Financial Services Limited | 11,463 | 12 |
| | POSCO Investment Co., Ltd. | Industrial & Commercial Bank of China and others | 122,845,411 | 128,226 |
| | Zhangjiagang Pohang Stainless Steel Co., Ltd. | Bank of China | 76,660,000 | 80,018 |
| | PT POSMI STEEL Indonesia | Korea Exchange Bank | 1,800,000 | 1,879 |
| POSCO E & C | IBC Corporation | The Export-Import Bank of Korea and others | 61,780,000 | 64,486 |
| | | Korea Exchange Bank Shanghai branch and others | 29,500,000 | 30,792 |
| | POSLILAMA Steel Structure Co., Ltd. | The Export-Import Bank of Korea and others | 15,000,000 | 15,657 |
| Posteel Co., Ltd. | POS-THAI Service Steel Center Co., Ltd. | Sumitomo Bank and others | 6,554,000 | 6,841 |
| | POS-Qingdao Coil Center Co., Ltd. | Industrial Bank of Korea and others | 4,000,000 | 4,175 |
| | POS-Tianjin Coil Center Co., Ltd. | Shinhan Bank | 3,300,000 | 3,445 |
| | PT POSMI STEEL Indonesia | Korea Exchange Bank | 5,400,000 | 5,637 |
| | POS-HYUNDAI STEEL | Infrastructure Leasing and Financial Services Limited | 22,353 | 23 |
| POSCO Investment Co., Ltd. | Qingdao Pohang Stainless Steel Co., Ltd. | Bank of Tokyo-Mitsubishi | 56,000,000 | 58,453 |
| | | | 15,000,000 | 15,657 |

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| | | | | |
|-----------------------|-------------------------------------|--------------------------|------------------|-----------|
| | SHUNDE Pohang Coated Steel Co., Ltd | Bank of Tokyo-Mitsubishi | | |
| | POSVINA Co., Ltd. | Shinhan Bank | 1,500,000 | 1,566 |
| POSCO-Japan Co., Ltd. | Fujiura Butsuryu Center Co., Ltd. | Korea Exchange Bank | JPY 500,000,000 | 5,060 |
| | Fujiura Butsuryu Center Co., Ltd. | POSINVEST | 610,000,000 | 6,174 |
| | | | US\$ 413,794,279 | W 443,154 |
| | | | JPY1,110,000,000 | |

(1) Currencies other than US\$ or JPY are translated into US\$ amount.

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As of December 31, 2003, contingent liabilities for outstanding guarantees provided for the payment of loans of affiliated companies amount to W425,317 million.

As of December 31, 2004, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

| Grantors | Entity being guaranteed | Financial institutions | Amount guaranteed | Won equivalent |
|-----------------------------|--|---------------------------|----------------------|-------------------|
| (in millions of Korean Won) | | | | |
| POSCO | Dae Kyeong Special Steel Co., Ltd. | Korea Development Bank | W 3,454 | W 3,454 |
| | | | US\$ 2,598,400 | 2,712 |
| | DC Chemical Co., Ltd. The Siam United Steel | E1 Corporation J-BIC | W 1,601 | 1,601 |
| | | | US\$ 8,006,478 | 8,357 |
| | Zeus (Cayman) | Related creditors | JPY 51,622,000,000 | 522,451 |
| POSCO E & C | Zenith | Woori Bank | W 107,429 | 107,429 |
| | Humanrex | Woori Bank | 49,232 | 49,232 |
| | Others | Others | 25,125 | 25,125 |
| | | | W 186,841 | W 720,361 |
| | | | US\$ 10,604,878 | |
| | | | JPY 51,622,000,000 | |

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POSCO AND SUBSIDIARIES
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As of December 31, 2003, contingent liabilities for outstanding guarantees provided to non-affiliated companies for the repayment of loans are as follows:

| Grantors | Entity being guaranteed | Financial institutions | Amount guaranteed | Won equivalent |
|-----------------------------|------------------------------------|---|----------------------|-------------------|
| (in millions of Korean Won) | | | | |
| POSCO | S U S | J-BIC | US\$ 10,000 | W 11,978 |
| | Dae Kyeong Special Steel Co., Ltd. | Korea Development Bank | 3,249 | 3,892 |
| | DC Chemical Co., Ltd. | LG-Caltex Gas | W 4,318 | 4,318 |
| | Zeus | Related creditors | 1,921 | 1,921 |
| | | | JPY 51,622,000 | 577,960 |
| POSCO E & C | Zenith | Woori Bank | W 94,500 | 94,500 |
| | Keumseki Distribution Co., Ltd. | Hansol Mutual Savings Bank and others | 45,000 | 45,000 |
| | Humanrex | Woori Bank | 44,290 | 44,290 |
| | Iron City Co., Ltd. and Others | Samsung Life Insurance Company and others | 28,365 | 28,365 |
| | WorldView Co., Ltd. | Hana Bank | 12,337 | 12,337 |
| | | | US\$ 13,249 | W 824,561 |
| | | JPY 51,622,000 | | |
| | | W 230,731 | | |

The Company entered into long-term contracts to purchase iron ore, coal, nickel, chrome and stainless steel scrap. These contracts generally have terms of three to ten years and provide for periodic price adjustments to the market price. As of December 31, 2004, 147 million tons of iron ore and 112 million tons of coal remained to be purchased under such long-term contracts.

The Company paid US\$159,600,000 on behalf of POSVEN on June 21, 2002, an affiliate which is 60.00% owned by the Company. On July 20, 2001, an additional payment of US\$53,200,000 was due, representing a long-term debt guaranteed by Raytheon Company (Raytheon), a shareholder of POSVEN and a joint venture partner with the Company in the construction of a facility in Venezuela. Both companies agreed that each would pay half of the amount. The Company, therefore, made a payment of US\$26,600,000. As of December 31, 2003, the payment amounting to W236,858 million made on behalf of POSVEN, recorded as other investment assets was fully provided with an allowance for doubtful accounts of the same amount.

During the year ended December 31, 2004, due to the settlement of liquidation dividends from POSVEN, the Company recorded recovery of allowance for doubtful accounts amounting to W108 billion and expecting liquidation dividend receivables amounting to W15.8 billion as other investment assets and other account receivables (Note 5).

POSCO entered into a contract on the usage of bulk carriers with Keo Yang Shipping Co., Ltd. in order to ensure the transportation of raw materials through 2011.

On July 1, 2004, the Company updated its August 14, 2003 agreement with Tangguh Liquefied Natural Gas (LNG) Consortium in Indonesia regarding the commitment to purchase 550 thousand tons of LNG annually for 20 years commencing in 2005.

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As of December 31, 2004, POSCO has a bank overdraft agreement with Woori Bank and other six banks amounting to W200,000 million as of December 31, 2004. In addition, POSCO entered into a credit purchase loan agreement with Industrial bank of Korea and other nine banks for credit lines up to W300,000 million. POSCO has 46 promissory notes, including a blank promissory note, with the Korea Development Bank, as collaterals for loans from foreign financial institutions. POSCO has entered into an agreement with Woori Bank amounting to US\$700 million for opening letter of credit and document against acceptance and document against payment transactions in relation to trade as of December 31, 2004.

POSCO E & C has a bank overdraft agreement with Woori Bank and other banks amounting to W35,000 million as of December 31, 2004. POSCO E & C has provided nine blank promissory notes and 21 other notes, with amounts equivalent to approximately W437,013 million, to other financial institutions as collateral for agreements and outstanding loans. In addition, POSCO E&C has provided five blank check and other checks, with amounts equivalent to approximately W2,500 million as collateral for agreements and outstanding loans. POSCO E & C has provided performance guarantee to Samsung Corporation amounting to W1,209,310 million.

As of December 31, 2004, Posteel Co., Ltd. has an unsettled document against acceptance and JPY629 million and US\$59 million. In addition, an unsettled document against payment balances in relation to exports amounting to JPY48 million and US\$164 thousand. Posteel Co., Ltd. has entered into local credit agreements, up to W421,247 million with Hana Bank of which W280,744 million remains unused as of December 31, 2004.

As of December 31, 2004, POSCON Co., Ltd. has a credit purchase loan agreement with Shinhan Bank and other banks for credit line up to W6,000 million. POSCON Co., Ltd. has entered into an agreement with Shinhan Bank and other banks amounting to US\$15 million for opening letter of credit in relation to trade.

As of December 31, 2004, Pohang Coated Steel Co., Ltd. has provided a blank promissory note to Korea Zinc Company Ltd. as a guarantee for the repayment of loan, and has an outstanding balance of discounted notes amounting to W7,893 million.

As of December 31, 2004, POSCO Machinery & Engineering Co., Ltd. has entered into an agreement with Shinhan Bank amounting to US\$3 million for opening letter of credit in relation to trade.

POSDATA Co., Ltd. has an outstanding balance of discounted notes amounting to W362 million and two outstanding balance of endorsed notes amounting to W822 million as of December 31, 2004. In addition, POSDATA Co., Ltd. has provided one note to Hewlett-Packard Korea for an outstanding lease agreement. POSDATA Co., Ltd. entered into a credit purchase loan agreement with Woori Bank for credit lines up to W30,000 million.

As of December 31, 2004, Changwon Specialty Steel Co., Ltd. has entered into loan agreement, secured by trade accounts receivables, with Woori Bank amounting to W30,000 million. Changwon Sepcialty Steel Co., Ltd. has entered into an agreement with Korea First Bank and four other banks amounting to US\$55 million and W10,000 million for opening letter of credit, and W10,000 million in relation to trade as of December 31, 2004.

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18. Capital Surplus

Capital surplus as of December 31, 2004 and 2003 consist of the following:

| | | 2004 | | 2003 |
|------------------------------------|---|-------------|---|-------------|
| (in millions of Korean Won) | | | | |
| Additional paid-in capital | W | 463,825 | W | 463,825 |
| Revaluation surplus | | 3,213,414 | | 3,213,414 |
| Others | | 218,139 | | 151,534 |
| | W | 3,895,378 | W | 3,828,773 |

19. Retained Earnings

Retained earnings as of December 31, 2004 and 2003 consist of the following:

| | | 2004 | | 2003 |
|---|---|-------------|---|-------------|
| (in millions of Korean Won) | | | | |
| Appropriated | | | | |
| Legal reserve | W | 241,201 | W | 241,201 |
| Appropriated retained earnings for business stabilization | | 918,300 | | 918,300 |
| Other legal reserve | | 880,000 | | 746,667 |
| Voluntary reserve | | 7,341,899 | | 6,263,545 |
| Unappropriated | | | | |
| | | 3,469,718 | | 1,705,367 |
| | W | 12,851,118 | W | 9,875,080 |

Legal Reserve

The Commercial Code of the Republic of Korea requires the Company to appropriate, as a legal reserve, an amount equal to a minimum of 10% of cash dividends paid, until such reserve equals 50% of its issued capital stock. The reserve is not available for the payment of cash dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Other Legal Reserve

Pursuant to the Special Tax Treatment Control Law, the Company appropriates retained earnings as a reserve for overseas investment loss and research and human resource development. These reserves are not available for dividends, but may be transferred to capital stock, or used to reduce accumulated deficit, if any, through an appropriate resolution by the Company's shareholders.

Voluntary Reserve

The Company appropriates a certain portion of retained earnings, such as reserve for business rationalization, reserve for business expansion and appropriated retained earnings for dividends, pursuant to a shareholder resolution, as a voluntary reserve. This reserve may be transferred to unappropriated retained earnings by the resolution of shareholders, and may be distributed as dividends after its reversal.

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Additional Losses of Minority Interest

Accumulated deficit of SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd., an affiliates included in the consolidated financial statements, resulted in losses in excess of minority interest amounting to W13,205 million for the year ended December 31, 2004 (2003: W3,164 million). The additional losses are deducted from the consolidated retained earnings to be charged to the controlling company. The Company plans to add any profits resulting from SEO MUEUN Development Inc. and POSLILAMA Steel Structure Co., Ltd. to the controlling company's equity until they recover the amount of losses in excess of minority interest.

Dividends

The Company declared interim dividends, which were approved through a resolution of the Board of Directors on July 23, 2004. Details of interim and year-end dividends for the years ended December 31, 2004, 2003 and 2002 are as follows:

| | 2004 | | 2003 | | 2002 |
|------------------------------------|------------|--|------------|--|------------|
| (in millions of Korean Won) | | | | | |
| Interim cash dividends: | | | | | |
| Number of shares | 80,707,945 | | 81,648,519 | | 81,683,875 |
| Dividend ratio | 30% | | 20% | | 10% |
| Dividend amount | W 121,062 | | W 81,649 | | W 40,842 |

| | 2004 | | 2003 | | 2002 |
|------------------------------------|------------|--|------------|--|------------|
| (in millions of Korean Won) | | | | | |
| Year-end cash dividends: | | | | | |
| Number of shares | 80,503,664 | | 80,707,945 | | 81,738,519 |
| Dividend ratio | 130% | | 100% | | 60% |
| Dividend amount | W 523,274 | | W 403,540 | | W 245,216 |

Details of the dividend payout ratio and dividend yield ratio for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | | 2003 | | 2002 | |
|---------------|-----------------------------|----------------------------|-----------------------------|----------------------------|-----------------------------|----------------------------|
| | Dividend payout ratio | Dividend yield ratio | Dividend payout ratio | Dividend yield ratio | Dividend payout ratio | Dividend yield ratio |
| Common shares | 16.89% | 4.28% | 24.31% | 3.68% | 26.26% | 2.85% |

20. Capital Adjustments

Capital adjustments as of December 31, 2004 and 2003 consist of the following:

| | 2004 | | 2003 | |
|--|------------------------------------|-------------|-------------|-------------|
| | (in millions of Korean Won) | | | |
| Treasury stock | W | (680,144) | W | (838,169) |
| Valuation loss on investment securities | | (486,502) | | (538,435) |
| Cumulative foreign currency translation adjustment | | 15,912 | | 142,463 |
| Others | | | | 4,153 |
| | W | (1,150,734) | W | (1,229,988) |

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For the stabilization of the stock price, retirement of stock and completion of privatization, POSCO repurchased 5,771,161 shares of its own common stock amounting to W579,030 million and 912,010 shares of specified money in trust amounting to W101,114 million as of December 31, 2004. The treasury stock is carried at acquisition cost.

POSCO restricts the voting rights of treasury stock in accordance with the Korean Commercial Code. In addition, in accordance with the law on welfare for the laborers, POSCO decided to contribute 1,557,211 and 17,828 shares of its treasury stock to the association of employee stock ownership on July 26, 2004 and December 21, 2004 according to the resolution of the Board of Directors on July 23, 2004 and December 17, 2004, respectively, with the differences between the fair value and the proceeds being charged to welfare expenses.

Details of treasury stock for the years ended December 31, 2004, 2003 and 2002 are as follows:

| | 2004 | | 2003 | | 2002 | |
|--|---------|-----------|--------|-----------|---------|-------------|
| | Shares | Amount | Shares | Amount | Shares | Amount |
| (in millions of Korean Won and thousands of share) | | | | | | |
| Beginning balance | 8,258 | W 838,169 | 9,043 | W 915,995 | 11,966 | W 1,185,404 |
| Decrease, net | (1,575) | (158,025) | (785) | (77,826) | (2,923) | (269,409) |
| Ending balance | 6,683 | W 680,144 | 8,258 | W 838,169 | 9,043 | W 915,995 |

21. Stock Appreciation Rights

POSCO granted stock appreciation rights to its executive officers in accordance with the stock appreciation rights plan approved by the Board of Directors. The details of the stock appreciation rights granted are as follows:

| | 1st Grant | 2nd Grant | 3rd Grant | 4th Grant | 5th Grant |
|------------------------------|-------------------|--------------------|--------------------|--------------------|--------------------|
| Before the modifications(1): | | | | | |
| Number of shares | 498,000 shares | 60,000 shares | 22,000 shares | 141,500 shares | 218,600 shares |
| Exercise price | W98,400 per share | W135,800 per share | W115,600 per share | W102,900 per share | W151,700 per share |
| After the modifications(1): | | | | | |
| Grant date | July 23, 2001 | April 27, 2002 | September 18, 2002 | April 26, 2003 | July 23, 2004 |
| Exercise price | W98,900 per share | W136,400 per share | W116,100 per share | W102,900 per share | W151,700 per share |
| Number of shares granted | 453,576 shares | 55,896 shares | 20,495 shares | 135,897 shares | 214,228 shares |
| Number of shares cancelled | 19,409 shares | | | | |
| Number of shares | 138,676 shares | | | | |

| | | | | | |
|------------------------------|--|---------------------------------|---------------------------------|---------------------------------|-------------------------------|
| exercised | | | | | |
| Number of shares outstanding | 295,491 shares | 55,896 shares | 20,495 shares | 135,897 shares | 214,228 shares |
| Exercise period | July 24, 2003 - July 23, 2008 | April 28, 2004 - April 27, 2009 | Sept. 19, 2004 - Sept. 18, 2009 | April 27, 2005 - April 26, 2010 | July 24, 2006 - July 23, 2011 |
| Settlement method | Cash or stock compensation for the difference between the exercise price and fair market value of the option | | | | |

- (1) The company changed the number of shares granted and the exercise price as presented above, in accordance with the resolution of the Board of Directors on April 26, 2003, October 17, 2003 and October 22, 2004.

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POSCO applied the intrinsic value method to calculate the compensation cost related to the stock appreciation rights, and such compensation costs are accounted as other long-term liabilities and amortized over the vesting period of the stock grants.

The compensation costs for stock appreciation rights granted to employees and executives recognized for the year ended December 31, 2004 and for the future periods are as follows:

| | 1st Grant | 2nd Grant | 3rd Grant | 4th Grant | 5th Grant | Total |
|----------------|-----------------------------|-----------|-----------|-----------|-----------|----------|
| | (in millions of Korean Won) | | | | | |
| Prior periods | W 13,428 | W 770 | W 489 | W 2,349 | W | W 17,036 |
| Current period | 12,723 | 2,080 | 973 | 7,314 | 1,695 | 24,785 |
| Future periods | | | | 1,820 | 5,953 | 7,773 |
| | W 26,151 | W 2,850 | W 1,462 | W 11,483 | W 7,648 | W 49,594 |

The following table summarizes information about appreciation rights granted and expense recognized at the award date:

| | 2004 | | 2003 | |
|--|-------------------------------------|---|-------------------------------------|---|
| | Number of stock appreciation rights | Weighted-average exercise price per share | Number of stock appreciation rights | Weighted-average exercise price per share |
| | (in Korean Won) | | | |
| Beginning of year | 638,598 | W 103,681 | 570,000 | W 103,001 |
| Granted | 218,600 | 151,700 | 141,500 | 102,900 |
| Exercised | (119,888) | 98,900 | (18,788) | 98,900 |
| Canceled | | | (9,221) | 98,900 |
| Forfeited | (15,303) | 117,973 | (44,893) | 95,565 |
| Stock appreciation rights outstanding, end of year | 722,007 | W 118,711 | 638,598 | W 103,681 |
| Exercisable at the year end | 456,885 | W 104,865 | 421,979 | W 98,900 |
| Weighted-average fair value at grant date | | W 110,179 | | W 95,641 |

The following table summarizes information about stock appreciation rights outstanding at December 31, 2004:

Appreciation rights outstanding

| Exercise prices | Shares | Weighted-average remaining contractual Life | Weighted-average exercise price per share |
|------------------------|---------------|--|--|
| | | | (in Korean Won) |
| 98,900 | 295,491 | 3.56 years | W 98,900 |
| 136,400 | 55,896 | 4.32 years | 136,400 |
| 116,100 | 20,495 | 4.72 years | 116,100 |
| 102,900 | 135,897 | 5.32 years | 102,900 |
| 151,700 | 214,228 | 6.56 years | 151,700 |
| | 722,007 | 4.87 years | W 118,711 |

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POSCO AND SUBSIDIARIES
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22. Derivatives

The Company has entered into cross currency swap agreements to reduce interest rates and currency risks and currency forward contracts with financial institutions to economically hedge the fluctuation risk of future cash flows. The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2004 and related contracts outstanding as of December 31, 2004 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Valuation | | Transaction | |
|------------------------------------|---------------------|------------------------|------------------------|-----------|---------|-------------|---------|
| | | | | gains | losses | gains | losses |
| (in millions of Korean Won) | | | | | | | |
| POSCO | Currency swap | Trading | Citibank and others | W | W | W | 683 |
| | Nickel forward | Trading | Sempra Metals., Ltd. | | | | 2,800 |
| | Future exchange | Trading | CALYON | 6 | | | 597 |
| POSCO E & C | Currency forward | Trading | Citibank and others | 9,588 | 2,646 | 4,900 | 1,499 |
| Posteel Co., Ltd. | Currency forward | Trading | KorAm Bank | | | | 328 |
| Pohang Coated Steel Co., Ltd. | Currency forward | Trading | Shinhan Bank | | | | 3,106 |
| Changwon Specialty Steel Co., Ltd. | Currency forward | Trading | Korea First Bank | | | | 38 |
| | | | | W 9,594 | W 2,646 | W 12,452 | W 9,332 |

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2003 and related contracts outstanding as of December 31, 2003 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Valuation | | Transaction | |
|-----------------------------|---------------------|----------------------------|------------------------|-----------|----------|-------------|--------|
| | | | | gains | losses | gains | losses |
| (in millions of Korean Won) | | | | | | | |
| POSCO | Currency swap | Fair market value hedge(1) | Citibank and others | W | W 29,693 | W | |
| POSCO | Currency forward | Trading | The Bank of New York | | | | 451 |
| POSCO | Nickel forward | Cash flow hedge | Sempra Metal., Ltd. | 4,153 | | | |
| POSCO E & C | Currency forward | Fair market value hedge(1) | Citibank and others | 2,646 | 1,066 | 936 | 124 |
| Posteel Co., Ltd. | Currency forward | Trading | Hana Bank | 12 | 22 | 305 | 329 |

| | | | | | | |
|---|---------------------|-------------------------------|------------------|---------|----------|-----------------|
| Pohang Coated Steel Co., Ltd. | Currency forward | Trading | Shinhan Bank | 189 | 789 | 1,180 |
| Changwon Specialty Steel Co., Ltd. | Currency forward | Fair market value hedge(1) | Korea First Bank | 2 | | 27 |
| | | | | W 7,002 | W 30,781 | W 2,481 W 1,660 |

(1) Accounted for as trading, since the criteria for hedge accounting are not met.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

The gains and losses on currency swap and currency forward contracts for the year ended December 31, 2002 and related contracts outstanding as of December 31, 2002 are as follows:

| Company | Type of transaction | Purpose of transaction | Financial institutions | Valuation | | Transaction | |
|---|---------------------|-----------------------------|----------------------------|-----------|----------|-------------|---------|
| | | | | gains | losses | gains | losses |
| (in millions of Korean Won) | | | | | | | |
| POSCO | Currency swap | Fair market value hedge | Citibank and others | W | W 11,775 | W | W |
| POSCO | Currency forward | Cash flow hedge and trading | Bank of America | | | | 2,796 |
| POSCO E & C | Currency forward | Fair market value hedge(1) | Citibank | 569 | | 1,884 | 54 |
| Posteel Co., Ltd. | Currency forward | Trading | Koram Bank | | | 14 | 6 |
| POSCO Refractories & Environment (POSREC) | Currency forward | Trading | The Korea Development Bank | | | 26 | 48 |
| Pohang Coated Steel Co., Ltd. | Currency forward | Trading | Shinhan Bank | | | 11,236 | 472 |
| | | | | W 569 | W 11,775 | W 13,160 | W 3,376 |

(1) Accounted for as trading, since the criteria for hedge accounting are not met.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
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23. Selling and Administrative Expenses

Selling and administrative expenses for the years ended December 31, 2004, 2003 and 2002 consist of the following:

| | 2004 | 2003 | 2002 |
|---|-----------------------------|-------------|-----------|
| | (in millions of Korean Won) | | |
| Transportation and storage | W 493,790 | W 445,723 | W 404,771 |
| Salaries | 149,153 | 142,400 | 130,226 |
| Welfare | 103,637 | 75,730 | 62,002 |
| Depreciation and amortization | 68,145 | 65,384 | 72,049 |
| Research and development expenses (Note 10) | 70,949 | 56,825 | 40,627 |
| Fees and charges | 76,710 | 54,662 | 53,417 |
| Advertising | 49,381 | 40,681 | 36,886 |
| Severance benefits | 25,051 | 21,217 | 16,058 |
| Stock compensation expense (Note 21) | 24,785 | 18,894 | 6,497 |
| Sales commissions | 18,286 | 18,759 | 18,324 |
| Travel | 18,530 | 16,075 | 14,822 |
| Rent | 17,287 | 12,554 | 12,430 |
| Training | 11,765 | 11,835 | 10,919 |
| Taxes and public dues | 13,661 | 11,534 | 8,072 |
| Repairs | 20,047 | 9,159 | 8,149 |
| Provision for doubtful accounts | 53,671 | 8,955 | 6,410 |
| Sales promotions | 6,474 | 6,333 | 5,769 |
| Vehicle expenses | 6,509 | 5,983 | 5,828 |
| Entertainment | 6,444 | 5,796 | 6,595 |
| Office supplies | 8,103 | 5,660 | 6,819 |
| Membership fees | 5,391 | 5,294 | 5,590 |
| Communications | 3,420 | 3,823 | 3,767 |
| Subscriptions and printing | 4,051 | 3,757 | 3,072 |
| Insurance | 4,883 | 2,572 | 1,844 |
| Utilities | 1,860 | 1,864 | 1,733 |
| Others | 30,944 | 24,001 | 24,115 |
| | W 1,292,927 | W 1,075,470 | W 966,791 |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

24. Donations

Donations contributed by the Company for the years ended December 31, 2004, 2003 and 2002 consist of the following:

| | 2004 | 2003 | 2002 |
|---|-----------------------------|-----------|----------|
| | (in millions of Korean Won) | | |
| POSCO Educational Foundation | W 39,500 | W 38,800 | W 37,800 |
| Pohang University of Science and Technology | 32,479 | 2,267 | 3,000 |
| POSCO welfare Fund | 58,000 | | |
| Support for local community and others | 39,567 | 62,124 | 9,347 |
| | W 169,546 | W 103,191 | W 50,147 |

25. Income Taxes

The statutory income tax rate applicable to the Company, including resident tax surcharges, was approximately 29.7% in 2004, 2003 and 2002, and amended to 27.5% effective for the fiscal years beginning January 1, 2005, in accordance with the Corporate Income Tax Law enacted in December 2003.

Income tax expense for the years ended December 31, 2004, 2003 and 2002 consists of the following:

| | 2004 | 2003 | 2002 |
|---------------------|-----------------------------|-----------|-----------|
| | (in millions of Korean Won) | | |
| Current income tax | W 1,542,480 | W 746,482 | W 527,381 |
| Deferred income tax | (40,834) | (16,212) | (129,076) |
| | W 1,501,646 | W 730,270 | W 398,305 |

POSAM and 16 other overseas subsidiaries recorded taxes payable for the year ended December 31, 2004 as income tax expense in accordance with the applicable tax laws.

The following table reconciles income tax expense computed at the statutory rates to the actual income tax expense recorded by the Company:

| | 2004 | 2003 | 2002 |
|---|-----------------------------|-------------|-------------|
| | (in millions of Korean Won) | | |
| Net income before income tax expense | W 5,342,910 | W 2,747,270 | W 1,507,437 |
| Statutory tax rate (%) | 29.70 | 29.70 | 29.70 |
| Income tax expense computed at statutory rate | 1,586,844 | 815,939 | 447,709 |
| Tax credit of POSCO | (161,939) | (99,109) | (87,628) |
| Others, net | 76,741 | 13,440 | 38,224 |

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| | | | | | | |
|--------------------|---|-----------|---|---------|---|---------|
| Income tax expense | W | 1,501,646 | W | 730,270 | W | 398,305 |
| Effective rate (%) | | 28.11 | | 26.58 | | 26.42 |

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26. Basic and Diluted Earnings Per Share and Basic and Diluted Ordinary Income Per Share

Basic earnings and ordinary income per share are computed by dividing net income allocated to common stock, by the weighted-average number of common shares outstanding during the period.

| Period | Number of shares issued | Number of days outstanding | Weighted number of shares |
|---|-------------------------|----------------------------|---------------------------|
| Beginning(1) | 80,707,945 | 366 | 29,539,107,870 |
| Acquisition and disposal of treasury stock, net | 204,281 | (2) | 46,754,748 |
| | | | 29,585,862,618 |

(1) Beginning number of common shares excludes 8,258,210 treasury shares.

(2) The Company retired 204,281 treasury shares during the year ended December 31, 2004 and for the computation of weighted average number of common shares outstanding, the number of treasury shares was included.

| | |
|-----------------------|--|
| Period 2004 | Weighted-average number of common shares 29,585,862,618 ÷ 366 = 80,835,690 |
| Period 2003 | Weighted-average number of common shares 29,741,526,418 ÷ 365 = 81,483,634 |
| Period 2002 | Weighted-average number of common shares 29,905,210,535 ÷ 365 = 81,932,084 |

Ordinary income per share for the years ended December 31, 2004, 2003 and 2002 are calculated as follows:

| | 2004 | 2003 | 2002 |
|---|--|-------------|-------------|
| | (in millions of Korean Won except for per share amount) | | |
| Ordinary income | W 3,811,843 | W 1,995,983 | W 1,089,288 |
| Weighted-average number of shares of common stock | 80,835,690 | 81,483,634 | 81,932,084 |
| Ordinary income per share | W 47,155 | W 24,496 | W 13,295 |

Earnings per share for the years ended December 31, 2004, 2003 and 2002 are calculated as follows:

| | 2004 | 2003 | 2002 |
|--|--|-------------|-------------|
| | (in millions of Korean Won except for per share amount) | | |
| Net income | W 3,814,225 | W 1,995,983 | W 1,089,288 |
| Weighted-average number of shares of common stock | 80,835,690 | 81,483,634 | 81,932,084 |
| Earnings per share | W 47,185 | W 24,496 | W 13,295 |

Diluted Earnings Per Share

Diluted earnings per share for the years ended December 31, 2004, 2003 and 2002 are the same as basic earnings per share, since there is no dilutive effect resulting from the stock option plan as of December 31, 2004, 2003 and 2002.

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POSCO AND SUBSIDIARIES
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27. Foreign Currency Translation

Monetary assets and liabilities denominated in foreign currencies as of December 31, 2004 and 2003 are as follows:

| | | 2004 | | 2003 | |
|--|----------------------------|---------------|-----------------------|----------------------------|-----------------------|
| | Foreign currency(3) | | Won equivalent | Foreign currency(3) | Won equivalent |
| (in millions of Korean Won, except for foreign currencies) | | | | | |
| Assets: | | | | | |
| Cash and cash equivalents(1) | US\$ | 37,006,990 | W 38,628 | 80,818,103 | W 96,804 |
| | JPY | 842,262 | 9 | 17,130,996,104 | 191,799 |
| | EUR | | | 19,659 | 30 |
| | Overseas subsidiaries | 208,988,625 | 218,143 | 172,176,896 | 206,234 |
| Trade accounts and notes receivable | US\$ | 316,354,184 | 330,210 | 205,789,975 | 246,495 |
| | JPY | 4,187,608,143 | 42,382 | 1,998,415,701 | 22,374 |
| | EUR | 656,582 | 934 | 3,322,846 | 4,993 |
| | Overseas subsidiaries | 303,790,888 | 317,097 | 200,952,723 | 240,701 |
| Other accounts and notes receivable | US\$ | 263,248,710 | 274,779 | 30,522,047 | 36,559 |
| | JPY | 10,284,822 | 104 | 4,608,464 | 52 |
| | Overseas subsidiaries | 7,989,116 | 8,339 | 2,916,498 | 3,493 |
| Short-term & Long-term loans | US\$ | | | 1,900,000 | 2,276 |
| | Overseas subsidiaries | 69,420,557 | 72,461 | 97,664,714 | 116,982 |
| Long-term trade accounts and notes receivable | Overseas subsidiaries | 70,513 | 74 | 70,513 | 84 |
| Investment securities(2) | US\$ | 1,000,000 | 1,044 | 10,482,213 | 12,556 |
| | Overseas subsidiaries | 24,079,162 | 25,134 | 29,374,172 | 35,184 |
| Guarantee deposits | US\$ | 442,769 | 462 | 535,696 | 642 |
| | Overseas subsidiaries | 1,262,109 | 1,317 | 1,571,166 | 1,882 |

| | | | | | | |
|------|---------------|---|-----------|----------------|---|-----------|
| US\$ | 1,233,653,623 | W | 1,331,117 | 834,774,716 | W | 1,219,140 |
| JPY | 4,198,735,227 | | | 19,134,020,269 | | |
| EUR | 656,582 | | | 3,342,505 | | |

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December 31, 2004 and 2003

| | | 2004 | | 2003 | |
|--|----------------------------|----------------|-----------------------|----------------------------|-----------------------|
| | Foreign currency(3) | | Won equivalent | Foreign currency(3) | Won equivalent |
| (in millions of Korean Won, except for foreign currencies) | | | | | |
| Liabilities: | | | | | |
| Trade accounts and note payable | US\$ | 263,248,710 | W | 274,779 | 163,706,585 |
| | JPY | 529,399,734 | | 5,358 | 2,222,139,387 |
| | EUR | 5,133,029 | | 7,304 | 130,245,785 |
| | Overseas subsidiaries | 105,708,151 | | 110,338 | 108,186,414 |
| Other accounts and notes payable | US\$ | 7,276,448 | | 7,595 | 820,897 |
| | JPY | 274,651,006 | | 2,780 | 37,853,352 |
| | EUR | 356,769 | | 508 | |
| | Overseas subsidiaries | 413,973 | | 432 | 16,965,921 |
| Accrued expenses | US\$ | 216,422,509 | | 225,902 | 111,607,366 |
| | Overseas subsidiaries | 10,280,795 | | 10,731 | 10,764,620 |
| Short-term borrowings | US\$ | 15,208,564 | | 15,875 | 500,918 |
| | Overseas subsidiaries | 498,460,078 | | 520,292 | 472,741,791 |
| Withholdings | US\$ | 5,110,728 | | 5,335 | 2,171,835 |
| | JPY | 36,654,000 | | 371 | 2,601 |
| | EUR | 4,788,294 | | 6,814 | 2,144,806 |
| | Overseas subsidiaries | 538,686 | | 562 | 1,074,512 |
| Long-term debt(2,4) | US\$ | 461,715,000 | | 481,938 | 640,605,000 |
| | JPY | 81,622,000,000 | | 826,072 | 81,187,477,671 |
| Foreign currency loans(4) | JPY | 3,183,662,414 | | 32,221 | 5,500,535,906 |
| | Overseas subsidiaries | 245,645,137 | | 256,404 | 141,410,774 |
| Loans from foreign financial institutions(4) | US\$ | 23,443,359 | | 24,470 | 183,032,109 |
| | JPY | | | | 942,165,425 |
| | EUR | 25,401,970 | | 36,146 | 29,357,589 |
| | Overseas subsidiaries | 26,278 | | 28 | 44,113 |

| | | | | | | |
|------|----------------|---|-----------|----------------|---|-----------|
| US\$ | 1,853,498,416 | W | 2,852,255 | 1,853,588,742 | W | 3,469,680 |
| JPY | 85,646,367,154 | | | 89,890,171,741 | | |
| EUR | 35,680,062 | | | 161,748,180 | | |

(1) Cash and cash equivalents, short-term financial instruments and long-term financial instruments are included.

(2) Represented at face value, except for marketable available-for-sale securities.

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(3) Currencies other than US\$, JPY, and EUR have been converted into US\$ and the amounts of overseas subsidiaries are converted into US\$.

(4) Includes current portion of long-term debt.

Losses on foreign currency translation of other monetary assets and liabilities for the years ended December 31, 2004, 2003 and 2002 are W17,407 million, W118,231 million and W28,768 million, respectively. Gains on foreign currency translation of other monetary assets and liabilities for the years ended December 31, 2004, 2003 and 2002 are W177,889 million, W6,415 million, W128,844 million, respectively.

28. Related Party Transactions

Significant transactions, which occurred in the ordinary course of business, with consolidated subsidiaries for the years ended December 31, 2004, 2003 and 2002, and the related account balances as of December 31, 2004 and 2003, are as follows:

| Company | Sales and others(1) | | | Purchases and others(1) | | |
|---|-----------------------------|---------|-----------|-------------------------|-----------|-----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| | (in millions of Korean Won) | | | | | |
| POSCO E & C | W 9,317 | W 4,834 | W 3,089 | W 891,474 | W 314,456 | W 863,525 |
| Posteel Co., Ltd. | 919,618 | 870,792 | 1,431,012 | 67,193 | 35,681 | 2,969 |
| POSCON Co., Ltd. | 139 | 72 | 40 | 194,847 | 167,642 | 146,872 |
| Pohang Coated Steel Co., Ltd. | 303,425 | 251,137 | 233,474 | 271 | 1,576 | 1,279 |
| POSCO Machinery & Engineering Co., Ltd. | 5,001 | 65 | 67 | 116,424 | 102,099 | 87,852 |
| POSDATA Co., Ltd. | 989 | 857 | 753 | 209,839 | 206,562 | 167,782 |
| POSCO Research Institute | | | | 13,203 | 11,694 | 10,232 |
| Seung Kwang Co., Ltd. | | | | 35 | 60 | 4 |
| POS-AC Co., Ltd. | 517 | 450 | 408 | 20,980 | 9,150 | 14,054 |
| Changwon Specialty Steel Co., Ltd. | 31 | 77 | 417 | 75,984 | 57,557 | 62,141 |
| POSCO Machinery Co., Ltd. | 116 | 126 | 40 | 95,892 | 80,908 | 72,194 |
| POSAM | 33,446 | | | | 107 | 473 |
| POSA | 1,115 | | | 41,673 | 157,641 | 72,714 |
| POSCAN | | | | 56,143 | 39,664 | 41,932 |
| POA | 573,772 | 367,998 | 149,590 | 146,016 | 111,889 | 68,047 |
| POSCO-Japan Co., Ltd.(3) | 409,845 | 226,276 | 114,561 | 30,846 | 10,922 | 7,066 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 714,832 | 349,723 | 29 | | | |
| | 59 | 54 | 50 | | | 10 |

POSTECH Venture
 Capital Co., Ltd.
 POSCO Refractories

| | | | | | | |
|---------------|-------------|-------------|-------------|-------------|-------------|-------------|
| & Environment | 137 | 122 | 36 | 173,917 | 154,404 | 149,185 |
| Others | 86,821 | 33,110 | 916 | | | 1,211 |
| | W 3,059,180 | W 2,105,693 | W 1,934,482 | W 2,134,737 | W 1,462,012 | W 1,769,542 |

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| Company | Receivables(2) | | Payables(2) | |
|---|-----------------------------|----------|-------------|-----------|
| | 2004 | 2003 | 2004 | 2003 |
| | (in millions of Korean Won) | | | |
| POSCO E & C | W 82,889 | W 247 | W 237,283 | W 29,888 |
| Posteel Co., Ltd. | 122,260 | 46,543 | 1,876 | 5 |
| POSCON Co., Ltd. | 15,172 | 3 | 43,050 | 20,297 |
| Pohang Coated Steel Co., Ltd. | 43,021 | 23,613 | 1 | 169 |
| POSCO Machinery & Engineering Co., Ltd. | 2,270 | 6 | 27,879 | 13,858 |
| POSDATA Co., Ltd. | 442 | 1 | 30,782 | 28,370 |
| POSCO Research Institute | | | 7,224 | 4,006 |
| Seung Kwang Co., Ltd. | 2,038 | 477 | | 1 |
| POS-AC Co., Ltd. | | | 663 | 330 |
| Changwon Specialty Steel Co., Ltd. | 1 | 65 | 6,692 | 7,580 |
| POSCO Machinery Co., Ltd. | 4,300 | 2 | 19,767 | 10,477 |
| POSA | 24 | 17 | | 4,618 |
| POSCAN | 16 | 17 | | 4,074 |
| POA | 29,866 | 6,492 | 4,730 | 5,605 |
| POSCO-Japan Co., Ltd. | 18,751 | 5,153 | 1,722 | 111 |
| Zhangjiagang Pohang Stainless Steel Co., Ltd. | 16,486 | 10,770 | | |
| POSTECH Venture Capital Co., Ltd. | | | | |
| POSCO Refractories & Environment | 19 | 5 | 23,526 | 17,263 |
| Others | 11 | 91 | | |
| | W 337,566 | W 93,502 | W 405,195 | W 146,652 |

- (1) Sales and others include sales and non-operating income; purchases and others include purchases and overhead expenses.
- (2) Receivables include trade accounts receivable and other accounts receivable; payables include trade accounts payable and other accounts payable.
- (3) Includes transaction with PIO, which was merged into POSCO-Japan Co., Ltd. during the year ended December 31, 2004.

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Significant transactions, which occurred in the ordinary course of business, with equity method investees for the years ended December 31, 2004, 2003 and 2002, and related account balances as of December 31, 2004 and 2003, are as follows:

| Company | Sales and others(1) | | | Purchases and others(1) | | |
|--|---------------------|-----------|-----------|-------------------------|-----------|-----------|
| | 2004 | 2003 | 2002 | 2004 | 2003 | 2002 |
| (in millions of Korean Won) | | | | | | |
| KOBRASCO | W | W | W | W 104,848 | W 99,498 | W 94,038 |
| UPI | 365,362 | 239,294 | 291,528 | | 16 | |
| POSCHROME | | | | 51,820 | 33,267 | 22,937 |
| Shunde Xingpu Steel Center Co., Ltd | | 219 | | | | |
| eNtoB Corporation | | | | 131,377 | 69,072 | 15,383 |
| POSVINA Co., Ltd. | 12,599 | 7,281 | | | | |
| POSMIT | 7,655 | 480 | | | | |
| MIDUS Information Technologies Co., Ltd. | | | | 15 | 99 | |
| PT POSMI STEEL Indonesia (POSMI) | 5 | | | | | |
| | W 385,621 | W 247,274 | W 291,528 | W 288,060 | W 201,952 | W 132,358 |

| Company | Receivables(2) | | Payables(2) | |
|-----------------------------|----------------|------|-------------|---------|
| | 2004 | 2003 | 2004 | 2003 |
| (in millions of Korean Won) | | | | |
| KOBRASCO | W | W | W 2,584 | W 6,145 |
| eNtoB Corporation | | | 3,286 | 3,029 |
| POSVINA Co., Ltd. | | 4 | | |
| | W | W 4 | W 5,870 | W 9,174 |

(1) Sales and others include sales and non-operating income; purchases and others include purchases and overhead expenses.

(2) Receivables include trade accounts receivable and other accounts receivable; payables include trade accounts payable and other accounts payable.

Eliminations of inter-company revenues and expenses for the year ended December 31, 2004 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|-----------------------------------|--|-----------------------------------|
| Sales | W 5,982,359 | Cost of goods sold | W 5,849,925 |
| Interest income | 2,242 | Interest expense | 2,272 |
| Rental income | 727 | Selling and administrative expenses | 120,428 |
| Others | 3,693 | Others | 16,396 |
| | W 5,989,021 | | W 5,989,021 |

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Eliminations of inter-company revenues and expenses for the year ended December 31, 2003 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|---------------------------|--|---------------------------|
| Sales | W 4,115,235 | Cost of goods sold | W 4,007,975 |
| Interest income | 485 | Interest expense | 495 |
| Rental income | 612 | Selling and administrative expenses | 109,011 |
| Others | 3,023 | Others | 1,874 |
| | W 4,119,355 | | W 4,119,355 |

Eliminations of inter-company revenues and expenses for the year ended December 31, 2002 are as follows:

| Revenues | Millions of Korean Won | Expenses | Millions of Korean Won |
|-----------------|---------------------------|--|---------------------------|
| Sales | W 4,610,052 | Cost of goods sold | W 4,493,261 |
| Interest income | 1,654 | Interest expense | 1,678 |
| Rental income | 594 | Selling and administrative expenses | 88,482 |
| Others | 2,798 | Others | 31,677 |
| | W 4,615,098 | | W 4,615,098 |

Eliminations of significant inter-company receivables and payables for the years ended December 31, 2004 and 2003 are as follows:

| | 2004 | 2003 | | 2004 | 2003 |
|----------------------------------|-----------------------------|-----------|-------------------------------------|-----------------------------|-----------|
| | (in millions of Korean Won) | | | (in millions of Korean Won) | |
| Trade accounts and notes payable | W 412,421 | W 213,137 | Trade accounts and notes receivable | W 676,744 | W 361,569 |
| Short-term borrowings | 19,959 | 38,434 | Short-term loans | 20,628 | 1,198 |
| Other accounts and notes payable | 265,881 | 101,846 | Other accounts and notes receivable | 296 | 12,658 |
| Long-term debt | 50,435 | 26,927 | Long-term loans | 51,032 | 34,353 |
| Other liabilities | 114,934 | 100,202 | Other assets | 114,930 | 70,768 |
| | W 863,630 | W 480,546 | | W 863,630 | W 480,546 |

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29. Segment and Regional Information

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2004:

| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
|----------------------------------|--------------|-------------|-------------|----------------------------|--------------|
| (in millions of Korean Won) | | | | | |
| Statement of income: | | | | | |
| External customers | W 22,624,977 | W 2,986,345 | W 4,344,090 | W (5,982,359) | W 23,973,053 |
| Less: Inter-segment | (3,322,773) | (626,579) | (2,033,007) | 5,982,359 | |
| | W 19,302,204 | W 2,359,766 | W 2,311,083 | W | W 23,973,053 |
| Balance sheet: | | | | | |
| Inventories | W 2,534,497 | W 72,463 | W 515,567 | W (57,006) | W 3,065,521 |
| Investments | 4,087,223 | 282,491 | 633,453 | (2,298,629) | 2,704,538 |
| Property, plant and equipment | 10,189,473 | 230,082 | 586,270 | (565,534) | 10,440,291 |
| Intangible assets | 410,170 | 1,515 | 97,100 | (12,470) | 496,315 |

The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2003:

| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
|----------------------------------|--------------|-------------|-------------|----------------------------|--------------|
| (in millions of Korean Won) | | | | | |
| Statement of income: | | | | | |
| External customers | W 16,503,386 | W 2,384,952 | W 3,016,135 | W (4,115,236) | W 17,789,237 |
| Less: Inter-segment | (2,241,755) | (599,615) | (1,273,866) | 4,115,236 | |
| | W 14,261,631 | W 1,785,337 | W 1,742,269 | W | W 17,789,237 |
| Balance sheet: | | | | | |
| Inventories | W 1,867,743 | W 51,638 | W 160,389 | W (11,399) | W 2,068,371 |
| Investments | 4,056,692 | 308,349 | 501,454 | (2,039,817) | 2,826,678 |
| Property, plant and equipment | 9,549,746 | 206,416 | 612,625 | (523,010) | 9,845,777 |
| Intangible assets | 402,439 | 2,351 | 79,593 | (9,887) | 474,496 |

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The following table provides information on the significant financial status of each operating segment of the consolidated subsidiaries as of and for the year ended December 31, 2002:

| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
|-------------------------------|--------------|-------------|-------------|----------------------------|--------------|
| (in millions of Korean Won) | | | | | |
| Statement of income: | | | | | |
| External customers | W 13,593,010 | W 2,584,532 | W 2,787,428 | W (4,610,052) | W 14,354,918 |
| Less: Inter-segment | (2,076,385) | (686,250) | (1,847,417) | 4,610,052 | |
| | W 11,516,625 | W 1,898,282 | W 940,011 | W | W 14,354,918 |
| Balance sheet: | | | | | |
| Inventories | W 1,470,931 | W 26,933 | W 193,871 | W (20,289) | W 1,671,446 |
| Investments | 3,908,130 | 295,959 | 557,102 | (1,898,578) | 2,862,613 |
| Property, plant and equipment | 10,068,549 | 217,739 | 594,364 | (556,078) | 10,324,574 |
| Intangible assets | 391,271 | 3,444 | 83,002 | (2,905) | 474,812 |

Substantially all of the Company's operations are for the production of steel products. Net sales and non-current assets by geographic area as of and for the years ended December 31, 2004, 2003 and 2002 are as follows:

| 2004 | | | |
|--|--------------|-----------------------|-------------|
| | Sales | Non-current assets | |
| (in millions of Korean Won) | | | |
| Korea | W 16,738,372 | W | 15,295,486 |
| Japan | 1,163,541 | | 84,640 |
| China | 3,315,789 | | 813,798 |
| Asia/ Pacific, excluding Japan and China | 1,257,108 | | 108,119 |
| North America | 529,080 | | 153,919 |
| Others | 969,163 | | 61,815 |
| Consolidation adjustments | | | (2,876,633) |
| | W 23,973,053 | W | 13,641,144 |

| 2003 | | | |
|-------------|-------|-----------------------|--|
| | Sales | Non-current assets | |

| | (in millions of Korean Won) | | | |
|--|------------------------------------|------------|---|------------|
| Korea | W | 12,100,326 | W | 12,146,239 |
| Japan | | 770,765 | | 55,430 |
| China | | 2,706,120 | | 613,078 |
| Asia/ Pacific, excluding Japan and China | | 1,078,675 | | 130,410 |
| North America | | 311,529 | | 162,198 |
| Others | | 821,822 | | 39,596 |
| | W | 17,789,237 | W | 13,146,951 |

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| | | 2002 | |
|--|---|--------------|---------------------------|
| | | Sales | Non-current assets |
| (in millions of Korean Won) | | | |
| Korea | W | 9,531,423 | W 12,853,344 |
| Japan | | 650,029 | 43,110 |
| China | | 2,088,735 | 369,075 |
| Asia/ Pacific, excluding Japan and China | | 1,069,432 | 236,359 |
| North America | | 473,289 | 142,238 |
| Others | | 542,010 | 17,873 |
| | W | 14,354,918 | W 13,661,999 |

Condensed consolidated balance sheets categorized by types of business are as follows:

| | | 2004 | |
|------------------------------------|---|----------------------------------|------------------------------|
| | | Non-financial Institution | Financial Institution |
| (in millions of Korean Won) | | | |
| Asset | | | |
| Current asset | W | 10,484,417 | W 19,247 |
| Non-current asset | | 13,581,551 | 168,593 |
| Investment assets | | 2,645,019 | 168,518 |
| Property, plant and equipment | | 10,440,265 | 26 |
| Intangible assets | | 496,267 | 49 |
| Total assets | | 24,065,968 | 187,840 |
| Liabilities | | | |
| Current liabilities | | 4,923,870 | 87,641 |
| Non-current liabilities | | 2,757,773 | 31,351 |
| Total liabilities | | 7,681,643 | 118,992 |
| Shareholders equity | | | |
| Common stock | | 482,403 | 52,908 |
| Capital surplus | | 3,894,235 | |
| Retained earnings | | 12,854,385 | 19,859 |
| Capital adjustments | | (1,152,868) | (3,919) |
| Minority interest | | 306,170 | |

| | | |
|--|--------------|-----------|
| Total liabilities and shareholders' equity | 16,384,325 | 68,848 |
| | W 24,065,968 | W 187,840 |

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Condensed consolidated statements of income categorized by types of business are as follows:

| | 2004 | |
|--|--------------------------------------|----------------------------------|
| | Non-financial Institution | Financial Institution |
| | (in millions of Korean Won) | |
| Sales | W 23,966,264 | W 6,848 |
| Cost of goods sold | (17,358,582) | (2,280) |
| Selling and administrative expense | (1,290,280) | (2,493) |
| Operating income | 5,317,402 | 2,075 |
| Non-operating income | 829,000 | 5,840 |
| Non-operating expenses | (806,897) | (3,341) |
| Ordinary income | 5,339,505 | 4,574 |
| Extraordinary income | 3,388 | |
| Extraordinary expense | | |
| Net income before income tax expense and minority interest | 5,342,893 | 4,574 |
| Income tax expense | (1,501,195) | (451) |
| Net income before minority interest | 3,841,698 | 4,123 |
| Minority interest in income of consolidated subsidiaries | (26,955) | |
| Net income | W 3,814,743 | W 4,123 |

30. Operating Results for the Final Interim Period

Significant operating results for the three-month period ended December 31, 2004 are as follows:

| | (in millions of Korean Won, except per share amount) | |
|---------------------------|---|-----------|
| Sales | W | 6,748,462 |
| Cost of sales | | 4,708,064 |
| Operating income | | 1,656,003 |
| Net income | | 1,175,618 |
| Ordinary income per share | | 19,755 |
| Net income per share | | 14,602 |

31. Reclassification of Prior Year Financial Statement Presentation

Certain amounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the 2004 presentation. These reclassifications had no effect on previously reported net income or

shareholders' equity.

32. Events Subsequent to the Issuance of the Auditor's Report

On February 3, 2005, the Company decided to purchase 1,743,730 shares of its own stock from the market during the period from February 7, 2005 to May 6, 2005.

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Reconciliation to U.S. Generally Accepted Accounting Principles

The consolidated financial statements of the Company are prepared in accordance with generally accepted accounting principles in the Republic of Korea (Korean GAAP), which differs in certain material respects from generally accepted accounting principles in the United States of America (U.S. GAAP). Application of U.S. GAAP would have affected the balance sheets as of December 31, 2003 and 2004 and net income for the three year periods then ended to the extent described below.

A description of the material differences between Korean GAAP and U.S. GAAP as they relate to the Company are discussed in detail below.

33. Significant Differences between Korean GAAP and U.S. GAAP**(a) Reconciliation of net income from Korean GAAP to U.S. GAAP**

| | | 2004 | | 2003 | | 2002 |
|---|---|------------|---|------------|---|------------|
| (in millions of Korean Won and thousands of US Dollar) | | | | | | |
| Net income under Korean GAAP | W | 3,814,225 | W | 1,995,983 | W | 1,089,288 |
| Adjustments: | | | | | | |
| Property, plant and equipment: | | | | | | |
| Fixed asset revaluation | | 26,428 | | 26,351 | | 28,667 |
| Capitalized costs | | 47,458 | | 16,187 | | 64,890 |
| Capitalized repairs | | (9,422) | | (9,721) | | (11,466) |
| Impairment loss on investment securities | | (557,615) | | (22,557) | | (177,532) |
| Others, net | | 4,270 | | (8,773) | | (5,448) |
| Income tax effect | | 134,870 | | (442) | | 30,017 |
| | | (354,011) | | 1,045 | | (70,872) |
| Net income as adjusted in accordance with U.S. GAAP | W | 3,460,214 | W | 1,997,028 | W | 1,018,416 |
| Basic and diluted earnings per share, as adjusted, in accordance with U.S. GAAP | W | 42,806 | W | 24,508 | W | 12,430 |
| Weighted-average shares outstanding | | 80,835,690 | | 81,483,634 | | 81,932,084 |

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(b) Reconciliation of shareholders equity from Korean GAAP to U.S. GAAP

| | 2004 | 2003 | 2002 |
|---|---|--------------|--------------|
| | (in millions of Korean Won and thousands of US Dollar) | | |
| Shareholders equity before minority interest under Korean GAAP(1) | W 16,386,056 | W 13,249,567 | W 11,819,646 |
| Minority interest | (307,891) | (293,299) | (279,165) |
| | 16,078,165 | 12,956,268 | 11,540,481 |
| Adjustments: | | | |
| Property, plant and equipment: | | | |
| Fixed asset revaluation | (195,044) | (221,472) | (247,823) |
| Capitalized costs | 270,827 | 223,369 | 207,182 |
| Capitalized repairs | 9,036 | 18,458 | 28,179 |
| Impairment loss on investment securities | (48,399) | (36,732) | (191,435) |
| Others, net | (4,127) | (8,397) | 376 |
| Income tax effect | 169,387 | 34,517 | 44,031 |
| Deferred taxes related to OCI | (71,788) | 52,306 | 82,734 |
| | 129,892 | 62,049 | (76,756) |
| Shareholders equity, as adjusted, in accordance with U.S. GAAP | W 16,208,057 | W 13,018,317 | W 11,463,725 |

(1) As indicated in note 2, the Korean Accounting Standards Board (KASB) has published a series of Statements of Korean Financial Accounting Standards (SKFAS), which will gradually replace the existing financial accounting standards established by the Korean Financial and Supervisory Board. The balance sheet as of December 31, 2002, was restated in accordance with SKFAS No. 6. As a result, the dividends payable, previously recorded as current liabilities, decreased by W245,216 million and the balance of retained earnings increased by same amount as of December 31, 2002.

(c) Fixed asset revaluation

Under Korean GAAP, certain fixed assets were subject to upward revaluations in accordance with the Asset Revaluation Law, with the revaluation increment credited to capital surplus. As a result of this revaluation, depreciation expense on these assets was adjusted to reflect the increased basis. Under U.S. GAAP, such a revaluation is not permitted and depreciation expense should be based on historical cost. When assets are sold, any revaluation surplus related to those assets under Korean GAAP would be reflected in income as additional gain on sale of assets under U.S. GAAP.

(d) Capitalized costs

Under Korean GAAP, the Company capitalizes certain foreign exchange gains and losses on borrowings associated with property, plant and equipment during the construction period. Under U.S. GAAP, all foreign exchange

gains and losses are included in the results of operations for the current period. No foreign exchange gains and losses have been capitalized as of December 31, 2004, 2003 and 2002 under Korean GAAP. Depreciation of net capitalized foreign exchange gains and losses carried forward from prior periods amounted to W20,611 million in 2004, 2003 and 2002, respectively.

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In addition, effective from the period beginning after December 31, 2002, under Korean GAAP, interest costs that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use are generally expensed as incurred, except when certain criteria are met for capitalization. The Company has adopted this application and expensed financing costs subject to the capitalization. Under U.S. GAAP, the Company is required to capitalize the amount that would have been theoretically avoided had expenditures not been made for assets which require a period of time to prepare them for their intended use. Capital projects that have had their progress halted would suspend the capitalization of interest and would also delay the accumulation of depreciation during the suspense period.

Capitalized interest for the years ended December 31, 2004, 2003 and 2002 are as follows:

| | 2004 | 2003 | 2002 |
|--------------------------------------|-----------------------------|----------|-----------|
| | (in millions of Korean Won) | | |
| Capitalized interest | W 84,948 | W 54,386 | W 64,788 |
| Depreciation of capitalized interest | (55,871) | (54,857) | (73,254) |
| Net income impact | W 29,077 | W (471) | W (8,466) |

Under Korean GAAP, organization costs, research and development costs and internal use software costs have been recorded as intangible assets and amortized over a period not exceeding 20 years. Under U.S. GAAP, organization costs as well as research and developments costs are generally expensed as incurred. In addition, certain costs incurred for software developed for internal use, U.S. GAAP requires that costs incurred in the preliminary project stage be expensed as incurred. External direct costs such as material and service, payroll or payroll related costs for employees who are directly associated with the project, and interest costs incurred when developing computer software for internal use, should be capitalized and amortized on a straight-line method over the estimated useful life. Training costs, data conversion costs and general administrative costs should be expensed as incurred.

U.S. GAAP reconciliation adjustments for the capitalization and amortization of intangible assets for the years ended December 31, 2004, 2003 and 2002 are as follows:

| | 2004 | 2003 | 2002 |
|-------------------|-----------------------------|----------|---------|
| | (in millions of Korean Won) | | |
| Net income impact | W(2,230) | W(3,953) | W12,347 |

(e) Capitalized repairs

Under Korean GAAP, repair costs associated with the Company's furnaces are expensed as incurred, regardless of the nature of the expenditure. U.S. GAAP requires that repairs that extend an asset's useful life or significantly increase its value be capitalized when incurred and depreciated. Routine maintenance and repairs are expensed as incurred. No repair costs have been capitalized as of December 31, 2004, 2003 and 2002 under Korean GAAP. Depreciation of capitalized repairs carried forward from prior periods have been recorded.

(f) Guarantees

Under Korean GAAP, the guarantor is required to disclose guarantees, including indirect guarantees of indebtedness of others. Under U.S. GAAP, the guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee for guarantees issued or modified after

December 31, 2002. As of December 31, 2004, the guarantees issued or modified after December 31, 2002 by the Company for the repayment of loans amounts to W197,040 million,

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excluding guarantees issued either between parents and their subsidiaries or between corporations under common control (Note 17). The Company has recognized the fair value of liabilities amounting to W2,956 million and W2,396 million for the years ended December 31, 2004 and 2003, respectively.

(g) Stock Appreciation Rights

Under Korean GAAP, the intrinsic value method for awards that call for settlement in cash, shares, or a combination of both measures compensation at the end of each period as the amount by which the moving weighted average of quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price. The moving weighted average of quoted market value is calculated based on the weighted average market price of last one week, last one month and last two months of each period. Under U.S. GAAP, accounting for stock appreciation rights requires compensation for awards that call for settlement in cash, shares, or a combination of both to be measured at the end of each period as the amount by which the quoted market value of the shares of the enterprise's stock covered by a grant exceeds the option price.

The compensation costs, in accordance with U.S. GAAP, for stock appreciation rights granted to employees and executives recognized for the years ended December 31, 2004, 2003 and 2002 are as follows:

| | 2004 | 2003 | 2002 |
|----------------------------|------------------------------------|---------|--------|
| | (in millions of Korean Won) | | |
| Stock compensation expense | W9,810 | W24,894 | W4,299 |

(h) Investment Securities

Under Korean GAAP, if the fair value of an investment permanently declines compared to its acquisition cost as evidenced by events such as bankruptcy, liquidation, negative net asset values and cessation of operations, the carrying value of the debt or equity security is adjusted to fair value, with the resulting valuation loss charged to current operations. If the fair value of the security subsequently recovers, a gain is recognized up to the amount of previously recognized impairment loss. In addition, available-for-sale securities, including securities that are not publicly traded, are reported at fair value. Securities that are not publicly traded and which the fair value cannot be reasonably measured are recorded at acquisition cost. In accordance with Korean GAAP, the Company has recorded certain securities that are not publicly traded at fair value based on discounted cash flows of investees with resulting valuation losses being charged to capital adjustments.

Under U.S. GAAP, declines in fair value of individual investments below their cost that are other-than-temporary result in write-downs of the investments' carrying value to their fair value. In addition, U.S. GAAP prohibits gain recognition based on subsequent recoveries of previously impaired investments. In addition, equity securities without readily determinable market value are accounted for as cost method investments and carried at cost less impairment if any.

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Information with respect to available-for-sale debt and equity securities as of December 31, 2004, 2003 and 2002 is as follows:

Available-for-Sale Securities:

| | 2004 | 2003 | 2002 |
|--|-----------------------------|-------------|-------------|
| | (in millions of Korean Won) | | |
| Book value | W 2,261,620 | W 2,315,508 | W 2,580,290 |
| Unrealized gains and losses | 47,272 | (157,844) | (298,640) |
| Permanent impairment loss | (3,190) | (10,651) | (27,041) |
| Fair value (Korean GAAP) | 2,305,702 | 2,147,013 | 2,254,609 |
| Other-than-temporary impairment | (48,399) | (38,118) | (191,435) |
| Fair value (US GAAP) | W 2,257,303 | W 2,108,895 | W 2,063,174 |

No other-than-temporary impairment is recorded for held-to-maturity securities as of December 31, 2004, 2003 and 2002.

The gross unrealized losses on investments in available-for-sale securities at December 31, 2004 for 12 months or longer are W3 million.

(i) Deferred Income Taxes

In general, accounting for deferred income taxes is substantially the same between Korean GAAP and U.S. GAAP. The Company is also required to recognize the additional deferred tax effects that result from differences between the reported Korean GAAP and U.S. GAAP amounts. Korean GAAP does not require the income tax effect to be calculated for components within other comprehensive income. However, U.S. GAAP requires the presentation of the income tax effect allocated to components of other comprehensive income.

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(j) Deferred taxes in accordance with U.S. GAAP

The tax effects of temporary differences that resulted in significant portions of the deferred tax assets and liabilities at December 31, 2004 and 2003, computed under U.S. GAAP, and a description of the financial statement items that created these differences are as follows:

| | 2004 | 2003 |
|--|--------------------|-----------------|
| (in millions of Korean Won) | | |
| Deferred tax assets: | | |
| Fixed asset revaluation | W 30,705 | W 37,545 |
| Capitalized foreign exchange losses | 3,071 | 8,574 |
| Investment securities | 69,822 | 55,845 |
| Loss on valuation of equity method investments | 78,145 | 78,396 |
| Impairment loss on fixed assets | 129,135 | 116,057 |
| Impairment loss on investment securities | 221,337 | 61,976 |
| Allowance for doubtful accounts | 32,148 | 78,706 |
| Allowance for severance benefits | 69,913 | 48,243 |
| Depreciation expense | 17,299 | 15,510 |
| Capital expenditures | 9,489 | 8,876 |
| Research and development expense | 9,804 | 9,768 |
| Deferred taxes related to OCI | | 52,306 |
| Others | 132,133 | 101,655 |
| Total deferred tax assets | 803,001 | 673,457 |
| Deferred tax liabilities: | | |
| Earnings from equity-method investees | 159,545 | 32,572 |
| Reserve for repairs | 137,394 | 140,267 |
| Accrued income | 3,453 | 15,748 |
| Reserve for technology | 367,283 | 255,379 |
| Capitalized repairs | 2,485 | 5,076 |
| Capitalized costs | 78,876 | 65,212 |
| Deferred taxes related to OCI | 71,788 | |
| Others | 101,061 | 149,035 |
| Total deferred tax liabilities | 921,885 | 663,289 |
| Net deferred tax assets (liabilities) | W (118,884) | W 10,168 |

34. Additional Financial Information in Accordance with U.S. GAAP**(a) Comprehensive income**

Under Korean GAAP, there is no requirement to present comprehensive income. Under U.S. GAAP, comprehensive income and its components are required to be presented under the provisions of SFAS No.130, Reporting Comprehensive Income. Comprehensive income includes all changes in shareholders' equity during the period except those resulting from investments by, or distributions to owners, including

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certain items not included in the current year's results of operations. Comprehensive income for the years ended December 31, 2004, 2003, and 2002 is summarized as follows:

| | 2004 | 2003 | 2002 |
|---|-------------|-------------|-------------|
| (in millions of Korean Won) | | | |
| Net income, as adjusted, in accordance with U.S. GAAP | W 3,460,214 | W 1,997,028 | W 1,018,416 |
| Other comprehensive income, net of tax: | | | |
| Foreign currency translation adjustments | (91,750) | 34,414 | (28,789) |
| Unrealized gains (losses) on investments | 433,465 | 8,960 | (214,059) |
| Comprehensive income, as adjusted, in accordance with U.S. GAAP | W 3,801,929 | W 2,040,402 | W 775,568 |

Accumulated other comprehensive income as of December 31, 2004 and 2003 is summarized as follows:

| | Foreign currency translation adjustments | Unrealized gains (losses) on investments | Accumulated other comprehensive income |
|--|---|---|---|
| (in millions of Korean Won) | | | |
| Balance, December 31, 2001 | W 97,661 | W (50,643) | W 47,018 |
| Foreign currency translation adjustments, net of tax benefit W34,801 million | (28,789) | | (28,789) |
| Unrealized losses on investments, net of tax benefit of W(147,801) million | | (214,059) | (214,059) |
| Current period change | (28,789) | (214,059) | (242,848) |
| Balance, December 31, 2002 | W 68,872 | W (264,702) | W (195,830) |
| Foreign currency translation adjustments, net of tax benefit W12,163 million | 34,414 | | 34,414 |
| Unrealized gains on investments, net of tax expense of W90,436 million | | 8,960 | 8,960 |
| Current period change | 34,414 | 8,960 | 43,374 |
| Balance, December 31, 2003 | W 103,286 | W (255,742) | W (152,456) |
| Foreign currency translation adjustments, net of tax benefit of | (91,750) | | (91,750) |

W34,801 million

| | | | | | | |
|--|---|----------|---|---------|---|---------|
| Unrealized gains on investments, net of tax expense of W(147,801) million | | | | 434,753 | | 434,753 |
| Less: Reclassification adjustment for net realized gain included in income, net of tax expense of W488 million | | | | (1,288) | | (1,288) |
| Current period change | | (91,750) | | 433,465 | | 341,715 |
| Balance, December 31, 2004 | W | 11,536 | W | 177,723 | W | 189,259 |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(b) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

(i) Cash and cash equivalents, short-term financial instruments, trading securities, trade accounts and notes receivable, trade accounts and notes payable, and short-term borrowings

The carrying amount approximates fair value due to the short-term nature of those instruments.

(ii) Investment Securities

The fair value of market-traded investments such as listed company's stocks, public bonds and other marketable securities are based on quoted market prices for those investments. Investments in non-listed companies' stock, for which there are no quoted market prices, estimate of fair value is based on acquisition cost less impairment if any.

(iii) Long-Term loans, trade account and notes receivable

Loans receivable, accounts and notes receivable are reported net of specific and general provisions for impairment as well as present value discount factor. As a result, the fair values of long-term loans approximate their carrying values.

(iv) Long-Term debt

The fair value of long-term debt is based on quoted market prices, where available. For those notes where quoted market prices are not obtainable, a discounted cash flow model is used based on the current rates for issues with similar maturities.

The estimated fair values of the Company's financial instruments stated under Korean GAAP as of December 31, 2004 and 2003 are summarized as follows:

| | 2004 | | 2003 | |
|--|-----------------------------|------------|--------------------|------------|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| | (in millions of Korean Won) | | | |
| Cash and cash equivalents | W 486,370 | W 486,370 | W 592,602 | W 592,602 |
| Short-term financial instruments | 640,988 | 640,988 | 695,169 | 695,169 |
| Trading securities | 2,689,593 | 2,689,593 | 1,321,301 | 1,321,301 |
| Trade accounts and notes receivable, including long-term loans | 3,374,219 | 3,374,219 | 2,530,551 | 2,530,551 |
| Investment securities | 2,345,076 | 2,345,076 | 2,318,830 | 2,318,830 |
| Short-term borrowings | 657,541 | 657,541 | 731,781 | 731,781 |
| Trade accounts and notes payable | 1,082,299 | 1,082,299 | 917,495 | 917,495 |
| Long-term debt, including current portion | 3,104,054 | 3,184,984 | 3,973,900 | 4,100,490 |

(c) Minority interest

Minority interests in consolidated subsidiaries are disclosed within the shareholders' equity section of the balance sheet. Under U.S. GAAP, minority interests are recorded between the liability section and the shareholders' equity section in the consolidated balance sheet.

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

(d) Classification differences

Under Korean GAAP, certain income and expense items considered as non-operating or extraordinary would be considered as operating items under U.S. GAAP. In addition, Korean GAAP does not require cash balances that are restricted in use to be separately disclosed. Under U.S. GAAP such restricted cash balances would need to be separately presented on the face of the balance sheet. Under Korean GAAP, non-marketable equity securities are included as available-for-sale securities, and under U.S. GAAP, non-marketable equity securities are not considered available-for-sale securities. Both Korea GAAP and U.S. GAAP carried such securities at cost less impairment if any. These reclassifications would have no impact on the shareholders' equity, net income or earnings per share amounts reported under U.S. GAAP.

(e) Segment

The following table provides information on reconciliation of net income of each operating segment of the consolidated subsidiaries from Korean GAAP to U.S. GAAP for the year ended December 31, 2004:

| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
|---------------------------------|-------------|----------|-----------|----------------------------|--------------|
| (in millions of Korean Won) | | | | | |
| Net income under Korean GAAP | W 3,923,286 | W 43,408 | W 154,270 | W (306,739) | W 3,814,225 |
| Adjustments | (346,565) | | (7,446) | | (354,011) |
| Net income under U.S. GAAP | W 3,576,721 | W 43,408 | W 146,824 | W (306,739) | W 3,460,214 |

The following table provides information on reconciliation of total assets of the consolidated subsidiaries from Korean GAAP to U.S. GAAP as of December 31, 2004:

| | Steel | Trading | Others | Subtotal before elimination | Reconciling adjustments | U.S. GAAP adjustments | Consolidated |
|-----------------------------|--------------|-----------|-------------|-----------------------------------|----------------------------|-----------------------------|--------------|
| (in millions of Korean Won) | | | | | | | |
| Segments total assets | W 23,302,209 | W 961,762 | W 3,509,189 | W 27,773,160 | W (3,644,200) | W 201,679 | W 24,330,639 |

The following table provides information on the significant items in total assets of each operating segment of the consolidated subsidiaries as of December 31, 2004:

| | Steel | Trading | Others | Reconciling adjustments | Consolidated |
|----------------------------------|-------------|-----------|-----------|----------------------------|--------------|
| (in millions of Korean Won) | | | | | |
| Investments under Korean GAAP | W 4,087,223 | W 282,491 | W 633,453 | W (2,298,629) | W 2,704,538 |

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| | | | | | | |
|---|---|------------|-----------|-----------|---------------|--------------|
| Adjustments | | 139,045 | (4,544) | (13,514) | | 120,987 |
| Investments under U.S. GAAP | W | 4,226,268 | W 277,947 | W 619,939 | W (2,298,629) | W 2,825,525 |
| Property, plant and equipment under Korean GAAP | W | 10,189,473 | W 230,082 | W 586,270 | W (565,534) | W 10,440,291 |
| Adjustments | | 100,813 | | | | 100,813 |
| Property, plant and equipment under U.S. GAAP | W | 10,290,286 | W 230,082 | W 586,270 | W (565,534) | W 10,541,104 |

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POSCO AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Continued)
December 31, 2004 and 2003

35. Recent Accounting Pronouncements***U.S. GAAP***

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, Inventory Costs – an Amendment of ARB No. 43, Chapter 4 (FAS 151). FAS 151 provides clarification that abnormal amounts of idle facility expense, freight, handling costs, and spoilage should be recognized as current-period charges. Additionally, this standard requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this standard are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153, Exchanges of Nonmonetary Assets – an amendment of APB Opinion No. 29 (FAS 153). FAS 153 amends and clarifies accounting for exchanges of nonmonetary assets under Accounting Principles Board (APB) Opinion No. 29, Accounting for Nonmonetary Transaction (APB 29). APB 29 is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in APB 29, however, included certain exceptions to that principle. FAS 153 amends APB 20 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. FAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005, with earlier adoption permitted. The Company does not expect the adoption of this statement to have a material impact on its financial position or result of operations.

Korean GAAP

In February 2004, the Korean Accounting Standards Boards (KASB) issued Statements of Korean Financial Accounting Standards (SKFAS) No. 15, Equity Investment. This statement provides clarification that the Company's proportionate unrealized profit arising from sales by the Company to equity method investees, sales by the equity method investees to the Company or sales between equity method investees should be eliminated. SKFAS No. 15 amends Interpretation No. 42-59 which prescribes that unrealized profit arising from sales by the Company to equity method investees should be fully eliminated. Under SKFAS No. 15, the Company also assesses the potential impairment of investment securities in accordance with the accounting standards on impairment loss, when there is objective evidence. The provisions of this standard are effective prospectively for equity investments beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

In June 2004, the KASB issued SKFAS No. 16, Accountings for income taxes. SKFAS No. 16 provides clarification that deferred income tax on gain and losses on valuation of available-for-sale securities should be recognized. Under this statement, any changes in deferred income tax arising on initial classification of the equity component should be reflected in equity. SKFAS No. 16 amends SKFAS Interpretation No. 45-52 which does not require recognition of the aforementioned deferred income tax. In accordance with the nature of the equity component, accounting treatment should be provided based on the component's applicable guidance. The provisions of this standard are effective prospectively for available-for-sale securities beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

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In October 2004, the KASB issued SKFAS No. 17, Provision for Liabilities and Contingencies. SKFAS No. 17, which clarifies pre-KASB standard of Article 74, Contingencies, states that if the difference between nominal value and present value of provision for liabilities is considered material, expected expenses for performing duty should be valued at present value. Provision for liabilities should be used only for the intended purpose at initial recognition. The provisions of this standard are effective prospectively for liabilities beginning on or after December 31, 2004. The Company does not expect the adoption of this statement to have a material impact on its financial position or results of operations.

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

POSCO

(Registrant)

/s/ Ku-Taek Lee

Name: Ku-Taek Lee

Title: Chairman and Chief Executive Officer

Date: June 28, 2005

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| | |
|------|--|
| 1.1 | Articles of incorporation of POSCO (English translation) (incorporated by reference to Exhibit 1.1 to the Registrant's Annual Report on Form 20-F for the fiscal year ended December 31, 2003)* |
| 2.1 | Form of Common Stock Certificate (including English translation) (incorporated by reference to Exhibit 4.3 to the Registrant's Registration Statement No. 33-81554)* |
| 2.2 | Form of Deposit Agreement (including Form of American Depositary Receipts) (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)* |
| 2.3 | Letter from ADR Depository to the Registrant relating to the Pre-release of American Depositary Receipts (incorporated by reference to the Registrant's Registration Statement (File No. 33-84318) on Form F-6)* |
| 8.1 | List of subsidiaries of POSCO |
| 12.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 12.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 13.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |
| 15.1 | Consent of Samil PricewaterhouseCoopers, the Korean member firm of PricewaterhouseCoopers |

* Filed previously