NUVEEN CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND 2
Form 497
March 25, 2011
PROSPECTUS

$40,806,000

Nuveen California Dividend Advantage Municipal Fund 2

MUNIFUND TERM PREFERRED SHARES

4,080,600 Shares, 2.35% Series 2014

Liquidation Preference $10 Per Share

The Offering. *Nuveen California Dividend Advantage Municipal Fund 2 is offering 4,080,600 MuniFund Term Preferred Shares, 2.35% Series 2014 (Series 2014 MTP Shares), with a liquidation preference of $10 per share (MTP Shares). The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all of the Fund s outstanding Municipal Auction Rate Cumulative Preferred Shares (MuniPreferred shares), and to maintain the Fund s leveraged capital structure. Certain of the underwriters and their affiliates or their customers own or are obligated to repurchase in the future MuniPreferred shares and, as a result, may benefit from any such redemption. See Prospectus Summary The Offering.*

The Fund. *This prospectus sets forth concisely information about the Fund that a prospective investor should know before investing, and should be retained for future reference. The Fund is a diversified, closed-end management investment company. The Fund s investment objectives are to provide current income exempt from regular federal and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund s investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.*

Listing. *Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may* *not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NVX Pr A.*

Investing in MuniFund Term Preferred Shares involves risks. See Risks beginning on page 48.

PRICE $10 A SHARE

	Price to Public	Underwriting Discounts and Commissions[1]	Proceeds to the Fund[2]
Per Share	$10.00	$0.125	$9.875
Total	$40,806,000	$510,075	$40,295,925

[1] *Total expenses of issuance and distribution, excluding underwriting discounts and commissions, are estimated to be $345,000.*

[2] *The Fund has granted the underwriters the right to purchase up to 204,030 additional MTP Shares at the public offering price, less underwriting discounts and commissions, within 30 days of the date of this prospectus solely to cover over-allotments, if any. If such option is exercised in full, the Price to Public, Underwriting Discounts and Commissions and Proceeds to the Fund will be $42,846,300, $535,579 and $42,310,721, respectively. See Underwriters on page 70 of this prospectus.*

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

Book-Entry Only. *It is expected that the MTP Shares will be delivered to the underwriters in book-entry form only, through the facilities of the Depository Trust Company, on or about March 29, 2011.*

CUSIP No. 67069X 500.

Sole Structuring Coordinator

Joint Book Runners

MORGAN STANLEY BofA MERRILL LYNCH CITI UBS INVESTMENT BANK WELLS FARGO SECURITIES

Co-Manager

NUVEEN INVESTMENTS, LLC

March 24, 2011

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Investment Strategies. *Under normal circumstances, the Fund invests at least 80% of its Managed Assets (as defined below) in municipal securities and other related investments the income from which is exempt from regular federal and California income taxes. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one nationally recognized statistical rating organization (NRSRO) or are unrated but judged to be of comparable quality by the Fund s sub-adviser, Nuveen Asset Management, LLC (Nuveen Asset Management). The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer s capacity to pay interest and repay principal, and are commonly referred to as junk bonds. Managed Assets are net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) and any Preferred Stock (as defined herein) outstanding. There is no assurance that the Fund will achieve its investment objectives. See The Fund s Investments.*

Fixed Dividend Rate:	*Series 2014 MTP Shares*	*2.35% per annum*

The Fixed Dividend Rate may be adjusted in the event of a change in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Dividends and Dividend Periods.

Dividends. *Dividends on the MTP Shares will be payable monthly. The first dividend period for the MTP Shares will commence on the first date of original issuance of MTP Shares and end on April 30, 2011 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the first business day of the month next following a dividend period and upon redemption of the MTP Shares, except that dividends paid with respect to any dividend period consisting of the month of December in any year will be paid on the last business day of December. Except for the first dividend period, dividends with respect to any monthly dividend period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly dividend period (or if such day is not a business day, the next preceding business day). Dividends with respect to the first dividend period for the MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on April 28, 2011.*

Redemption. *The Fund is required to redeem the MTP Shares on April 1, 2014 unless earlier redeemed or repurchased by the Fund. In addition, MTP Shares are subject to optional and mandatory redemption in certain circumstances. As of April 1, 2012, the Series 2014 MTP Shares will be subject to redemption at the option of the Fund, subject to payment of a premium through March 31, 2013, and at their liquidation preference thereafter. The Series 2014 MTP Shares also will be subject to redemption, at the option of the Fund, at their liquidation preference in the event of certain changes in the credit rating of the MTP Shares, as described herein. See Description of MTP Shares Redemption.*

Tax Exemption. *The dividend rate for MTP Shares assumes that each month s distribution is comprised solely of dividends exempt from regular federal and California income taxes, although a substantial portion of those dividends may be subject to the federal alternative minimum tax. From time to time, the Fund may be required to allocate capital gains and/or ordinary income to a given month s distribution on MTP Shares. To the extent that it does so, the Fund will contemporaneously make a separate, supplemental distribution of an amount that, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income in the monthly distribution, is intended to make the two distributions equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the monthly distribution if it had been entirely comprised of dividends exempt from regular federal and California income taxes. Alternatively (particularly in cases where the amount of capital gains or ordinary income to be allocated to the MTP Shares is small), the Fund will satisfy the requirement to allocate capital gains or ordinary income to MTP Shares by making a supplemental* *distribution of such gains or income to holders of MTP Shares, over and above the monthly dividend that is fully*

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exempt from regular federal and California income taxes. If, in connection with a redemption of MTP Shares, the Fund allocates capital gains or ordinary income to a distribution on MTP Shares without having made either a contemporaneous supplemental distribution of an additional amount or an alternative supplemental distribution of capital gains and/or ordinary income, it will cause an additional amount to be distributed to holders of MTP Shares whose interests are redeemed, which amount, when combined with the total amount of regular tax-exempt income, capital gains and ordinary income allocated in the distribution, is intended to make the distribution and the additional amount equal on an after-tax basis (determined based upon the maximum marginal federal income tax rates in effect at the time of such payment) to the amount of the distribution if it had been entirely comprised of dividends exempt from regular federal income tax. Investors should consult with their own tax advisors before making an investment in the MTP Shares. See Tax Matters and Description of MTP Shares Dividends and Dividend Periods Distribution with respect to Taxable Allocations.

Priority of Payment. *MTP Shares will be senior securities that represent stock of the Fund and are senior, with priority in all respects, to the Fund s common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund with other preferred shares currently outstanding. The Fund may issue additional preferred shares on parity with MTP Shares, subject to certain limitations. The Fund may not issue additional classes of shares that are senior to MTP Shares and other outstanding preferred shares of the Fund as to payments of dividends or as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. See Description of MTP Shares. The Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. In addition, as a fundamental policy, the Fund may not borrow money, except from banks for temporary or emergency purposes, or for repurchase of its shares, subject to certain restrictions. See Investment Restrictions in the Statement of Additional Information.*

Redemption and Paying Agent. *The redemption and paying agent for MTP Shares will be State Street Bank and Trust Company, Canton, Massachusetts.*

Adviser and Sub-Adviser. *Nuveen Fund Advisors, Inc. (formerly known as Nuveen Asset Management), the Fund s investment adviser, is responsible for determining the Fund s overall investment strategies and their implementation. Nuveen Asset Management, LLC serves as the Fund s sub-adviser and will oversee the day-to-day operations of the Fund.*

You should read this prospectus, which contains important information about the Fund, before deciding whether to invest in MTP Shares and retain it for future reference. A Statement of Additional Information, dated March 24, 2011, and as it may be supplemented, containing additional information about the Fund has been filed with the Securities and Exchange 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 74 of this prospectus, annual and semi-annual reports to shareholders, when available, and other information about the Fund, and make shareholder inquiries by calling (800) 257-8787 or by writing to the Fund, or from the Fund s website (http://www.nuveen.com). The information contained in, or that can be accessed through, the Fund s website is not part of this prospectus. You also may obtain a copy of the Statement of Additional Information (and other information regarding the Fund) from the Securities and Exchange Commission s website (http://www.sec.gov).

MTP Shares 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 in or incorporated by reference to this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. We are offering to sell MTP Shares and seeking offers to buy MTP Shares, only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of MTP Shares.

PROSPECTUS SUMMARY

This is only a summary. You should review the more detailed information contained elsewhere in this prospectus and in the Statement of Additional Information (the SAI), including the Fund s Statement Establishing and Fixing the Rights and Preferences of MuniFund Term Preferred Shares (the Statement), attached as Appendix A to the SAI, prior to making an investment in the Fund, especially the information set forth under the heading Risks. Capitalized terms used but not defined in this prospectus shall have the meanings given to such terms in the Statement.

The Fund

Nuveen California Dividend Advantage Municipal Fund 2 (the Fund) is a diversified, closed-end management investment company. The Fund s Common shares, $0.01 par value, are traded on the NYSE Amex under the symbol NVX. See Description of Outstanding Shares Common Shares. In 2010 the Fund issued 5,500,000 MuniFund Term Preferred Shares, 2.05% Series 2015, with a liquidation preference of $10 per share (the Series 2015 MTP Shares). Unless otherwise indicated or the context requires, in this prospectus, MTP Shares refers only to the Series 2014 MTP Shares offered hereby and does not refer to the Series 2015 MTP Shares currently outstanding. The Fund commenced investment operations on March 27, 2001. As of January 31, 2011, the Fund had 14,746,722 common shares outstanding, 5,500,000 Series 2015 MTP Shares outstanding and 1,598 MuniPreferred shares or auction rate preferred shares (ARPS) outstanding. MTP Shares, as defined below, and any other preferred shares, including Series 2015 MTP Shares and MuniPreferred shares, that may then be outstanding are collectively referred to as Preferred Stock.

The Offering

The Fund is offering 4,080,600 MuniFund Term Preferred Shares, 2.35% Series 2014 (Series 2014 MTP Shares or MTP Shares), at a purchase price of $10 per share. MTP Shares are being offered by the underwriters listed under Underwriters. The Fund has granted the underwriters the right to purchase up to 204,030 additional MTP Shares to cover over-allotments. Unless otherwise specifically stated, the information throughout this prospectus does not take into account the possible issuance to the underwriters of additional MTP Shares pursuant to their right to purchase additional MTP Shares to cover over-allotments. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all of the outstanding MuniPreferred shares, and to maintain the Fund s leveraged capital structure. Certain underwriters and their affiliates, including Morgan Stanley & Co. Incorporated, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., UBS Securities LLC and Wells Fargo Securities, LLC, currently own or are obligated to repurchase in the future outstanding MuniPreferred shares. In addition, customers of certain underwriters and their affiliates currently own outstanding MuniPreferred shares. Upon the successful completion of this offering, these outstanding MuniPreferred shares may be redeemed or purchased by the Fund with the net proceeds of the offering as set forth in Use of Proceeds. Although such a redemption or purchase would be done in accordance with the Investment Company Act of 1940, as amended (the 1940 Act) in a manner that did not favor these underwriters, affiliates or customers, the underwriters or their affiliates may nonetheless be deemed to obtain a material benefit from the offering of the MTP Shares due to such redemption or purchase including, for certain of the underwriters and their affiliates, potentially substantial financial relief and/or relief related to legal and regulatory matters associated with currently illiquid MuniPreferred shares.

The first issuance date of the MTP Shares upon the closing of this offering is referred to herein as the Date of Original Issue. MTP Shares will be senior securities that constitute stock of the Fund and are senior, with priority in all respects, to the Fund s common shares as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares will have equal priority as to payments of dividends and as to distributions of assets upon dissolution, liquidation or winding up of the affairs of the Fund and will be in parity in all respects with Series 2015 MTP Shares and MuniPreferred shares outstanding. The Fund may not issue additional classes of shares that are senior to Preferred Stock as to payments of dividends and as to distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund.

Who May Want to Invest

You should consider your investment goals, time horizons and risk tolerance before investing in MTP Shares. An investment in MTP Shares is not appropriate for all investors and is not intended to be a complete investment program. MTP Shares are designed as a short-term investment to help achieve the after-tax income and capital preservation goals of investors, and not as a trading vehicle. MTP Shares may be an appropriate investment for you if you are seeking:

· Current income exempt from regular federal and California income taxes;

· Consistent monthly dividends;

· Return of your capital investment after a limited term of three years;

· A security that benefits from significant over-collateralization and related protective provisions;

· Municipal market exposure through the Fund (rather than a single municipal issuer) that diversifies credit risk by investing in many securities and various essential-service sectors;

· Potential for daily liquidity and transparency afforded by New York Stock Exchange listing, once the MTP Shares begin trading on such exchange as anticipated; and

· A short-term fixed income investment with potentially less price volatility than longer-dated fixed income securities.

However, keep in mind that you will need to assume the risks associated with an investment in MTP Shares and the Fund. See Risks.

Fixed Dividend Rate

MTP Shares pay a dividend at a fixed rate of 2.35% per annum of the $10 liquidation preference per share (the Fixed Dividend Rate). The Fixed Dividend Rate is subject to adjustment in certain circumstances (but will not in any event be lower than the 2.35% Fixed Dividend Rate). See Description of MTP Shares Dividends and Dividend Periods Fixed Dividend Rate, Adjustments to Fixed Dividend Rate Ratings and Default Period.

Dividend Payments

The holders of MTP Shares will be entitled to receive cumulative cash dividends and distributions on each such share, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment. Dividends on the MTP Shares will be payable monthly. The first dividend period for the MTP Shares will commence on the Date of Original Issue of MTP Shares and end on April 30, 2011 and each subsequent dividend period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares) (each dividend period a Dividend Period). Dividends will be paid on the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December (each payment date a Dividend Payment Date). Except for the first Dividend Period, dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a Business Day, the next preceding Business Day). Dividends with respect to the first Dividend Period of the Series 2014 MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on April 28, 2011. See Description of MTP Shares Dividends and Dividend Periods.

Business Day means any calendar day on which the New York Stock Exchange is open for trading.

On account of the foregoing provisions, only the holders of MTP Shares on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of MTP Shares who sell shares before such a record date and purchasers of MTP Shares who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such MTP Shares.

Term Redemption

The Fund is required to provide for the mandatory redemption of all outstanding Series 2014 MTP Shares on April 1, 2014 at a redemption price equal to $10 per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the redemption date (the Term Redemption Price). No amendment, alteration or repeal of the obligations of the Fund to redeem all of the Series 2014 MTP Shares on April 1, 2014 can be effected without the prior unanimous vote or consent of the holders of Series 2014 MTP Shares. See Description of MTP Shares Redemption.

Mandatory Redemption for Asset Coverage and Effective Leverage Ratio

Asset Coverage. If the Fund fails to have Asset Coverage (as defined below) of at least 225% as of the close of business on any Business Day on which such Asset Coverage is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Asset Coverage Cure Date), the Fund will redeem within 30 calendar days of the Asset Coverage Cure Date shares of Preferred Stock equal to the lesser of (i) the minimum number of shares of Preferred Stock that will result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of monies expected to be legally available; and, at the Fund s sole option, the Fund may redeem a number of shares of Preferred Stock (including shares of Preferred Stock required to be redeemed) that will result in the Fund having Asset Coverage of up to and including 285%. The Preferred Stock to be redeemed may include at the Fund s sole option any number or proportion of MTP Shares. If MTP Shares are to be redeemed in such an event, they will be redeemed at a redemption price equal to their $10 liquidation preference per share plus accumulated but unpaid dividends thereon (whether or not declared, but excluding interest thereon) to (but excluding) the date fixed for such redemption (the Mandatory Redemption Price).

Effective Leverage Ratio. If the Effective Leverage Ratio (as defined below) of the Fund exceeds 50% as of the close of business on any Business Day on which such ratio is required to be calculated and such failure is not cured as of the close of business on the date that is 30 calendar days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within 30 calendar days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio that does not exceed 50% by (A) engaging in transactions involving or relating to the floating rate securities not owned by the Fund and/or the inverse floating rate securities owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming a sufficient number of shares of Preferred Stock, which at the Fund s sole option may include any number or proportion of MTP Shares, in accordance with the terms of such Preferred Stock, or (C) engaging in any combination of the actions contemplated by (A) and (B) above. Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities and Floating Rate Securities.

Optional Redemption

As of April 1, 2012, Series 2014 MTP Shares will be subject to optional redemption (in whole or from time to time, in part) at the sole option of the Fund out of monies legally available therefor, at the redemption price per share equal to the sum of the $10 liquidation preference per share plus (i) an initial premium of 1.00% of the liquidation preference (with such premium declining by 0.5% every six months so that by April 1, 2013 there will cease to be a premium) and (ii) an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for such redemption. See Description of MTP Shares Redemption Optional Redemption. The period from the Date of Original Issue to the date that the MTP Shares are subject to such optional redemption is referred to herein as the Non-Call Period. In addition to the optional redemption described above, the MTP Shares will also be subject to optional redemption on any Business Day during a Rating Downgrade Period with respect to such MTP Shares at the redemption price per share equal to the sum of the $10 liquidation preference per share (without any additional premium) plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared, but excluding interest thereon) to (but excluding) the date fixed for redemption. A Rating Downgrade Period means any period during which the MTP Shares are rated A+ or lower by Standard & Poor s Financial Services, LLC, a subsidiary of The McGraw-Hill Companies, Inc. (S&P), A1 or lower by Moody s Investors Service, Inc. (Moody s) and A+ or lower by Fitch Ratings, Inc. (Fitch). See Description of MTP Shares Redemption.

Federal and California State Income Taxes

Because under normal circumstances the Fund will invest substantially all of its assets in municipal securities that pay interest exempt from regular federal and California income taxes, the dividends reported by the Fund as exempt-interest dividends received by a holder of MTP Shares will be similarly exempt. The dividends received by a holder of MTP Shares may be subject to other state and local taxes. A substantial portion of the income from the Fund s portfolio securities, and in turn the exempt-interest dividends paid to holders of MTP Shares, may be subject to the federal alternative minimum tax, so MTP Shares may not be a suitable investment if you are subject to this tax. Taxable income or gain earned by the Fund will be allocated proportionately to holders of Preferred Stock and common shares, based on the percentage of total Preferred Stock dividends relative to common share dividends.

The Fund has elected to be treated, and intends to continue to qualify each year, as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and generally does not expect to be subject to federal income tax.

Ratings

It is a condition of the underwriters obligation to purchase MTP Shares that MTP Shares will be rated, as of the Date of Original Issue, at certain minimum levels by Rating Agencies (as defined in this prospectus) designated by the Fund s Board of Trustees. There can be no assurance that such ratings will be maintained at the level originally assigned through the term of the MTP Shares. The ratings may be changed, suspended or withdrawn in the Rating Agencies discretion. The Fund, however, will use commercially reasonable efforts to cause at least one Rating Agency (as defined in this prospectus) to publish a credit rating with respect to MTP Shares for so long as MTP Shares are outstanding. The Fixed Dividend Rate will be subject to an increase in the event that the ratings of the MTP Shares by the Rating Agencies are each downgraded below such minimum levels, or if no Rating Agency is then rating the shares. See Description of MTP Shares Dividends and Dividend Periods Adjustment to Fixed Dividend Rate Ratings. The Board of Trustees of the Fund has the right to terminate the designation of any of the Rating Agencies for purposes of the MTP Shares, provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares. In such event, any rating of such terminated Rating Agency, to the extent it would have been taken into account in any of the provisions of the MTP Shares which are described in this prospectus or included in the Statement, will be disregarded, and only the ratings of the then-designated Rating Agencies will be taken into account.

On August 31, 2010 S&P published a Request for Comment concerning its new proposal (the S&P Proposal) to change its methods and assumptions for rating certain market value securities, including those issued by registered closed-end funds such as the MTP Shares to be issued by the Fund. The S&P Proposal defined market value securities as those whose source of repayment is liquidation proceeds generated from open market sales of assets (in the Fund s case, portfolio securities), rather than cash flow generated by assets held to maturity. S&P has requested comments on the S&P Proposal and the comment period ended October 29, 2010. S&P stated that after the comment period expired, it would review the comments and publish updated criteria methodology and assumptions, which would be applicable to all outstanding S&P ratings of market value securities. S&P has not yet published updated criteria methodology and assumptions. The updated criteria, if adopted by S&P, may be the same as proposed or may differ based upon comments received by S&P. Under the current S&P Proposal, when rating market value securities (including MTP Shares) issued by the Fund, S&P would substantially increase the reductions in value, or haircuts, applied to the Fund s portfolio securities compared with its present methodology. Due to these increased haircuts, any market value securities issued by the Fund (including MTP Shares) in the future may be ineligible for a AAA rating from S&P. In addition, any market value securities (including the MTP Shares offered hereby) that had a rating of AAA from S&P prior to the adoption of the proposed criteria may be unable to maintain such rating after the adoption of such criteria, if adopted as proposed. In the event that S&P downgrades the MTP Shares, the Fixed Dividend Rate would not change. However, if each of the other Rating Agencies also downgrades the MTP Shares, the Fixed Dividend Rate would increase. See Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Ratings. Nevertheless, a downgrade by S&P could adversely affect the market pricing and liquidity of the MTP Shares. There can be no assurance that S&P will or will not take any action with respect to the S&P Proposal or that any such action would not result in a downgrade of MTP Shares. Further, there can be no assurance that any other Rating Agency will not also alter its rating criteria resulting in downgrades of ratings, which could further adversely affect the market pricing and liquidity of MTP Shares.

Asset Coverage

If the Fund fails to maintain at least 225% asset coverage as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided above. Asset coverage for Preferred Stock is calculated pursuant to Section 18(h) of the 1940 Act, as in effect on the date of the Statement, and is determined on the basis of values calculated as of a time within 48 hours (only including Business Days) preceding each daily determination (Asset Coverage). See Description of MTP Shares Asset Coverage.

The Fund estimates that on the Date of Original Issue, the Asset Coverage, based on the composition of its portfolio as of November 30, 2010, and after giving effect to (i) the issuance of MTP Shares offered hereby ($40,806,000), and (ii) $855,075 of underwriting discounts and commissions and estimated offering costs for such MTP Shares, and assuming the redemption of $39,950,000 in liquidation preference of MuniPreferred shares, will be 319%. The Fund s net investment income coverage calculated by dividing the Fund s per share net investment income by the per share distributions from net investment income to MuniPreferred shareholders, for all fiscal periods ended February 28, 2010 and prior, and calculated, to reflect the previous issuance of Series 2015 MTP Shares, by dividing the per share net investment income before interest expense and amortization of offering costs related to outstanding Series 2015 MTP Shares by the per share sum of the interest expense and amortization of offering costs related to outstanding Series 2015 MTP Shares and per share distributions from net investment income to MuniPreferred shareholders, for the fiscal period ended November 30, 2010 has averaged approximately 1,142% from March 27, 2001 through November 30, 2010. Net investment income coverage has varied significantly year over year since the Fund s inception, and there is no assurance that historical coverage levels can be maintained.

Effective Leverage Ratio

If the Fund s Effective Leverage Ratio exceeds 50% as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided above.

The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund s senior securities (as that term is defined in the 1940 Act) that are stock, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption and (2) the Fund s outstanding Preferred Stock that is to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund s senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund s valuation procedures) of the Fund s total assets (including amounts attributable to senior securities), less the amount of the Fund s accrued liabilities (other than liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate securities); and (B) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund.

Voting Rights

Except as otherwise provided in the Fund s Declaration of Trust or as otherwise required by law, (i) each holder of MTP Shares shall be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and (ii) the holders of outstanding Preferred Stock and of common shares shall vote together as a single class; provided that holders of Preferred Stock, voting separately as a class, shall elect at least two of the Fund s trustees and will elect a majority of the Fund s trustees to the extent the Fund fails to pay dividends on any Preferred Stock in an amount equal to two full years of dividends on that stock. See Description of MTP Shares Voting Rights.

Liquidation Preference

The liquidation preference of MTP Shares will be $10 per share (the Liquidation Preference). In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MTP Shares will be entitled to receive a liquidation distribution per share equal to the Liquidation Preference plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon). See Description of MTP Shares Liquidation Rights.

Investment Objectives and Policies

The Fund s investment objectives are to provide current income exempt from regular federal and California income tax and to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund s investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued. Under normal circumstances, the Fund invests at least 80% of its Managed Assets (as defined below) in municipal securities and other related investments the income from which is exempt from regular federal and California income taxes. Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one NRSRO or are unrated but judged to be of comparable quality by Nuveen Asset Management, LLC (Nuveen Asset Management). The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer s capacity to pay interest and repay principal, and are commonly referred to as junk bonds. See Risks General Risks of Investing in the Fund Credit and Below Investment Grade Risk. Managed Assets are net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) and any Preferred Stock outstanding. During temporary defensive periods and in order to keep the Fund s cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax-exempt or taxable. A substantial portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. There is no assurance that the Fund will achieve its investment objectives. See The Fund s Investments.

Investment Adviser	Nuveen Fund Advisors, Inc. (Nuveen Fund Advisors) is the Fund s investment adviser, responsible for determining the Fund s overall investment strategy and its implementation. See Management of the Fund Investment Adviser, Sub-Adviser and Portfolio Manager.
Sub-Adviser	Nuveen Asset Management serves as the Fund s sub-adviser and is a wholly-owned subsidiary of Nuveen Fund Advisors. Nuveen Asset Management is a registered investment adviser. Nuveen Asset Management will oversee the day-to-day operations of the Fund.

Nuveen Investments, LLC, a registered broker-dealer affiliate of Nuveen Fund Advisors and Nuveen Asset Management that is involved in the offering of the Fund s MTP Shares, has received notice of certain charges that may be brought against it by the Financial Industry Regulatory Authority (FINRA) in connection with the marketing of MuniPreferred shares. See Underwriters.

Legal Proceedings	Certain Nuveen leveraged closed-end funds (not including the Fund) were named as nominal defendants in putative shareholder derivative action complaints filed in the Circuit Court of Cook County, Illinois, Chancery Division (the Complaints). The Complaints, filed on behalf of purported holders of the funds common shares, also name Nuveen Fund Advisors as a defendant, together with current and former officers and a trustee of each of the funds (together with the nominal defendants, collectively, the Defendants). The Complaints allege that the Defendants breached their fiduciary duties by favoring the interests of holders of each fund s ARPS over those of its common shareholders in connection with each fund s ARPS refinancing and/or redemption activities. See Legal Proceedings.
Listing	Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days after the date of this prospectus, subject to notice of issuance. Prior to the expected commencement of trading on the New York Stock Exchange, the underwriters do not intend to make a market in the MTP Shares. Consequently, it is anticipated that, prior to the commencement of trading on the New York Stock Exchange, an investment in the MTP Shares will be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for the MTP Shares will develop. If a secondary market does develop prior to the commencement of trading on the New York Stock Exchange, holders of MTP Shares may be able to sell such shares only at substantial discounts from their liquidation preference. The trading or ticker symbol is NVX Pr A.
Redemption and Paying Agent	The Fund has entered into an amendment to its Transfer Agency and Service Agreement with State Street Bank and Trust Company, Canton, Massachusetts (the Redemption and Paying Agent) for the

purpose of causing the Fund s transfer agent and registrar to serve as transfer agent and registrar, dividend disbursing agent, and redemption and paying agent with respect to MTP Shares.

Risks

Risk is inherent in all investing. Therefore, before investing in MTP Shares you should consider certain risks carefully. The primary risks of investing in the Fund, and in MTP Shares in particular, are:

Risks of Investing in MTP Shares

· *Interest Rate Risk MTP Shares.* MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to the term redemption date. See also Secondary Market and Delayed Listing Risk.

· *Secondary Market and Delayed Listing Risk.* Because the Fund has limited prior trading history for exchange-listed preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. Moreover, MTP Shares will not be listed on a stock exchange until up to 30 days after the date of this prospectus and during this time period an investment in MTP Shares will be illiquid. Even after the MTP Shares are listed on the New York Stock Exchange as anticipated, there is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

· *Ratings Risk.* The Fund expects that, at issuance, the MTP Shares will be rated at certain minimum levels by Rating Agencies designated by the Fund s Board of Trustees, and that such ratings will be a requirement of issuance of such shares by the underwriters pursuant to an underwriting agreement. There can be no assurance that the MTP Shares will receive any particular rating from any of Moody s, S&P or Fitch (each, a Rating Agency), or that any such ratings will be maintained at the level originally assigned through the term of the MTP Shares. In the event that one or more of the Rating Agencies do not issue a rating on the MTP Shares at all or at the minimum level required, the issuance and sale of MTP Shares in this offering may not be completed. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency s ability to timely react to changes in an issuer s circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices. As described above under Ratings, S&P is currently considering adopting the S&P Proposal, which may result in S&P downgrading the MTP Shares after such proposal becomes effective. In the event that S&P downgrades the MTP Shares, the Fixed Dividend Rate would only increase if each of the other Rating Agencies also downgrades the MTP Shares. Nevertheless, a downgrade by S&P could adversely affect the market pricing and liquidity of the MTP Shares. There can be no assurance that S&P will or will not take any action with respect to the S&P Proposal or that any such action would not result in a downgrade of MTP Shares. Further, there can be no assurance that any other Rating Agency will not also alter its rating criteria resulting in downgrades of ratings, which could further adversely affect the market pricing and liquidity of MTP Shares.

· *Early Redemption Risk.* The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to holders of MTP Shares. The Fund expects to voluntarily redeem MTP Shares before the Term Redemption Date to the extent that market conditions allow the Fund to issue other preferred shares or debt securities at a rate that is lower than the Fixed Dividend Rate on MTP Shares. For further information, see Description of MTP Shares Redemption and Asset Coverage.

· *Tax Risk.* To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund s current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal or California income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal or California income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A substantial portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. In addition, the Fund will treat MTP Shares as stock in the Fund for federal income tax purposes. See Tax Matters, including Tax Matters Federal Income Tax Treatment of Holders of MTP Shares. See also the opinion of counsel included as Appendix C to the SAI.

· *Credit Crisis and Liquidity Risk.* General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund s investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund s distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under Description of MTP Shares). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.

· *Inflation Risk.* Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.

· *Reinvestment Risk MTP Shares.* Given the three-year term and potential for early redemption of MTP Shares, holders of MTP Shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of MTP Shares may be lower than the return previously obtained from an investment in MTP Shares.

General Risks of Investing in the Fund

· *Credit and Below Investment Grade Risk.* Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% (measured at the time of investment) of its Managed Assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer s capacity to pay interest and repay principal when due, and are more susceptible to default or decline in market value due to adverse economic and business developments than investment grade municipal securities. Also, to the extent that the rating assigned to a municipal security in the Fund s portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund, compared with a portfolio consisting solely of investment grade securities, may experience the following:

- increased price sensitivity resulting from a deteriorating economic environment and changing interest rates;
- greater risk of loss due to default or declining credit quality;
- adverse issuer specific events that are more likely to render the issuer unable to make interest and/or principal payments; and
- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

· *Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund s portfolio is generally less than that for corporate equities or bonds, and the Fund s investment performance may therefore be more dependent on Nuveen Asset Management s analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above, the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them.

- *Concentration in California Issuers.* The Fund s policy of investing primarily in municipal obligations of issuers located in California makes the Fund more susceptible to adverse economic, political or regulatory occurrences affecting such issuers.

- *Risks Specific to California.* California (the State) appears to be slowly recovering from the most significant economic downturn in its history since the Great Depression of the 1930s. Since the beginning of 2009, the State s economy has grown slowly. The recent recession brought a broad decline in economic activity and rise in unemployment across many sectors of the California economy, resulting in a State unemployment rate of 12.4% as of January 2011, which is among the highest in the nation. Along with the rest of the nation, California could face high rates of unemployment for an extended period of time.

In the recession and its aftermath, State tax revenues declined precipitously, resulting in large budget gaps and cash shortfalls. The State Legislature and former Governor Schwarzenegger adopted three major budget plans to close an estimated $60 billion budget gap over the combined 2008-09 and 2009-10 fiscal years, in less than 11 months, in response to continuing deterioration in the State s fiscal condition. After a 100-day impasse from the start of the 2010-11 fiscal year, the State Legislature enacted and former Governor Schwarzenegger signed a State budget for the 2010-11 fiscal year on October 8, 2010 that closed an estimated $19.3 billion budget gap. Governor Brown was sworn into office on January 3, 2011, and faced an estimated budget deficit of $25.4 billion through fiscal year 2011-12, comprised of a 2010-11 shortfall of $8.2 billion and a 2011-12 budget year shortfall of $17.2 billion. On January 10, 2011, Governor Brown delivered his 2011-12 proposed budget. The Governor s budget proposes $12.5 billion in spending reductions, $12 billion in revenue extensions and modifications, $1.9 billion in other solutions and provides for a $1 billion reserve. Significant among the proposals is extending 2009 tax increases upon voter approval to be sought in June 2011. On March 17 and 18, 2011, the State Legislature enacted various budget cuts and balancing measures that totaled $14.0 billion towards closing the budget deficit for fiscal year 2011-12. The State Legislature, however, as of March 18, 2011, has yet to take up the Governor s proposal to place the extension of the 2009 temporary tax increases for another five years in a special statewide election for State voters to decide. The five year extension of the 2009 temporary tax increases that would be dependent on voter approval is expected to provide an additional $11.4 billion towards closing the budget shortfall. There is no guarantee that State voters will approve tax increases that the State Legislature may put to vote in a statewide special election.

Because the California state constitution requires a majority vote by the State Legislature for the passage of any budget proposal and a two-thirds majority vote for tax increase, legislative agreement to future budget resolutions during these weak economic conditions will likely continue to involve difficult and protracted political negotiations. There can be no assurances that the fiscal stress and cash pressures currently facing the State will not continue or become more difficult, or that continuing declines in State tax receipts or other consequences of the current economic situation will not further materially adversely affect the financial condition of the State.

The credit ratings on California s general obligation bonds are among the lowest of any state in the country because of the State s fiscal difficulties. As of February 2011, S&P, Moody s and Fitch rated the State s general obligation bonds with credit ratings of A-, A1 and A-, respectively. See Risks General Risks of Investing in the Fund Concentration Risk and Appendix A of this prospectus (Factors Affecting Municipal Securities in California).

· *Interest Rate Risk The Fund.* Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund s portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.

· *Inverse Floating Rate Securities Risk.* The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal. In addition, inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund s investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Fund Advisors s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of the trust, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate securities. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

The Fund s investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund s inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short- term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the gearing). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund s anticipated effective leverage ratio.

The economic effect of leverage through the Fund s purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibly that the Fund s long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the common shares may be greater for the Fund to the extent that it relies on inverse floating rate securities to achieve a significant portion of its desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;

If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and

If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

- *Insurance Risk.* The Fund may purchase municipal securities that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of the companies that provide such credit enhancements will affect the value of those securities. Many significant providers of insurance for municipal securities have recently incurred significant losses and as a result, such losses have reduced the insurers capital and called into question their continued ability to perform their obligations under such insurance if they are called to do so in the future. Assuming that the insurer remains creditworthy, the insurance feature of a municipal security guarantees the full payment of principal and interest when due through the life of an insured obligation. Such insurance does not guarantee the market value of the insured obligation or the value of the Fund s common shares. See Risks General Risks of Investing in the Fund Insurance Risk.

- *Reinvestment Risk the Fund.* With respect to the Fund, reinvestment risk is the risk that income from the Fund s portfolio will decline if and when the Fund invests the proceeds from matured, traded or called bonds at market interest rates that are below the Fund s portfolio s current earnings rate.

- *Anti-Takeover Provisions.* The Fund s 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 convert the Fund to open-end status. See Certain Provisions in the Declaration of Trust and By-Laws.

For additional risks of investing in MTP Shares and general risks of the Fund, see Risks.

Governing Law

The Declaration of Trust and the Statement are governed by the laws of the Commonwealth of Massachusetts.

FINANCIAL HIGHLIGHTS

The following Financial Highlights table is intended to help a prospective investor understand the Fund s financial performance for the periods shown. Certain information reflects financial results for a single common share or share of Preferred Stock of the Fund. The total returns in the table represent the rate an investor would have earned or lost on an investment in common shares of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal year ended February 28, 2010 has been audited by Ernst & Young LLP, whose report for the fiscal year ended February 28, 2010, along with the financial statements of the Fund including the Financial Highlights for each of the periods indicated therein, are included in the Fund s 2010 Annual Report. The information with respect to the six months ended August 31, 2010 is unaudited and is included in the Fund s 2010 Semi-Annual Report. Results of the interim period are not necessarily indicative of the results of the full year. Copies of the Annual Report and Semi-Annual Report may be obtained from www.sec.gov or by visiting www.nuveen.com. The information contained in, or that can be accessed through, the Fund s website is not part of this prospectus. Past results are not indicative of future performance.

The following per share data and ratios have been derived from information provided in the financial statements.

FINANCIAL HIGHLIGHTS

Information contained in the table below under the headings Per Share Operating Performance and Ratios/Supplemental Data shows the operating performance of the Fund since the commencement of operations.

Selected data for a Common share outstanding throughout each period:

	Year Ended February 28,			Year Ended August 31,
	2011(d)	**2010**	**2009(b)**	**2008**
PER SHARE OPERATING PERFORMANCE				
Beginning Common Share Net Asset Value	$ 14.49	$ 12.91	$ 14.39	$ 14.69
Investment Operations:				
Net Investment Income	0.53	1.07	0.51	1.01
Net Realized/Unrealized Gain (Loss)	0.55	1.43	(1.47)	(0.37)
Distributions from Net Investment Income to MuniPreferred Shareholders	(0.01)	(0.04)	(0.11)	(0.25)
Distributions from Capital Gains to MuniPreferred Shareholders	0.00	0.00	(0.01)	0.00
Total	1.07	2.46	(1.08)	0.39
Less Distributions:				
Net Investment Income to Common Shareholders	(0.48)	(0.88)	(0.36)	(0.69)
Capital Gains to Common Shareholders	0.00	0.00	(0.04)	0.00
Total	(0.48)	(0.88)	(0.40)	(0.69)
Offering Costs and MuniPreferred Share Underwriting Discounts	0.00	0.00	0.00	0.00
Discount from Common Shares Repurchased and Retired	0.00	0.00****	0.00****	0.00
Ending Common Share Net Asset Value	$ 15.08	$ 14.49	$ 12.91	$ 14.39
Ending Market Value	$ 14.83	$ 13.56	$ 10.51	$ 12.67
Total Returns:				
Based on Market Value*	13.10%	38.29%	(13.83)%	(2.80)%
Based on Common Share Net Asset Value*	7.51%	19.52%	(7.40)%	2.76%
Ratios/Supplemental Data				
Ending Net Assets Applicable to Common Shares (000)	$ 222,421	$ 213,687	$ 190,824	$ 212,890
Ratios to Average Net Assets Applicable to Common Shares Before Reimbursement :				
Expenses Including Interest(a)	1.14%***	1.20%	1.37%***	1.25%
Expenses Excluding Interest	1.11%***	1.16%	1.32%***	1.16%
Net Investment Income	7.11%***	7.58%	7.85%***	6.56%
Ratios to Average Net Assets Applicable to Common Shares After Reimbursement **:				
Expenses Including Interest(a)	1.06%***	1.04%	1.14%***	0.99%
Expenses Excluding Interest	1.02%***	1.01%	1.09%***	0.90%
Net Investment Income	7.19%***	7.74%	8.08%***	6.83%
Portfolio Turnover Rate	3%	4%	7%	20%

MuniPreferred Shares at End of Period:				
Aggregate Amount Outstanding (000)	$ 93,775	$ 93,775	$ 110,000	$ 110,000
Liquidation and Market Value Per Share	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Asset Coverage Per Share	$ 84,297	$ 81,968	$ 68,369	$ 73,384

* Total Return Based on Market Value is the combination of changes in the market price per share and the effect of reinvested dividend income and reinvested capital gains distributions, if any, at the average price paid per share at the time of reinvestment. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending market price. The actual reinvestment price for the last dividend declared in the period may take place over several days, and in some instances may not be based on the market price, so the actual reinvestment price may be different from the price used in the calculation. Total returns are not annualized.

Total Return Based on Common Share Net Asset Value is the combination of changes in Common share net asset value, reinvested dividend income at net asset value and reinvested capital gains distributions at net asset value, if any. The last dividend declared in the period, which is typically paid on the first business day of the following month, is assumed to be reinvested at the ending net asset value. The actual reinvestment for the last dividend declared in the period may often be based on the Fund's market price (and not its net asset value), and therefore may be different from the price used in the calculation. Total returns are not annualized.

Year Ended August 31,

2007	2006	2005	2004	2003	2002	2001(c)
$ 15.36	$ 15.63	$ 14.97	$ 14.18	$ 14.79	$ 15.11	$ 14.33
0.96	0.97	0.98	0.99	1.00	1.06	0.34
(0.62)	(0.19)	0.71	0.77	(0.62)	(0.40)	0.90
(0.25)	(0.21)	(0.12)	(0.06)	(0.07)	(0.11)	(0.05)
0.00	0.00	0.00	0.00	0.00	0.00	0.00
0.09	0.57	1.57	1.70	0.31	0.55	1.19
(0.76)	(0.84)	(0.91)	(0.91)	(0.89)	(0.87)	(0.29)
0.00	0.00	0.00	0.00	(0.03)	0.00	0.00
(0.76)	(0.84)	(0.91)	(0.91)	(0.92)	(0.87)	(0.29)
0.00	0.00	0.00	0.00	0.00	0.00	(0.12)
0.00	0.00	0.00	0.00	0.00	0.00	0.00
$ 14.69	$ 15.36	$ 15.63	$ 14.97	$ 14.18	$ 14.79	$ 15.11
$ 13.73	$ 14.95	$ 15.19	$ 14.08	$ 13.24	$ 14.28	$ 15.21
(3.39)%	4.19%	14.98%	13.60%	(0.95)%	(0.27)%	3.40%
0.46%	3.82%	10.80%	12.11%	2.16%	3.90%	7.55%
$ 217,332	$ 227,160	$ 231,140	$ 221,395	$ 209,722	$ 218,814	$ 223,440
1.25%	1.16%	1.16%	1.18%	1.18%	1.19%	1.05%***
1.17%	1.16%	1.16%	1.18%	1.18%	1.19%	1.05%***
5.97%	5.94%	5.94%	6.24%	6.30%	6.82%	5.23%***
0.91%	0.74%	0.71%	0.72%	0.73%	0.73%	0.62%***
0.83%	0.74%	0.71%	0.72%	0.73%	0.73%	0.62%***
6.31%	6.35%	6.39%	6.70%	6.75%	7.28%	5.65%***
21%	9%	3%	13%	40%	32%	40%
$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 110,000	$ 110,000
$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
$ 74,394	$ 76,627	$ 77,532	$ 75,317	$ 72,664	$ 74,731	$ 75,782

** After expense reimbursement from the Adviser, where applicable. Ratios do not reflect the reduction of custodian fee credits earned on the Fund s net cash on deposit with the custodian bank, where applicable.

*** Annualized.

**** Rounds to less than $0.01 per share.

The amounts shown are based on Common share equivalents.

Ratios do not reflect the effect of dividend payments to MuniPreferred shareholders; Net Investment Income ratios reflect income earned and expenses incurred on assets attributable to MuniPreferred shares and/or MuniFund Term Preferred shares, where applicable.

(a) The expense ratios reflect, among other things, the interest expense deemed to have been paid by the Fund on the floating rate certificates issued by the special purpose trusts for the self-deposited inverse floaters held by the Fund, as described in Footnote 1 General Information and Significant Accounting Policies, MuniFund Term Preferred Shares and Inverse Floating Rate Securities, respectively, in the most recent shareholder report.

(b) For the six months ended February 28, 2009.
(c) For the period March 27, 2001 (commencement of operations) through August 31, 2001.
(d) For the six months ended August 31, 2010. (Unaudited.)

THE FUND

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Massachusetts business trust on June 1, 1999 pursuant to a Declaration of Trust governed by the laws of the Commonwealth of Massachusetts (the Declaration of Trust). The Fund s common shares are listed on the NYSE Amex under the symbol NVX and its Series 2015 MTP Shares are listed on the New York Stock Exchange under the symbol NVX Pr C. The Fund s principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The table below provides information on MuniPreferred shares and Series 2015 MTP Shares (as of November 30, 2010 only) since 2001.

As of	Amount Outstanding Exclusive of Treasury Securities	Asset Coverage Per Share*	Involuntary Liquidation Preference Per Share	Asset Coverage Ratio**
August 31, 2001	4,400	$ 75,782	$ 25,000	303%
August 31, 2002	4,400	$ 74,731	$ 25,000	299%
August 31, 2003	4,400	$ 72,664	$ 25,000	291%
August 31, 2004	4,400	$ 75,317	$ 25,000	301%
August 31, 2005	4,400	$ 77,532	$ 25,000	310%
August 31, 2006	4,400	$ 76,627	$ 25,000	307%
August 31, 2007	4,400	$ 74,394	$ 25,000	298%
August 31, 2008	4,400	$ 73,384	$ 25,000	294%
February 28, 2009	4,400	$ 68,369	$ 25,000	273%
February 28, 2010	3,751	$ 81,968	$ 25,000	328%
November 30, 2010				
MuniPreferred	1,598	$ 80,161	$ 25,000	321%
Series 2015 MTP	5,500,000	$ 32.06	$ 10	321%

* Calculated by dividing net assets (including net assets attributable to preferred shares) at period end by the liquidation value of preferred shares outstanding at period end and multiplied by the Involuntary Liquidation Preference Per Share.

** Calculated by dividing Asset Coverage Per Share by Involuntary Liquidation Preference Per Share.

The following provides information about the Fund s outstanding shares as of January 31, 2011.

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding
Common	unlimited		14,746,722
MuniPreferred	unlimited		
Series M	10,000		799
Series F	10,000		799
MTP	unlimited		
Series 2015	5,750,000		5,500,000
Series 2014			

USE OF PROCEEDS

The net proceeds of the offering will be approximately $39,950,925 or $41,965,721 if the underwriters exercise the overallotment option in full, after payment of the underwriting discounts and commissions and estimated offering costs. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all of the Fund s outstanding MuniPreferred shares, and to maintain the Fund s leveraged capital structure. Any net proceeds from the sale of MTP Shares that remain after giving effect to the contemplated refinancing and redemption of all of the Fund s outstanding MuniPreferred shares will be invested in accordance with the Fund s investment objectives and policies. In addition, to the extent the underwriters purchase additional shares to cover over-allotments, the proceeds to the Fund from such additional purchase will be invested in accordance with the Fund s investment objectives and policies or, in the event that only a portion of the Fund s outstanding MuniPeferred shares are to be redeemed, will be used to redeem additional MuniPreferred shares. Such redemption of the MuniPreferred shares is expected to occur within four weeks of the closing of the offering.

With respect to any net proceeds from the sale of MTP Shares resulting from an exercise of the underwriters overallotment option, the Fund may invest in short-term, high quality instruments on a temporary basis. In this event, the Fund expects that such net proceeds would be invested in accordance with the Fund s investment objectives and policies within eight weeks of the closing of such overallotment option exercise.

CAPITALIZATION

The following table sets forth the capitalization of the Fund as of November 30, 2010, and as adjusted to give effect to (i) the issuance of all MTP Shares offered hereby (assuming that the underwriters overallotment option is not exercised) and (ii) the redemption of all outstanding MuniPreferred shares with the proceeds of the issuance of MTP Shares. Fewer than all of the Fund s outstanding MuniPreferred shares may be redeemed. The as adjusted information is illustrative only.

	Actual November 30, 2010 (Unaudited)	As Adjusted November 30, 2010 (Unaudited)
MuniPreferred shares, $25,000 stated value per share, at liquidation value; unlimited shares authorized (1,598 shares outstanding and no shares outstanding, as adjusted, respectively)**	$ 39,950,000	$
MTP Shares*, $10 stated value per share, at liquidation value; unlimited shares authorized; (5,500,000 shares outstanding and 9,580,600 shares outstanding, as adjusted, respectively)**	$ 55,000,000	$ 95,806,000
COMMON SHAREHOLDERS EQUITY:		
Common shares, $.01 par value per share; unlimited shares authorized, 14,746,722 shares outstanding**	$ 147,467	$ 147,467
Paid-in surplus***	209,634,309	209,634,309
Undistributed net investment income	3,911,471	3,911,471
Accumulated net realized gain (loss)	(2,339,375)	(2,339,375)
Net unrealized appreciation (depreciation)	(1,853,182)	(1,853,182)
Net assets applicable to Common shares	$ 209,500,690	$ 209,500,690

* As Adjusted includes both Series 2015 and Series 2014 MTP Shares.

** None of these outstanding shares are held by or for the account of the Fund.

*** Assumes a total of $855,075 of underwriting discounts and commissions and other estimated offering costs of the Series 2014 MTP Shares issuance will be capitalized and amortized over the life of the Series 2014 MTP Shares.

SUPPLEMENTAL PORTFOLIO INFORMATION

Set forth below are selected historical data (unaudited) relating to the Fund and its portfolio holdings at each period noted.

	November 30, 2010	February 28, 2010	February 28, 2009	August 31, 2008
OPERATING PERFORMANCE RATIOS				
Asset Coverage(a)	321%	328%	273%	294%
Net Investment Income Coverage(b)	2,633%	2,675%	464%	404%
Structural Leverage(c)	31%	30%	37%	34%
Effective Leverage(d)	39%	39%	41%	39%

(a) Based on 1940 Act requirements that are described in this prospectus under the heading Description of MTP Shares Restrictions on Dividend, Redemption and Other Payments.
(b) Calculated by dividing Net Investment Income by Distributions from Net Investment Income to MuniPreferred Shareholders for periods ended prior to November 30, 2010. For the period ended November 30, 2010, the ratio is calculated using the per share net investment income before interest expense and amortization of offering costs related to the outstanding Series 2015 MTP shares divided by the per share sum of the interest expense and amortization of offering costs related to outstanding Series 2015 MTP shares and Distributions from Net Investment Income to MuniPreferred Shareholders.
(c) Based on the inverse of the Asset Coverage Ratio (meaning the ratio of the Fund s total debt, if any, and the involuntary liquidation preference of Preferred Stock to the Fund s total assets less liabilities and indebtedness not represented by senior securities).
(d) Effective Leverage Ratio is previously defined in the prospectus summary under the heading Effective Leverage Ratio.

	November 30, 2010	February 28, 2010	February 28, 2009	August 31, 2008
PORTFOLIO DATA				
Total Managed Assets (000s)(a)	$ 304,451	$ 307,462	$ 300,824	$ 322,890
Number of Issuers(b)	86	86	84	83
Number of Issuers in Default	2			
Average Issuer Holding (000s)(c)	$ 3,639	$ 3,630	$ 3,580	$ 3,871
Top 10 Issuers (as % of Total Investments)	38.25%	39.06%	43.33%	41.97%
Average Effective Maturity on Securities (years)	15.12	14.68	14.24	15.31
Average Duration (years)	7.59	7.07	7.64	7.64
AMT Bonds (as % of Total Investments)	10.22%	9.24%	10.28%	10.39%
Inverse Floaters (as % of Total Investments)(d)	5.90%	6.60%	3.86%	3.12%

(a) Net assets applicable to common shares plus Preferred Stock at liquidation value.
(b) Issuer is defined as the legal entity or obligor that develops, registers and sells municipal securities for the purpose of financing its operations.
(c) Calculated by dividing the market value of the municipal securities in the Fund s portfolio by the number of issuers.
(d) Inverse floating rate securities (sometimes referred to as inverse floaters) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities.

	November 30, 2010	February 28, 2010	February 28, 2009	August 31, 2008
CREDIT QUALITY (AS % OF TOTAL MUNICIPAL BONDS)(a),(b)				
AAA/U.S. Guaranteed	27%	34%	39%	40%
AA	29%	20%	29%	29%
A	19%	23%	14%	15%
BBB	17%	13%	11%	9%
BB or lower	%	2%	1%	1%
N/R	8%	8%	6%	6%

	100%	100%	100%	100%

(a) The percentages shown in the table above may reflect the ratings on certain bonds whose insurer has experienced downgrades.
(b) Under normal market conditions, the Fund will invest its net assets in a portfolio of municipal securities that are exempt from regular federal and California income taxes.

PORTFOLIO COMPOSITION (AS % OF TOTAL INVESTMENTS)	November 30, 2010	February 28, 2010	February 28, 2009	August 31, 2008
Consumer Staples	4.9%	5.1%	3.9%	4.9%
Education and Civic Organizations	5.3%	5.4%	5.5%	8.6%
Health Care	16.3%	13.6%	9.8%	11.1%
Housing/Multifamily	4.0%	3.6%	3.3%	3.5%
Housing/Single Family	1.8%	1.0%	0.9%	0.5%
Industrials	0.6%	1.1%	1.0%	1.1%
Long-Term Care	1.6%	1.4%	1.4%	1.6%
Tax Obligation/General	9.4%	7.3%	9.0%	6.6%
Tax Obligation/Limited	10.8%	12.4%	15.3%	15.2%
Transportation	8.6%	7.8%	7.6%	7.2%
U.S. Guaranteed	23.2%	27.6%	31.0%	28.7%
Utilities	6.2%	6.3%	4.8%	4.8%
Water and Sewer	7.3%	7.4%	6.5%	6.2%
	100.0%	100.0%	100.0%	100.0%

DESCRIPTION OF MTP SHARES

The following is a brief description of the terms of MTP Shares, including specific terms of Series 2014 MTP Shares. This is not a complete description and is subject to and entirely qualified by reference to the Fund s Declaration of Trust and the Statement. These documents are filed with the Securities and Exchange Commission as exhibits to the Fund s registration statement of which this prospectus is a part and the Statement also is attached as Appendix A to the SAI. Copies may be obtained as described under Available Information. Many of the terms in this section have a special meaning. Any capitalized terms in this section that are not defined have the meaning assigned to them in the Statement.

General

At the time of issuance the MTP Shares will be fully paid and non-assessable and have no preemptive, conversion, or exchange rights or rights to cumulative voting. MTP Shares will rank equally with shares of all other Preferred Stock of the Fund including outstanding Series 2015 MTP Shares and MuniPreferred shares, if any, and with any other series of preferred shares of the Fund that might be issued in the future, as to payment of dividends and the distribution of the Fund s assets upon dissolution, liquidation or winding up of the affairs of the Fund. MTP Shares and all other Preferred Stock of the Fund are senior as to dividends and distributions to the Fund s common shares. The Fund may issue additional series of Preferred Stock in the future that will be classified as MuniFund Term Preferred Shares, and any such series, together with the Series 2015 MTP Shares and MTP Shares, are herein collectively referred to as MuniFund Term Preferred Shares.

Except in certain limited circumstances, holders of MTP Shares will not receive certificates representing their ownership interest in such shares, and the MTP Shares will be represented by a global certificate to be held by the Securities Depository for the MTP Shares. The Depository Trust Company will initially act as Securities Depository with respect to the MTP Shares.

Dividends and Dividend Periods

General. The following is a general description of dividends and dividend periods. The holders of MTP Shares will be entitled to receive cumulative cash dividends and distributions on such shares, when, as and if declared by, or under authority granted by, the Board of Trustees, out of funds legally available for payment and in preference to dividends and distributions on common shares of the Fund, calculated separately for each

Dividend Period for such MTP Shares at the Dividend Rate for such MTP Shares in effect during such Dividend Period, on an amount equal to the Liquidation Preference for such MTP Shares. The Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends so declared and payable will be paid to the extent permitted under state law and the Declaration of Trust, and to the extent available, in preference to and priority over any dividend declared and payable on the common shares.

Fixed Dividend Rate. The Fixed Dividend Rate is an annual rate of 2.35% for Series 2014 MTP Shares. The Fixed Dividend Rate for MTP Shares may be adjusted in certain circumstances, including a change in the credit rating of such MTP Shares and/or upon the occurrence of certain events resulting in a Default Period (as defined below) (the Fixed Dividend Rate as it may be adjusted is referred to as the Dividend Rate).

Payment of Dividends and Dividend Periods. Dividends on the MTP Shares will be payable monthly. The first Dividend Period for the MTP Shares will commence on the Date of Original Issue of MTP Shares and end on April 30, 2011 and each subsequent Dividend Period will be a calendar month (or the portion thereof occurring prior to the redemption of such MTP Shares). Dividends will be paid on the Dividend Payment Date the first Business Day of the month next following a Dividend Period and upon redemption of the MTP Shares, except that dividends paid with respect to any Dividend Period consisting of the month of December in any year will be paid on the last Business Day of December. Except for the first Dividend Period, dividends with respect to any monthly Dividend Period will be declared and paid to holders of record of MTP Shares as their names shall appear on the registration books of the Fund at the close of business on the 15th day of such monthly Dividend Period (or if such day is not a Business Day, the next preceding Business Day). Dividends with respect to the first Dividend Period of the Series 2014 MTP Shares will be declared and paid to holders of record of such MTP Shares as their names appear on the registration books of the Fund at the close of business on April 28, 2011. Dividends payable on any MTP Shares for any period of less than a full monthly Dividend Period, including in connection with the first Dividend Period for such shares or upon any redemption of such shares on any redemption date other than on a Dividend Payment Date, will be computed on the basis of a 360-day year consisting of twelve 30-day months and the actual number of days elapsed for any period of less than one month.

On account of the foregoing provisions, only the holders of MTP Shares on the record date for a Dividend Period will be entitled to receive dividends and distributions payable with respect to such Dividend Period, and holders of MTP Shares who sell shares before such a record date and purchasers of MTP Shares who purchase shares after such a record date should take the effect of the foregoing provisions into account in evaluating the price to be received or paid for such MTP Shares.

Adjustment to Fixed Dividend Rate Ratings. If the highest credit rating assigned on any date to outstanding MTP Shares by any of Moody s, S&P or Fitch is equal to one of the ratings set forth in the table below, the Dividend Rate applicable to such outstanding MTP Shares for such date will be computed or adjusted by multiplying the Fixed Dividend Rate by the applicable percentage (expressed as a decimal) set forth opposite the applicable highest credit rating so assigned on such date to such outstanding MTP Shares by any such Rating Agency as set forth in the table below.

Dividend Rate Adjustment Schedule

S&P	Moody s	Fitch	Applicable Percentage
AAA	Aaa	AAA	100%
AA+ to AA-	Aa1 to Aa3	AA+ to AA-	110%
A+ to A-	A1 to A3	A+ to A-	125%
BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-	150%
BB+ and lower	Ba1 and lower	BB+ and lower	200%

If no Rating Agency is rating outstanding MTP Shares, the Dividend Rate applicable to the MTP Shares for such date shall be adjusted by multiplying the Fixed Dividend Rate for such shares by 200%.

The Board of Trustees of the Fund has the right to terminate the designation of any of S&P, Moody s and Fitch as a Rating Agency for purposes of the MTP Shares, provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares. In such event, any rating of such terminated Rating Agency, to the extent it would have been taken into account in any of the provisions of the MTP Shares which are described in this prospectus or included in the Statement, will be disregarded, and only the ratings of the then-designated Rating Agencies will be taken into account. If a Rating Agency replaces any credit rating used in the determination of the Dividend Rate with a replacement credit rating, references to the replaced credit rating shall thereafter refer to the replacement credit rating. No adjustment to the Dividend Rate shall result in the Dividend Rate being less than the Fixed Dividend Rate.

Adjustment to Fixed Dividend Rate Default Period. The Dividend Rate will be adjusted to the Default Rate in the following circumstances. Subject to the cure provisions below, a Default Period with respect to MTP Shares will commence on a date the Fund fails to deposit with the Redemption and Paying Agent by 12:00 noon, New York City time, on the (i) applicable Dividend Payment Date, Deposit Securities sufficient to pay the full amount of any dividend on MTP Shares payable on such Dividend Payment Date (a Dividend Default) or (ii) applicable Redemption Date (as defined below), Deposit Securities sufficient to pay the full amount of the redemption price payable on such Redemption Date (a Redemption Default and, together with a Dividend Default, referred to as a Default). Subject to the cure provisions in the next paragraph below, a Default Period with respect to a Dividend Default or a Redemption Default shall end on the Business Day on which, by 12:00 noon, New York City time, an amount equal to all unpaid dividends and any unpaid redemption price shall have been deposited irrevocably in trust in same-day funds with the Redemption and Paying Agent. In the case of a Default, the applicable dividend rate for each day during the Default Period will be equal to the Default Rate. The Default Rate for any calendar day shall be equal to the applicable Dividend Rate in effect on such day plus five percent (5%) per annum.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any redemption price due (if such default is not solely due to the willful failure of the Fund) is deposited irrevocably in trust, in same-day funds with the Redemption and Paying Agent by 12:00 noon, New York City time, on a Business Day that is not later than three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount and period of such non-payment based on the actual number of calendar days comprising such period divided by 360.

Mechanics of Payment of Dividends. Not later than 12:00 noon, New York City time, on a Dividend Payment Date, the Fund is required to deposit with the Redemption and Paying Agent sufficient funds for the payment of dividends in the form of Deposit Securities. Deposit Securities will generally consist of (i) cash or cash equivalents; (ii) direct obligations of the United States or its agencies or instrumentalities that are entitled to the full faith and credit of the United States (U.S. Government Obligations); (iii) securities that constitute municipal securities as described in this prospectus, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of income that is exempt from federal income taxes (Municipal Obligations) that have credit ratings from at least one NRSRO that is the highest applicable rating generally ascribed by such NRSRO to Municipal Obligations with substantially similar terms; (iv) investments in money market funds registered under the 1940 Act that qualify under Rule 2a-7 under the 1940 Act and certain similar investment vehicles that invest in Municipal Obligations, U.S. Government Obligations or any combination thereof; or (v) any letter of credit from a bank or other financial institution that has a credit rating from at least one NRSRO that is the highest applicable rating generally ascribed by such NRSRO to bank deposits or short-term debt of similar banks or other financial institutions, in each case either that is a demand obligation payable to the holder on any Business Day or that has a maturity date, mandatory redemption date or mandatory payment date, preceding the relevant Redemption Date, Dividend Payment Date or other payment date. The Fund does not intend to establish any reserves for the payment of dividends.

All Deposit Securities paid to the Redemption and Payment Agent for the payment of dividends will be held in trust for the payment of such dividends to the holders of MTP Shares. Dividends will be paid by the Redemption and Payment Agent to the holders of MTP Shares as their names appear on the registration books of the Fund. Dividends that are in arrears for any past Dividend Period may be declared and paid at any time, without reference to any regular Dividend Payment Date. Such payments are made to holders of MTP Shares as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date thereof, as may be fixed by the Board of Trustees. Any payment of dividends in arrears will first be credited against the earliest accumulated but unpaid dividends. No interest or sum of money in lieu of interest will be payable in respect of any dividend payment or payments on any MTP Shares which may be in arrears. See Adjustment to Fixed Dividend Rate Default Period.

Upon failure to pay dividends for at least two years, the holders of MTP Shares will acquire certain additional voting rights. See Voting Rights below. Such rights shall be the exclusive remedy of the holders of MTP Shares upon any failure to pay dividends on MTP Shares.

Distributions with respect to Taxable Allocations.

Holders of MTP Shares will be entitled to receive, when, as and if declared by the Board of Trustees, out of funds legally available therefor, additional distributions payable with respect to Taxable Allocations (as defined below) that are paid with respect to such shares in accordance with one of the procedures described in the following three paragraphs as set forth below.

Each year, the Fund will allocate exempt interest dividends, ordinary income dividends, and capital gain distributions, between its common shares and Preferred Stock, including MTP Shares, in proportion to the total dividends paid to each class during or with respect to such year. See Tax Matters Federal Income Tax Treatment of Holders of MTP Shares. The Fund may provide notice to the Redemption and Paying Agent prior to the commencement of any Dividend Period for MTP Shares of the amount of a Taxable Allocation that will be made in respect of such MTP Shares for such Dividend Period (a Notice of Taxable Allocation). Such Notice of Taxable Allocation will state the amount of the dividends payable in respect of MTP Shares for such Dividend Period that will be treated as a Taxable Allocation and the amount of any Additional Amount Payments (as defined below) to be paid in respect of such Taxable Allocation. If the Fund provides a Notice of Taxable Allocation with respect to dividends payable on MTP Shares for a Dividend Period, the Fund will, in addition to and in conjunction with the payment of such dividends payable, make a supplemental distribution in respect of each MTP Share for such Dividend Period of an additional amount equal to the Additional Amount Payment payable in respect of the Taxable Allocation paid on such MTP Share for such Dividend Period. In general, the Fund intends to provide Notices of Taxable Allocations as contemplated by this paragraph.

If the Fund does not provide a Notice of Taxable Allocation as provided above with respect to a Taxable Allocation that is made in respect of MTP Shares, the Fund may make one or more supplemental distributions on such MTP Shares equal to the amount of such Taxable Allocation. Any such supplemental distribution in respect of such shares may be declared and paid on any date, without reference to any regular Dividend Payment Date, to the holders of such MTP Shares as their names appear on the registration books of the Fund on such date, not exceeding 15 calendar days preceding the payment date of such supplemental distribution, as may be fixed by the Board of Trustees.

If in connection with a redemption of MTP Shares, the Fund makes a Taxable Allocation without having either given advance notice thereof or made one or more supplemental distributions as described above, the Fund will direct the Redemption and Paying Agent to send an Additional Amount Payment in respect of such Taxable Allocation to each holder of such shares at such holder s address as the same appears or last appeared on the record books of the Fund.

The Fund will not be required to pay Additional Amount Payments with respect to any MTP Shares with respect to any net capital gains or other taxable income determined by the Internal Revenue Service to be allocable in a manner different from the manner used by the Fund.

The term Taxable Allocation as used above means, with respect to MTP Shares, the allocation of any net capital gains or other income taxable for federal income tax purposes to a dividend paid in respect of such shares. The term Additional Amount Payment means a payment to a holder of MTP Shares of an amount which, when taken together with the aggregate amount of Taxable Allocations made to such holder to which such Additional Amount Payment relates, would cause such holder s dividends in dollars (after federal income tax consequences) from the aggregate of such Taxable Allocations and the related Additional Amount Payment to be equal to the dollar amount of the dividends that would have been received by such holder if the amount of such aggregate Taxable Allocations would have been excludable (for federal income tax purposes) from the gross income of such holder. Such Additional Amount Payment will be calculated (i) without consideration being given to the time value of money; (ii) assuming that no holder of MTP Shares is subject to the federal alternative minimum tax with respect to dividends received from the Fund; and (iii) assuming that each Taxable Allocation and each Additional Amount Payment (except to the extent such Additional Amount Payment is reported as an exempt-interest dividend under Section 852(b)(5) of the Code) would be taxable in the hands of each holder of MTP Shares at the maximum marginal regular federal individual income tax rate applicable to ordinary income or net capital gains, as applicable, or the maximum marginal regular federal corporate income tax rate applicable to ordinary income or net capital gains, as applicable, whichever is greater, in effect at the time such Additional Amount Payment is paid.

Restrictions on Dividend, Redemption and Other Payments

No full dividends and distributions will be declared or paid on MTP Shares for any Dividend Period, or a part of a Dividend Period, unless the full cumulative dividends and distributions due through the most recent dividend payment dates for all outstanding shares of Preferred Stock (including shares of other series of MuniFund Term Preferred Shares) have been, or contemporaneously are, declared and paid through the most recent dividend payment dates for each share of Preferred Stock. If full cumulative dividends and distributions due have not been paid on all outstanding shares of Preferred Stock of any series, any dividends and distributions being declared and paid on MTP Shares will be declared and paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on the shares of each such series of Preferred Stock on the relevant dividend payment date. No holders of MTP Shares will be entitled to any dividends and distributions in excess of full cumulative dividends and distributions as provided in the Statement.

For so long as any MuniFund Term Preferred Shares are outstanding, the Fund will not: (x) declare any dividend or other distribution (other than a dividend or distribution paid in common stock of the Fund) in respect of the common stock of the Fund, (y) call for redemption, redeem, purchase or otherwise acquire for consideration any such common stock, or (z) pay any proceeds of the liquidation of the Fund in respect of such common stock, unless, in each case, (A) immediately thereafter, the Fund shall be in compliance with the 200% asset coverage limitations set forth under the 1940 Act, (B) all cumulative dividends and distributions of shares of all series of MuniFund Term Preferred Shares of the Fund and all other series of Preferred Stock ranking on a parity with the MTP Shares due on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition shall have been declared and paid (or shall have been declared and sufficient funds or Deposit Securities as permitted by the terms of such Preferred Stock for the payment thereof shall have been deposited irrevocably with the applicable paying agent) and (C) the Fund shall have deposited Deposit Securities with the Redemption and Paying Agent in accordance with the requirements described herein with respect to outstanding MuniFund Term Preferred Shares of any series to be redeemed pursuant to a Term Redemption or Asset Coverage or Effective Leverage Mandatory Redemption resulting from the failure to comply with the Asset Coverage or Effective Leverage Ratio as described below for which a Notice of Redemption shall have been given or shall have been required to be given in accordance with the terms described herein on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

Except as required by law, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent or other applicable paying agent, provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding MTP Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

As a fundamental policy, the Fund may not issue debt securities that rank senior to MTP Shares other than for temporary or emergency purposes. See the SAI, Investment Restrictions. Under the 1940 Act, the Fund may not (i) declare any dividend with respect to any preferred shares if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to any borrowings of the Fund that are senior securities representing indebtedness (as defined in the 1940 Act), would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring dividends on its preferred shares) or (ii) declare any other distribution on the preferred shares or purchase or redeem preferred shares if at the time of the declaration or redemption (and after giving effect thereto), asset coverage with respect to such borrowings that are senior securities representing indebtedness would be less than 300% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its shares). Notwithstanding the 1940 Act s requirements, MTP Shares have a higher Asset Coverage (as defined for purposes of the MTP Shares) of at least 225% instead of 200%. Senior securities representing indebtedness generally means any bond, debenture, note or similar obligation or instrument constituting a security (other than shares of capital stock) and evidencing indebtedness and could include the Fund s obligations under any borrowings. For purposes of determining asset coverage for senior securities representing indebtedness in connection with the payment of dividends or other distributions on or purchases or redemptions of stock, the term senior security does not include any promissory note or other evidence of indebtedness issued in consideration of any loan, extension or renewal thereof, made by a bank or other person and privately arranged, and not intended to be publicly distributed. The term senior security also does not include any such promissory note or other evidence of indebtedness in any case where such a loan is for temporary purposes only and in an amount not exceeding 5% of the value of the total assets of the Fund at the time when the loan is made; a loan is presumed under the 1940 Act to be for temporary purposes if it is repaid within 60 calendar days and is not extended or renewed; otherwise it is presumed not to be for temporary purposes. For purposes of determining whether the 200% and 300% statutory asset coverage requirements described above apply in connection with dividends or distributions on or purchases or redemptions of preferred shares, such asset coverages may be calculated on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of the applicable determination.

Asset Coverage

If the Fund fails to maintain Asset Coverage of at least 225% as of the close of business on each Business Day, the MTP Shares may become subject to mandatory redemption as provided below. Asset Coverage means asset coverage of a class of senior security which is a stock, as defined for purposes of Section 18(h) of the 1940 Act as in effect on the date of the Statement, determined on the basis of values calculated as of a time within 48 hours (only including Business Days) next preceding the time of such determination. For purposes of this determination, no MTP Shares or other Preferred Stock shall be deemed to be outstanding for purposes of the computation of Asset Coverage if, prior to or concurrently with such determination, either (A) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such Preferred Stock (or the portion thereof to be redeemed) shall have been deposited in trust with the paying agent for such Preferred Stock and the requisite notice of redemption for such Preferred Stock (or the portion thereof to be redeemed) shall have been given or (B) sufficient Deposit Securities or other sufficient funds (in accordance with the terms of such Preferred Stock) to pay the full redemption price for such

Preferred Stock (or the portion thereof to be redeemed) shall have been segregated by the Fund and its custodian from the assets of the Fund in the same manner as described under Term Redemption Liquidity Account and Liquidity Requirement below with respect to the Liquidity Requirement applicable to the MTP Shares. In such event, the Deposit Securities or other sufficient funds so deposited or segregated shall not be included as assets of the Fund for purposes of the computation of Asset Coverage.

Effective Leverage Ratio

If the Fund s Effective Leverage Ratio exceeds 50% as of the close of business on any Business Day, the MTP Shares may become subject to mandatory redemption as provided below. The Effective Leverage Ratio on any date means the quotient of the sum of (A) the aggregate liquidation preference of the Fund s senior securities (as that term is defined in the 1940 Act) that are stock for purposes of the 1940 Act, excluding, without duplication, (1) any such senior securities for which the Fund has issued a notice of redemption and either has delivered Deposit Securities or sufficient funds (in accordance with the terms of such senior securities) to the paying agent for such senior securities or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption and (2) any such senior securities that are to be redeemed with net proceeds from the sale of the MTP Shares, for which the Fund has delivered Deposit Securities or sufficient funds to the paying agent for such Preferred Stock or otherwise has adequate Deposit Securities or sufficient funds on hand for the purpose of such redemption; (B) the aggregate principal amount of the Fund s senior securities representing indebtedness (as that term is defined in the 1940 Act); and (C) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund s valuation procedures) of the Fund s total assets (including amounts attributable to senior securities), less the amount of the Fund s accrued liabilities (other than liabilities for the aggregate principal amount of senior securities representing indebtedness, including floating rate securities); and (B) the aggregate principal amount of floating rate securities not owned by the Fund that correspond to the associated inverse floating rate securities owned by the Fund.

Redemption

Term Redemption. The Fund is required to provide for the mandatory redemption (the Term Redemption) of all of the Series 2014 MTP Shares on April 1, 2014 (the Term Redemption Date), at a redemption price equal to the Liquidation Preference per share plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the Term Redemption Date (the Term Redemption Price).

Mandatory Redemption for Asset Coverage and Effective Leverage Ratio.

Asset Coverage. If the Fund fails to have Asset Coverage of at least 225% as provided in the Statement and such failure is not cured as of the close of business on the Asset Coverage Cure Date, the Fund will fix a redemption date and proceed to redeem the number of shares of Preferred Stock as described below at a price per share equal to the liquidation price per share of the applicable Preferred Stock, which in the case of the MTP Shares is equal to the Liquidation Preference per Share plus accumulated but unpaid dividends and distributions thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for redemption by the Board of Trustees (the Mandatory Redemption Price). The Fund will redeem out of funds legally available the number of shares of Preferred Stock (which may include at the sole option of the Fund any number or proportion of MTP Shares) equal to the lesser of (i) the minimum number of shares of Preferred Stock, the redemption of which, if deemed to have occurred immediately prior to the opening of business on the Asset Coverage Cure Date, would result in the Fund having Asset Coverage of at least 230% and (ii) the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available in accordance with the Declaration of Trust of the Fund and applicable law. Notwithstanding the foregoing sentence, in the event that shares of Preferred Stock are redeemed pursuant to the Statement, the Fund may at its sole option, but is not required to, redeem a sufficient number of MTP Shares that, when aggregated with other

shares of Preferred Stock redeemed by the Fund, permits the Fund to have with respect to the shares of Preferred Stock (including MTP Shares) remaining outstanding after such redemption, Asset Coverage on such Asset Coverage Cure Date of as much as 285%. The Fund will effect a redemption on the date fixed by the Fund, which date will not be later than 30 calendar days after the Asset Coverage Cure Date, except that if the Fund does not have funds legally available for the redemption of all of the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed or the Fund otherwise is unable to effect such redemption on or prior to 30 calendar days after the Asset Coverage Cure Date, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the Asset Coverage mandatory redemption provisions above, the MTP Shares to be redeemed will be selected either (i) pro rata among MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Effective Leverage Ratio. If the Fund fails to comply with the Effective Leverage Ratio (as defined above) requirement as of the close of business on any Business Day on which such compliance is determined and such failure is not cured as of the close of business on the Effective Leverage Ratio Cure Date, the Fund will within 30 days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio of 50% or less by (A) engaging in transactions involving or relating to the floating rate securities not owned by the Fund and/or the inverse floating rate securities owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming in accordance with the Fund s Declaration of Trust a sufficient number of shares of Preferred Stock, which at the Fund s sole option may include any number or proportion of MuniFund Term Preferred Shares, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B). Any MTP Shares so redeemed will be redeemed at a price per share equal to the Mandatory Redemption Price.

On the Redemption Date for a redemption contemplated by clause (B) in the paragraph above, the Fund will not redeem more than the maximum number of shares of Preferred Stock that can be redeemed out of funds expected to be legally available therefor in accordance with the Fund s Declaration of Trust and applicable law. If the Fund is unable to redeem the required number of MTP Shares and other shares of Preferred Stock which have been designated to be redeemed in accordance with clause (B) in the paragraph above due to the unavailability of legally available funds, the Fund will redeem those MTP Shares and other shares of Preferred Stock which it was unable to redeem on the earliest practicable date on which it is able to effect such redemption.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the Effective Leverage Ratio mandatory redemption provisions above, the MTP Shares to be redeemed will be selected either (A) pro rata among MTP Shares, (B) by lot or (C) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable.

Optional Redemption. On any Business Day following the expiration of the Non-Call Period for MTP Shares or on any Business Day during a Rating Downgrade Period for MTP Shares, including a Business Day during the Non-Call Period for such MTP Shares (any such Business Day, an Optional Redemption Date), the Fund may redeem in whole or from time to time in part outstanding MTP Shares, at a redemption price equal to the Liquidation Preference, *plus* an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the Optional Redemption Date (whether or not earned or declared by the Fund, but excluding interest thereon), *plus* the applicable Optional Redemption Premium per share (as calculated below) (the Optional Redemption Price). The Optional Redemption Premium with respect to each MTP Share will be an amount equal to:

- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after April 1, 2012 and prior to October 1, 2012, 1.00% of the Liquidation Preference;

- if the Optional Redemption Date does not occur during a Rating Downgrade Period but occurs on or after October 1, 2012 and prior to April 1, 2013, 0.5% of the Liquidation Preference; or

- if the Optional Redemption Date either occurs during a Rating Downgrade Period or occurs on or after April 1, 2013, 0.00% of the Liquidation Preference.

If fewer than all of the outstanding MTP Shares are to be redeemed pursuant to the optional redemption provisions above, the MTP Shares to be redeemed will be selected either (i) pro rata among MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Trustees of the Fund may determine to be fair and equitable. Subject to the provisions of the Statement and applicable law, the Fund s Board of Trustees will have the full power and authority to prescribe the terms and conditions upon which MTP Shares will be redeemed from time to time.

The Fund may not on any date deliver a notice of redemption to redeem any MTP Shares pursuant to the optional redemption provisions described above unless on such date the Fund has available Deposit Securities for the Optional Redemption Date contemplated by such notice of redemption having a Market Value not less than the amount (including any applicable premium) due to holders of MTP Shares by reason of the redemption of such MTP Shares on such Optional Redemption Date.

Redemption Procedures. The Fund will file a notice of its intention to redeem with the Securities and Exchange Commission so as to provide the 30 calendar day notice period contemplated by Rule 23c-2 under the 1940 Act, or such shorter notice period as may be permitted by the Securities and Exchange Commission or its staff.

If the Fund shall determine or be required to redeem, in whole or in part, MTP Shares, it will deliver a notice of redemption (a Notice of Redemption) by overnight delivery, by first class mail, postage prepaid or by electronic means to the holders of such MTP Shares to be redeemed, or request the Redemption and Paying Agent, on behalf of the Fund, to promptly do so by overnight delivery, by first class mail or by electronic means. A Notice of Redemption will be provided not more than 45 calendar days prior to the date fixed for redemption in such Notice of Redemption (the Redemption Date). Each Notice of Redemption will state: (i) the Redemption Date; (ii) the number of MTP Shares to be redeemed and the series of MTP Shares; (iii) the CUSIP number(s) of such MTP Shares; (iv) the applicable Redemption Price of MTP Shares to be redeemed on a per share basis; (v) if applicable, the place or places where the certificate(s) for such MTP Shares (properly endorsed or assigned for transfer, if the Board of Trustees of the Fund will so require and the Notice of Redemption states) are to be surrendered for payment of the redemption price; (vi) that dividends on MTP Shares to be redeemed will cease to accumulate from and after the redemption date; and (vii) the provisions of the Statement under which such redemption is made. If fewer than all MTP Shares held by any holder are to be redeemed, the Notice of Redemption mailed to such holder shall also specify the number of MTP Shares to be redeemed from such holder or the method of determining such number. The Fund may provide in any Notice of Redemption relating to a redemption contemplated to be effected pursuant to a Statement that such redemption is subject to one or more conditions precedent and that the Fund will not be required to effect such redemption unless each such condition has been satisfied. No defect in any Notice of Redemption or delivery thereof will affect the validity of redemption proceedings except as required by applicable law.

If the Fund gives a Notice of Redemption, then at any time from and after the giving of such Notice of Redemption and prior to 12:00 noon, New York City time, on the Redemption Date (so long as any conditions precedent to such redemption have been met or waived by the Fund), the Fund will (i) deposit with the Redemption and Paying Agent Deposit Securities having an aggregate Market Value at the time of deposit no less than the redemption price of the MTP Shares to be redeemed on the Redemption Date and (ii) give the Redemption and Paying Agent irrevocable instructions and authority to pay the applicable redemption price to the holders of MTP Shares called for redemption on the Redemption Date. The Fund may direct the Redemption and Paying Agent with respect to the investment of any Deposit Securities consisting of cash so deposited prior to the Redemption Date, provided that the proceeds of any such investment will be available at the opening of business on the Redemption Date as same day funds. Notwithstanding the foregoing, if the Redemption Date is the Term Redemption Date, then such deposit of Deposit Securities (which may come in whole or in part from the Term Redemption Liquidity Account described below) will be made no later than 15 calendar days prior to the Term Redemption Date.

Upon the date of the deposit of Deposit Securities by the Fund for purposes of redemption of MTP Shares, all rights of the holders of MTP Shares so called for redemption shall cease and terminate except the right of the holders thereof to receive the Term Redemption Price, Mandatory Redemption Price or Optional Redemption Price thereof, as applicable (any of the foregoing referred to herein as the Redemption Price), and such MTP

Shares shall no longer be deemed outstanding for any purpose whatsoever (other than the transfer thereof prior to the applicable Redemption Date and other than the accumulation of dividends thereon in accordance with the terms of the MTP Shares up to (but excluding) the applicable Redemption Date). The Fund will be entitled to receive, promptly after the Redemption Date, any Deposit Securities in excess of the aggregate Redemption Price of MTP Shares called for redemption on the Redemption Date. Any Deposit Securities so deposited that are unclaimed at the end of 90 calendar days from the Redemption Date will, to the extent permitted by law, be repaid to the Fund, after which the holders of MTP Shares so called for redemption shall look only to the Fund for payment of the Redemption Price. The Fund will be entitled to receive, from time to time after the Redemption Date, any interest on the Deposit Securities so deposited.

On or after a Redemption Date, each holder of MTP Shares in certificated form (if any) that are subject to redemption will surrender the certificate(s) evidencing such MTP Shares to the Fund at the place designated in the Notice of Redemption and will then be entitled to receive the Redemption Price, without interest, and in the case of a redemption of fewer than all MTP Shares represented by such certificate(s), a new certificate representing MTP Shares that were not redeemed.

Notwithstanding the other redemption provisions described herein, except as otherwise required by law, the Fund will not redeem any MTP Shares unless all accumulated and unpaid dividends and distributions on all outstanding MTP Shares and shares of other series of Preferred Stock ranking on a parity with the MTP Shares with respect to dividends and distributions for all applicable past dividend periods (whether or not earned or declared by the Fund) (x) shall have been or are contemporaneously paid or (y) shall have been or are contemporaneously declared and Deposit Securities or sufficient funds (in accordance with the terms of such Preferred Stock) for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent as set forth herein, provided that the Fund will not be prevented from the purchase or acquisition of outstanding MTP Shares pursuant to an otherwise lawful purchase or exchange offer made on the same terms to holders of all outstanding MTP Shares and any other series of Preferred Stock for which all accumulated and unpaid dividends and distributions have not been paid.

If any redemption for which a Notice of Redemption has been provided is not made by reason of the absence of legally available funds of the Fund in accordance with the Declaration of Trust of the Fund and applicable law, such redemption shall be made as soon as practicable to the extent such funds become available. No Redemption Default will be deemed to have occurred if the Fund has failed to deposit in trust with the Redemption and Paying Agent the applicable Redemption Price with respect to any shares where (1) the Notice of Redemption relating to such redemption provided that such redemption was subject to one or more conditions precedent and (2) any such condition precedent has not been satisfied at the time or times and in the manner specified in such Notice of Redemption. Notwithstanding the fact that a Notice of Redemption has been provided with respect to any MuniFund Term Preferred Shares, dividends may be declared and paid on such MuniFund Term Preferred Shares in accordance with their terms if Deposit Securities for the payment of the Redemption Price of such MuniFund Term Preferred Shares shall not have been deposited in trust with the Redemption and Paying Agent for that purpose.

The Fund may, in its sole discretion and without a shareholder vote, modify the redemption procedures with respect to notification of redemption for the MTP Shares, provided that such modification does not materially and adversely affect the holders of MTP Shares or cause the Fund to violate any applicable law, rule or regulation.

Term Redemption Liquidity Account and Liquidity Requirement

On or prior to October 1, 2013 (the Liquidity Account Initial Date), the Fund will cause its custodian to segregate, by means of appropriate identification on its books and records or otherwise in accordance with its custodian s normal procedures, from the other assets of the Fund (the Term Redemption Liquidity Account) Deposit Securities or any other security or investment owned by the Fund that is rated not less than A3 by Moody s, A- by S&P, A- by Fitch or an equivalent rating by any other NRSRO (each a Liquidity Account Investment and collectively the Liquidity Account Investments) with a Market Value (as defined in the

Statement) equal to at least 110% of the Term Redemption Amount (as defined below) with respect to such MTP Shares. The Term Redemption Amount for MTP Shares is equal to the Term Redemption Price to be paid on the Term Redemption Date, based on the number of MTP Shares then outstanding, assuming for this purpose that the Dividend Rate in effect at the Liquidity Account Initial Date will be the Dividend Rate in effect until the Term Redemption Date. If, on any date after the Liquidity Account Initial Date, the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account for MTP Shares as of the close of business on any Business Day is less than 110% of the Term Redemption Amount, then the Fund will cause the custodian and Nuveen Fund Advisors to take all such necessary actions, including segregating assets of the Fund as Liquidity Account Investments, so that the aggregate Market Value of the Liquidity Account Investments included in the Term Redemption Liquidity Account is at least equal to 110% of the Term Redemption Amount not later than the close of business on the next succeeding Business Day. With respect to assets of the Fund segregated as Liquidity Account Investments with respect to the MTP Shares, Nuveen Fund Advisors, on behalf of the Fund, will be entitled to instruct the custodian on any date to release any Liquidity Account Investments from such segregation and to substitute therefor other Liquidity Account Investments not so segregated, so long as (i) the assets of the Fund segregated as Liquidity Account Investments at the close of business on such date have a Market Value (as defined in the Statement) equal to 110% of the Term Redemption Amount and (ii) the assets of the Fund segregated as Deposit Securities at the close of business on such date have a Market Value equal to the Liquidity Requirement (if any) (as set forth below) that is applicable to such date. The Fund will cause the custodian not to permit any lien, security interest or encumbrance to be created or permitted to exist on or in respect of any Liquidity Account Investments included in the Term Redemption Liquidity Account, other than liens, security interests or encumbrances arising by operation of law and any lien of the custodian with respect to the payment of its fees or repayment for its advances.

The Market Value of the Deposit Securities held in the Term Redemption Liquidity Account for the MTP Shares, from and after the 15th day of the calendar month that is the number of months preceding the month of the Term Redemption Date specified in the table set forth below, will not be less than the percentage of the Term Redemption Amount for the MTP Shares set forth below opposite such number of months (the Liquidity Requirement), but in all cases subject to the cure provisions of described below:

Number of Months Preceding	**Value of Deposit Securities as Percentage of Term Redemption Amount**
5	20%
4	40%
3	60%
2	80%
1	100%

If the aggregate Market Value of the Deposit Securities included in the Term Redemption Liquidity Account for the MTP Shares as of the close of business on any Business Day is less than the Liquidity Requirement for such Business Day, then the Fund will cause the segregation of additional or substitute Deposit Securities in respect of the Term Redemption Liquidity Account, so that the aggregate Market Value of the Deposit Securities included in the Term Redemption Liquidity Account is at least equal to the Liquidity Requirement not later than the close of business on the next succeeding Business Day.

The Deposit Securities included in the Term Redemption Liquidity Account may be applied by the Fund, in its discretion, towards payment of the Term Redemption Price. Upon the deposit by the Fund with the Redemption and Paying Agent of Deposit Securities having an initial combined Market Value sufficient to effect the redemption of the MTP Shares on the Term Redemption Date, the requirement of the Fund to maintain the Term Redemption Liquidity Account as described above will lapse and be of no further force and effect.

Liquidation Rights

In the event of any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the holders of MuniFund Term Preferred Shares will be entitled to receive out of the assets of the Fund available for distribution to shareholders, after satisfying claims of creditors but before any distribution or payment shall be made in respect of the common stock, a liquidation distribution equal to the Liquidation Preference of $10 per share, plus an amount equal to all unpaid dividends and distributions accumulated to (but excluding) the date fixed for such distribution or payment (whether or not earned or declared by the Fund, but excluding interest thereon), and such holders shall be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up.

If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all MuniFund Term Preferred Shares, and any other outstanding shares of Preferred Stock, shall be insufficient to permit the payment in full to such holders of MuniFund Term Preferred Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other shares of Preferred Stock, then the available assets shall be distributed among the holders of such MuniFund Term Preferred Shares and such other series of Preferred Stock ratably in proportion to the respective preferential liquidation amounts to which they are entitled. In connection with any liquidation, dissolution or winding up of the affairs of the Fund whether voluntary or involuntary, unless and until the Liquidation Preference on each outstanding MuniFund Term Preferred Share plus accumulated and unpaid dividends and distributions has been paid in full to the holders of MuniFund Term Preferred Shares, no dividends, distributions or other payments will be made on, and no redemption, repurchase or other acquisition by the Fund will be made by the Fund in respect of, the common stock of the Fund.

Neither the sale of all or substantially all of the property or business of the Fund, nor the merger, consolidation or reorganization of the Fund into or with any other business or statutory trust, corporation or other entity, nor the merger, consolidation or reorganization of any other business or statutory trust, corporation or other entity into or with the Fund will be a dissolution, liquidation or winding up, whether voluntary or involuntary, for purposes of the provisions relating to liquidation set forth in the Statement.

Voting Rights

Except as otherwise provided in the Fund s Declaration of Trust, the Statement, or as otherwise required by applicable law, each holder of MTP Shares will be entitled to one vote for each MTP Share held by such holder on each matter submitted to a vote of shareholders of the Fund and the holders of outstanding shares of Preferred Stock, including the MTP Shares and Series 2015 MTP Shares will vote together with holders of shares of common stock of the Fund as a single class. Under applicable rules of the NYSE Amex, the Fund is currently required to hold annual meetings of shareholders.

In addition, the holders of outstanding shares of Preferred Stock, including the MTP Shares and Series 2015 MTP Shares, will be entitled, as a class, to the exclusion of the holders of all other securities and classes of common stock of the Fund, to elect two trustees of the Fund at all times. The holders of outstanding shares of common stock and Preferred Stock, including MTP Shares and Series 2015 MTP Shares, voting together as a single class, will elect the balance of the trustees of the Fund.

Notwithstanding the foregoing, if (i) at the close of business on any dividend payment date for dividends on any outstanding share of Preferred Stock, including any outstanding MuniFund Term Preferred Shares, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the MTP Shares and Series 2015 MTP Shares, equal to at least two full year s dividends shall be due and unpaid and sufficient cash or specified securities shall not have been deposited with the Redemption and Paying Agent or other applicable paying agent for the payment of such accumulated dividends; or (ii) at any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of the trustees of the Fund (a period

when either of the foregoing conditions exists, a Voting Period), then the number of members constituting the Board of Trustees of the Fund will automatically be increased by the smallest number that, when added to the two trustees elected exclusively by the holders of shares of Preferred Stock, including the MTP Shares and Series 2015 MTP Shares, as described above, would constitute a majority of the Board as so increased by such smallest number; and the holders of the shares of Preferred Stock, including the MTP Shares and Series 2015 MTP Shares, will be entitled as a class on a one-vote-per-share basis, to elect such additional trustees. The terms of office of the persons who are trustees at the time of that election will not be affected by the election of the additional trustees. If the Fund thereafter shall pay, or declare and set apart for payment, in full all dividends payable on all outstanding shares of Preferred Stock, including MTP Shares and Series 2015 MTP Shares, for all past dividend periods, or the Voting Period is otherwise terminated, (i) the voting rights stated above shall cease, subject always, however, to the revesting of such voting rights in the holders of shares of Preferred Stock upon the further occurrence of any of the events described herein, and (ii) the terms of office of all of the additional trustees so elected will terminate automatically. Any Preferred Stock, including MTP Shares and Series 2015 MTP Shares, and any MuniFund Team Preferred Shares issued after the date hereof will vote with MTP Shares as a single class on the matters described above, and the issuance of any other Preferred Stock, including MuniFund Term Preferred Shares, by the Fund may reduce the voting power of the holders of MTP Shares.

As soon as practicable after the accrual of any right of the holders of shares of Preferred Stock to elect additional trustees as described above, the Fund will call a special meeting of such holders and notify the Redemption and Paying Agent and/or such other person as is specified in the terms of such Preferred Stock to receive notice, (i) by mailing or delivery by electronic means or (ii) in such other manner and by such other means as are specified in the terms of such Preferred Stock, a notice of such special meeting to such holders, such meeting to be held not less than 10 nor more than 30 calendar days after the date of the delivery by electronic means or mailing of such notice. If the Fund fails to call such a special meeting, it may be called at the expense of the Fund by any such holder on like notice. The record date for determining the holders of shares of Preferred Stock entitled to notice of and to vote at such special meeting shall be the close of business on the fifth Business Day preceding the calendar day on which such notice is mailed. At any such special meeting and at each meeting of holders of shares of Preferred Stock held during a Voting Period at which trustees are to be elected, such holders, voting together as a class (to the exclusion of the holders of all other securities and classes of capital stock of the Fund), will be entitled to elect the number of additional trustees prescribed above on a one-vote-per-share basis.

Except as otherwise permitted by the terms of the Statement, so long as any MuniFund Term Preferred Shares are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of MuniFund Term Preferred Shares of all series outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the Declaration of Trust or the Statement, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power of the MuniFund Term Preferred Shares or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading Issuance of Additional Preferred Stock will not be considered to materially and adversely affect the rights and preferences of MuniFund Term Preferred Shares, and (ii) a division of a MuniFund Term Preferred Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of MuniFund Term Preferred Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a MuniFund Term Preferred Share of such series or the holder thereof unless such matter (i) alters or abolishes any preferential right of such MuniFund Term Preferred Share, or (ii) creates, alters or abolishes any right in respect of redemption of such MuniFund Term Preferred Share (other than as a result of a division of a MuniFund Term Preferred Share). So long as any MuniFund Term Preferred Shares are outstanding, the Fund will not, without the affirmative vote or consent of at least 66 $^{2}/3$% of the holders of MuniFund Term Preferred Shares outstanding at the time, voting as a separate class, file a voluntary application for relief under federal bankruptcy law or any similar application under state law for so long as the Fund is solvent and does not foresee becoming insolvent.

Except as otherwise permitted by the terms of the Statement, so long as any MTP Shares are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of the MTP Shares outstanding at the time, voting as a separate class, amend, alter or repeal the provisions of the appendix to the Statement relating to the MTP Shares, whether by merger, consolidation or otherwise, so as to materially and adversely affect any preference, right or power set forth in such appendix of the MTP Shares or the holders thereof; provided, however, that (i) a change in the capitalization of the Fund as described under the heading Issuance of Additional Preferred Stock will not be considered to materially and adversely affect the rights and preferences of the MTP Shares, and (ii) a division of an MTP Share will be deemed to affect such preferences, rights or powers only if the terms of such division materially and adversely affect the holders of the MTP Shares; and provided, further, that no amendment, alteration or repeal of the obligations of the Fund to (x) pay the Term Redemption Price on the Term Redemption Date for the MTP Shares or (y) accumulate dividends at the Dividend Rate for the MTP Shares will be effected without, in each case, the prior unanimous vote or consent of the holders of the MTP Shares. For purposes of the foregoing, no matter shall be deemed to adversely affect any preference, right or power of a MTP Share or the holder thereof unless such matter (i) alters or abolishes any preferential right of such MTP Share, or (ii) creates, alters or abolishes any right in respect of redemption of such MTP Share.

Unless a higher percentage is provided for in the Declaration of Trust of the Fund, (i) the affirmative vote of the holders of at least a majority of the shares of Preferred Stock, including the MuniFund Term Preferred Shares outstanding at the time, voting as a separate class, will be required to approve any conversion of the Fund from a closed-end to an open-end investment company, (ii) to approve any plan of reorganization (as such term is defined in Section 2(a)(33) of the 1940 Act) adversely affecting such shares of Preferred Stock or (iii) to approve any other action requiring a vote of security holders of the Fund under Section 13(a) of the 1940 Act. For purposes of the foregoing, the vote of a majority of the outstanding shares of Preferred Stock means the vote at an annual or special meeting duly called of (i) 67% or more of such shares present at a meeting, if the holders of more than 50% of such shares are present or represented by proxy at such meeting, or (ii) more than 50% of such shares, whichever is less.

For purposes of determining any rights of the holders of MTP Shares to vote on any matter, whether such right is created by the Statement, by the provisions of the Declaration of Trust, by statute or otherwise, no holder of MTP Shares will be entitled to vote any MTP Shares and no MTP Shares will be deemed to be outstanding for the purpose of voting or determining the number of shares required to constitute a quorum if, prior to or concurrently with the time of determination of shares entitled to vote or the time of the actual vote on the matter, as the case may be, the requisite Notice of Redemption with respect to such MTP Shares will have been given in accordance with the Statement, and the Redemption Price for the redemption of such MTP Shares will have been irrevocably deposited with the Redemption and Paying Agent for that purpose. No MTP Shares held by the Fund will have any voting rights or be deemed to be outstanding for voting or for calculating the voting percentage required on any other matter or other purposes.

Notwithstanding anything herein to the contrary, the Rating Agency Guidelines discussed below, as they may be amended from time to time by the respective Rating Agency, may be amended by the respective Rating Agency without the vote, consent or approval of the Fund, the Board of Trustees of the Fund and any holder of shares of Preferred Stock, including any MTP Shares and Series 2015 MTP Shares or any other shareholder of the Fund.

Unless otherwise required by law or the Declaration of Trust, holders of MTP Shares will not have any relative rights or preferences or other special rights with respect to voting other than those specifically set forth in the Voting Rights section of the Statement. The holders of MTP Shares will have no rights to cumulative voting. In the event that the Fund fails to declare or pay any dividends on MTP Shares, the exclusive remedy of the holders will be the right to vote for additional trustees as discussed above; provided that the foregoing does not affect the obligation of the Fund to accumulate and, if permitted by applicable law and the Statement, pay dividends at the Default Rate as discussed above.

Rating Agencies

The Fund will use commercially reasonable efforts to cause at least one Rating Agency to issue a credit rating with respect to MTP Shares for so long as such MTP Shares are outstanding (which credit rating may consist of a credit rating on the MuniFund Term Preferred Shares generally or the Preferred Stock generally). Rating Agency means any of Moody s, S&P or Fitch, as designated by the Board of Trustees from time to time to be a Rating Agency for purposes of the Statement. The Board of Trustees has initially designated Moody s, S&P and Fitch to be Rating Agencies. The Fund will use commercially reasonable efforts to comply with any applicable Rating Agency Guidelines. Rating Agency Guidelines are guidelines of any Rating Agency, as they may be amended or modified from time to time, compliance with which is required to cause such Rating Agency to continue to issue a rating with respect to MTP Shares for so long as such MTP Shares are outstanding. The Board of Trustees may elect to terminate the designation of any Rating Agency previously designated by the Board of Trustees to act as a Rating Agency for purposes of the Statement (provided that at least one Rating Agency continues to maintain a rating with respect to the MTP Shares), and may elect to replace any Rating Agency previously designated as a Rating Agency by the Board of Trustees with any other Rating Agency not so designated at such time, if such replacement Rating Agency has at the time of such replacement (i) issued a rating for the MTP Shares and (ii) entered into an agreement with the Fund to continue to issue such rating subject to the Rating Agency s customary conditions. A copy of the current Rating Agency Guidelines will be provided to any holder of MTP Shares promptly upon request therefor made by such holder to the Fund by writing the Fund at 333 West Wacker Dr., Chicago, Illinois 60606.

On August 31, 2010 S&P published a Request for Comment concerning its new proposal to change its methods and assumptions for rating certain market value securities, including those issued by registered closed-end funds such as the MTP Shares to be issued by the Fund. The S&P Proposal defined market value securities as those whose source of repayment is liquidation proceeds generated from open market sales of assets (in the Fund s case, portfolio securities), rather than cash flow generated by assets held to maturity. S&P has requested comments on the S&P Proposal and the comment period ended October 29, 2010. S&P stated that after the comment period expired, it would review the comments and publish updated criteria methodology and assumptions, which would be applicable to all outstanding S&P ratings of market value securities. S&P has not yet published updated criteria methodology and assumptions. The updated criteria, if adopted by S&P, may be the same as proposed or may differ based upon comments received by S&P. Under the current S&P Proposal, when rating market value securities (including MTP Shares) issued by the Fund, S&P would substantially increase the reductions in value, or haircuts, applied to the Fund s portfolio securities compared with its present methodology. Due to these increased haircuts, any market value securities issued by the Fund (including MTP Shares) in the future may be ineligible for a AAA rating from S&P. In addition, any market value securities (including the MTP Shares offered hereby) that had a rating of AAA from S&P prior to the adoption of the proposed criteria may be unable to maintain such rating after the adoption of such criteria, if adopted as proposed. In the event that S&P downgrades the MTP Shares, the Fixed Dividend Rate would not change. However, if each of the other Rating Agencies also downgrades the MTP Shares, the Fixed Dividend Rate would increase. See Description of MTP Shares Dividends and Dividend Periods Adjustments to Fixed Dividend Rate Ratings. Nevertheless, a downgrade by S&P could adversely affect the market pricing and liquidity of the MTP Shares. There can be no assurance that S&P will or will not take any action with respect to the S&P Proposal or that any such action would not result in a downgrade of MTP Shares. Further, there can be no assurance that any other Rating Agency will not also alter its rating criteria resulting in downgrades of ratings, which could further adversely affect the market pricing and liquidity of MTP Shares.

Issuance of Additional Preferred Stock

So long as any MTP Shares are outstanding, the Fund may, without the vote or consent of the holders thereof, authorize, establish and create and issue and sell shares of one or more series of a class of senior securities of the Fund representing stock under Section 18 of the 1940 Act, ranking on a parity with MuniFund Term Preferred Shares as to payment of dividends and distributions of assets upon dissolution, liquidation or the winding up of the affairs of the Fund, in addition to then outstanding Series 2015 MTP Shares and MTP Shares, including additional series of MuniFund Term Preferred Shares, and authorize, issue and sell additional shares of any such series of Preferred Stock then outstanding or so established and created, including additional MTP Shares, in each case in accordance with applicable law, provided that the Fund will, immediately after giving effect to the issuance of such additional Preferred Stock and to its receipt and application of the proceeds thereof, including to the redemption of Preferred Stock with such proceeds, have Asset Coverage of at least 225%.

Actions on Other than Business Days

Unless otherwise provided herein or in the Statement, if the date for making any payment, performing any act or exercising any right is not a Business Day, such payment will be made, act performed or right exercised on the next succeeding Business Day, with the same force and effect as if made or done on the nominal date provided therefor, and, with respect to any payment so made, no dividends, interest or other amount will accrue for the period between such nominal date and the date of payment.

Modification

The Board of Trustees, without the vote of the holders of MTP Shares, may interpret, supplement or amend the provisions of the Statement or any appendix thereto to supply any omission, resolve any inconsistency or ambiguity or to cure, correct or supplement any defective or inconsistent provision, including any provision that becomes defective after the date hereof because of impossibility of performance or any provision that is inconsistent with any provision of any other Preferred Stock of the Fund.

THE FUND S INVESTMENTS

Investment Objectives and Policies

The Fund s investment objectives are:

- to provide current income exempt from regular federal and California income tax; and
- to enhance portfolio value relative to the municipal bond market by investing in tax-exempt municipal bonds that the Fund s investment adviser believes are underrated or undervalued or that represent municipal market sectors that are undervalued.

By purchasing such tax-exempt California municipal bonds, the Fund seeks to realize above-average capital appreciation in a rising market, and to experience less than average capital losses in a declining market. Any capital appreciation realized by the Fund will generally result in the distribution of taxable capital gains to Fund shareholders, including holders of MTP Shares. See Tax Matters. A substantial portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax.

Under normal circumstances, the Fund will invest at least 80% of its Managed Assets in municipal securities and other related investments the income from which is exempt from regular federal and California income taxes. Under normal circumstances, the Fund will invest at least 80%

of its Managed Assets in investment grade securities that, at the time of investment, are rated within the four highest grades (Baa or BBB or better) by at least one NRSRO or are unrated but judged to be of comparable quality by Nuveen Asset Management. The Fund may invest up to 20% of its Managed Assets in municipal securities that at the time of investment are rated below investment grade or are unrated but judged to be of comparable quality by Nuveen Asset Management. No more than 10% of the Fund s Managed Assets may be invested in municipal securities rated below B3/B- or that are unrated but judged to be of comparable quality by Nuveen Asset Management. Securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer s capacity to pay interest and repay principal, and are commonly referred to as junk bonds. Managed Assets are net assets, including assets attributable to any principal amount of any borrowings (including the issuance of commercial paper or notes) and any Preferred Stock outstanding. The foregoing credit quality policies apply only at the time a security is purchased, and the Fund is not required to dispose of a security in the event that a rating agency downgrades its assessment of the credit characteristics of a particular issue. In determining whether to retain or sell such a security, Nuveen Asset Management may consider such factors as its assessment of the credit quality of the issuer of such security, the price at which such security could be sold and the rating, if any, assigned to such security by other rating agencies. A general description of Moody s, S&P s and Fitch s ratings of municipal securities is set forth in Appendix B to the SAI. The Fund may also invest in securities of other open- or closed-end investment companies that invest primarily in municipal bonds of the types in which the Fund may invest directly.

The Fund may purchase municipal bonds that are additionally secured by insurance, bank credit agreements, or escrow accounts. The credit quality of companies which provide such credit enhancements will affect the value of those securities. Although the insurance feature reduces certain financial risks, the premiums for insurance and the higher market price paid for insured obligations may reduce the Fund s income. Insurance generally will be obtained from insurers with a claims-paying ability rated BBB or better by an NRSRO at the time of purchase. Assuming that the insurer remains creditworthy, the insurance feature of a municipal security guarantees the full payment of principal and interest when due through the life of an insured obligation. Such insurance does not guarantee the market value of the insured obligation or the value of the Fund s common shares.

Underrated municipal securities are those municipal securities whose ratings do not, in Nuveen Asset Management s opinion, reflect their true value. They may be underrated because of the time that has elapsed since their last ratings, or because rating agencies have not fully taken into account positive factors, or for other reasons. Undervalued municipal securities are those securities that, in Nuveen Asset Management s opinion, are worth more than their market value. They may be undervalued because there is a temporary excess of supply in that particular sector (such as hospital bonds, or bonds of a particular municipal issuer). Nuveen Asset Management may buy such a security even if the value of that security is consistent with the value of other securities in that sector. Municipal securities also may be undervalued because there has been a general decline in the market price of municipal securities for reasons that do not apply to the particular municipal securities that Nuveen Asset Management considers undervalued. Nuveen Asset Management believes that the prices of these municipal securities should ultimately reflect their true value.

The Fund also may invest up to 15% of its net assets in inverse floating rate securities. The economic effect of leverage through the Fund s purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibly that the Fund s long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

During temporary defensive periods and in order to keep the Fund s cash fully invested, the Fund may invest up to 100% of its net assets in short-term investments including high quality, short-term securities that may be either tax exempt or taxable. The Fund intends to invest in taxable short-term investments only in the event that suitable tax-exempt short-term investments are not available at reasonable prices and yields. Investment in taxable short-term investments would result in a portion of your dividends being subject to regular federal income taxes. For more information, see the SAI.

The Fund cannot change its investment objectives without the approval of the holders of a majority of the outstanding shares of common shares and Preferred Stock, voting together, and of the holders of a majority of the outstanding Preferred Stock, voting separately. For this purpose, a majority of the outstanding shares means the vote of (1) 67% or more of the shares present at a meeting, if the holders of more than 50% of the shares are present or represented by proxy; or (2) more than 50% of the shares, whichever is less.

The Fund is diversified for purposes of the 1940 Act. Consequently, as to 75% of its assets, the Fund may not invest more than 5% of its total assets in the securities of any single issuer.

See Appendix A to this prospectus for a general description of the economic and credit characteristics of municipal issuers in California.

Certain Trading Strategies of the Fund

When-Issued and Delayed Delivery Transactions. The Fund may buy and sell municipal securities on a when-issued or delayed delivery basis, making payment or taking delivery at a later date, normally within 15 to 45 days of the trade date. On such transactions, the payment obligation and the interest rate are fixed at the time the purchaser enters into the commitment. Beginning on the date the Fund enters into a commitment to purchase securities on a when-issued or delayed delivery basis, the Fund is required under the rules of the Securities and Exchange Commission to maintain in a separate account liquid assets, consisting of cash, cash equivalents or liquid securities having a market value at all times of at least equal to the amount of any delayed payment commitment. Income generated by any such assets which provide taxable income for federal income tax purposes is includable in the taxable income of the Fund and, to the extent distributed, will be taxable distributions to shareholders. The commitment to purchase securities on a when-issued or delayed delivery or forward basis may involve an element of risk because no interest accrues on the bonds prior to settlement and at the time of delivery the market value may be less than their cost.

Portfolio Turnover. The Fund may buy and sell municipal securities to accomplish its investment objectives in relation to actual and anticipated changes in interest rates. The Fund also may sell one municipal security and buy another of comparable quality at about the same time to take advantage of what Nuveen Asset Management believes to be a temporary price disparity between the two bonds that may result from imbalanced supply and demand. The Fund also may engage in a limited amount of short-term trading, consistent with its investment objectives. The Fund may sell securities in anticipation of a market decline (a rise in interest rates) or buy securities in anticipation of a market rise (a decline in interest rates) and later sell them, but the Fund will not engage in trading solely to recognize a gain. The Fund will attempt to achieve its investment objectives by prudently selecting municipal securities with a view to holding them for investment. Although the Fund cannot accurately predict its annual portfolio turnover rate, the Fund expects, though it cannot guarantee, that its annual portfolio turnover rate generally will not exceed 100% under normal circumstances. For the fiscal year ended February 28, 2010, the Fund s portfolio turnover rate was 4%. There are no limits on the rate of portfolio turnover, and investments may be sold without regard to length of time held when investment considerations warrant such action. A higher portfolio turnover rate results in correspondingly greater brokerage commissions and other transactional expenses that are borne by the Fund. In addition, high portfolio turnover may result in the realization of net short term capital gains by the Fund which, when distributed to shareholders, will be taxable as ordinary income.

PORTFOLIO COMPOSITION

Municipal Securities

General. The Fund may invest in various municipal securities, including municipal bonds and notes, other securities issued to finance and refinance public projects, and other related securities and derivative instruments creating exposure to municipal bonds, notes and securities that provide for the payment of interest income that is exempt from federal and California income tax. Municipal securities are generally debt obligations issued by state and local governmental entities and may be issued by U.S. territories to finance or refinance public projects such as roads, schools, and water supply systems. Municipal securities may also be issued for private activities, such as housing, medical and educational facility construction, or for privately owned transportation, electric utility and pollution control projects. Municipal securities may be issued on a long term basis to provide permanent financing. The repayment of such debt may be secured generally by a pledge of the full faith and credit taxing power of the issuer, a limited or special tax, or any other revenue source including project revenues, which may include tolls, fees and other user charges, lease payments, and mortgage payments. Municipal securities may also be issued to finance projects on a short term interim basis, anticipating repayment with the proceeds on long term debt. Municipal securities may be issued and purchased in the form of bonds, notes, leases or certificates of participation; structured as callable or non-callable; with payment forms including fixed coupon, variable rate, zero coupon, capital appreciation bonds, tender option bonds, and residual interest bonds or inverse floating rate securities; or acquired through investments in pooled vehicles, partnerships or other investment companies. Inverse floating rate securities are securities that pay interest at rates that vary inversely with changes in prevailing short-term tax-exempt interest rates and represent a leveraged investment in an underlying municipal security, which may increase the effective leverage of the Fund.

The municipal securities in which the Fund will invest are generally issued by the State of California, a municipality of California, or a political subdivision of either, and pay interest that, in the opinion of bond counsel to the issuer (or on the basis of other authority believed by Nuveen Asset Management to be reliable), is exempt from regular federal and California income taxes, although the interest may be subject to the federal alternative minimum tax. The Fund may invest in municipal securities issued by U.S. territories (such as Puerto Rico or Guam) that are exempt from regular federal and California income taxes.

Yields on municipal securities depend on many factors, including the condition of the general money market and the municipal security market, the size of a particular offering, and the maturity and rating of a particular municipal security. Moody s, S&P s and Fitch s ratings represent their opinions of the quality of a particular municipal security, but these ratings are general and are not absolute quality standards. Therefore, municipal securities with the same maturity, coupon, and rating may have different yields, while municipal securities with the same maturity and coupon and different ratings may have the same yield. The market value of municipal securities will vary with changes in interest rates and in the ability of their issuers to make interest and principal payments.

Obligations of municipal security issuers are subject to bankruptcy, insolvency, and other laws affecting the rights and remedies of creditors. These obligations also may be subject to future federal or state laws or referenda that extend the time to payment of interest and/or principal, or that constrain the enforcement of these obligations or the power of municipalities to levy taxes. Legislation or other conditions may materially affect the power of a municipal security issuer to pay interest and/or principal when due.

Municipal Leases and Certificates of Participation. The Fund may purchase municipal securities that represent lease obligations and certificates of participation in such leases. These carry special risks because the issuer of the securities may not be obligated to appropriate money annually to make payments under the lease. A municipal lease is an obligation in the form of a lease or installment purchase that is issued by a state or local government to acquire equipment and facilities. Income from such obligations generally is exempt from state and local taxes in the state of issuance. Leases and installment purchase or conditional sale contracts (which normally provide for title to the leased asset to pass eventually to the governmental issuer) have evolved as a means for governmental issuers to acquire property and equipment without meeting the constitutional and statutory requirements for the issuance of debt. The debt issuance limitations are deemed to be inapplicable because of the inclusion in many leases or contracts of non-appropriation clauses that relieve the governmental issuer of any obligation to make future payments under the lease or contract unless money is appropriated for such purpose by the appropriate legislative body on a yearly or other periodic basis. In addition, such leases or contracts may be subject to the temporary abatement of payments in the event the issuer is prevented from maintaining occupancy of the leased premises or utilizing the leased equipment or facilities. Although the obligations may be secured by the leased equipment or facilities, the disposition of the property in the event of non-appropriation or foreclosure might prove difficult, time consuming and costly, and result in a delay in recovering, or the failure to recover fully, the Fund s original investment. To the extent that the Fund invests in unrated municipal leases or participates in such leases, the credit quality rating and risk of cancellation of such unrated leases will be monitored on an ongoing basis. In order to reduce this risk, the Fund will only purchase municipal securities representing lease obligations where Nuveen Asset Management believes the issuer has a strong incentive to continue making appropriations until maturity.

A certificate of participation represents an undivided interest in an unmanaged pool of municipal leases, an installment purchase agreement or other instruments. The certificates are typically issued by a municipal agency, a trust or other entity that has received an assignment of the payments to be made by the state or political subdivision under such leases or installment purchase agreements. Such certificates provide the Fund with the right to a pro rata undivided interest in the underlying municipal securities. In addition, such participations generally provide the Fund with the right to demand payment, on not more than seven days notice, of all or any part of the Fund s participation interest in the underlying municipal securities, plus accrued interest.

Municipal Notes. Municipal securities in the form of notes generally are used to provide for short-term capital needs, in anticipation of an issuer s receipt of other revenues or financing, and typically have maturities of up to three years. Such instruments may include tax anticipation notes, revenue anticipation notes, bond anticipation notes, tax and revenue anticipation notes and construction loan notes. Tax anticipation notes are issued to finance the working capital needs of governments. Generally, they are issued in anticipation of various tax revenues, such as income, sales, property, use and business taxes, and are payable from these specific future taxes. Revenue anticipation notes are issued in expectation of receipt of other kinds of revenue, such as federal revenues available under federal revenue sharing programs. Bond anticipation notes are issued to provide interim financing until long-term bond financing can be arranged. In most cases, the long-term bonds then provide the funds needed for repayment of the bond anticipation notes. Tax and revenue anticipation notes combine the funding sources of both tax anticipation notes and revenue anticipation notes. Construction loan notes are sold to provide construction financing. Mortgage notes insured by the Federal Housing Authority secure these notes; however, the proceeds from the insurance may be less than the economic equivalent of the payment of principal and interest on the mortgage note if there has been a default. The anticipated revenues from taxes, grants or bond financing generally secure the obligations of an issuer of municipal notes. An investment in such instruments, however, presents a risk that the anticipated revenues will not be received or that such revenues will be insufficient to satisfy the issuer s payment obligations under the notes or that refinancing will be otherwise unavailable.

Pre-Refunded Municipal Securities. The principal of, and interest on, pre-refunded municipal securities are no longer paid from the original revenue source for the securities. Instead, the source of such payments is typically an escrow fund consisting of U.S. Government securities. The assets in the escrow fund are derived from the proceeds of refunding bonds issued by the same issuer as the pre-refunded municipal securities. Issuers of municipal securities use this advance refunding technique to obtain more favorable terms with respect to securities that are not yet subject to call or redemption by the issuer. For example, advance refunding enables an issuer to refinance debt at lower market interest rates, restructure debt to improve cash flow or eliminate restrictive covenants in the indenture or other governing instrument for the pre-refunded municipal securities. However, except for a change in the revenue source from which principal and interest payments are made, the pre-refunded municipal securities remain outstanding on their original terms until they mature or are redeemed by the issuer.

Private Activity Bonds. Private activity bonds, formerly referred to as industrial development bonds, are issued by or on behalf of public authorities to obtain funds to provide privately operated housing facilities, airport, mass transit or port facilities, sewage disposal, solid waste disposal or hazardous waste treatment or disposal facilities and certain local facilities for water supply, gas or electricity. Other types of private activity bonds, the proceeds of which are used for the construction, equipment, repair or improvement of privately operated industrial or commercial facilities, may constitute municipal securities, although the current federal tax laws place substantial limitations on the size of such issues.

Inverse Floating Rate Securities. Inverse floating rate securities (sometimes referred to as inverse floaters) are securities whose interest rates bear an inverse relationship to the interest rate on another security or the value of an index. Generally, inverse floating rate securities represent beneficial interests in a special purpose trust formed by a third party sponsor for the purpose of holding municipal bonds. The special purpose trust typically sells two classes of beneficial interests or securities: floating rate securities (sometimes referred to as short-term floaters or tender option bonds) and inverse floating rate securities (sometimes referred to as inverse floaters or residual interest securities). Both classes of beneficial interests are represented by certificates. The short-term floating rate securities have first priority on the cash flow from the municipal bonds held by the special purpose trust. Typically, a third party, such as a bank, broker-dealer or other financial institution, grants the floating rate security holders the option, at periodic intervals, to tender their securities to the institution and receive the face value thereof. As consideration for providing the option, the financial institution receives periodic fees. The holder of the short-term floater effectively holds a demand obligation that bears interest at the prevailing short-term, tax-exempt rate. However, the institution granting the tender option will not be obligated to accept tendered short-term floaters in the event of certain defaults or a significant downgrade in the credit rating assigned to the bond issuer. For its inverse floating rate investment, the Fund receives the residual cash flow from the special purpose trust. Because the holder of the short-term floater is generally assured liquidity at the face value of the security, the Fund as the holder of the inverse floater assumes the interest rate cash flow risk and the market value risk associated with the municipal bond deposited into the special purpose trust. The volatility of the interest cash flow and the residual market value will vary with the degree to which the trust is leveraged. This is expressed in the ratio of the total face value of the short-term floaters in relation to the value of the inverse floaters that are issued by the special purpose trust. All voting rights and decisions to be made with respect to any other rights relating to the municipal bonds held in the special purpose trust are passed through to the Fund, as the holder of the residual inverse floating rate securities.

Because increases in the interest rate on the short-term floaters reduce the residual interest paid on inverse floaters, and because fluctuations in the value of the municipal bond deposited in the special purpose trust affect the value of the inverse floater only, and not the value of the short-term floater issued by the trust, inverse floaters value is generally more volatile than that of fixed rate bonds. The market price of inverse floating rate securities is generally more volatile than the underlying bonds due to the leveraging effect of this ownership structure. These securities generally will underperform the market of fixed rate bonds in a rising interest rate environment (*i.e.,* when bond values are falling), but tend to out-perform the market of fixed rate bonds when interest rates decline or remain relatively stable. Although volatile, inverse floaters typically offer the potential for yields available on fixed rate bonds with comparable credit quality, coupon, call provisions and maturity. Inverse floaters have varying degrees of liquidity based upon the liquidity of the underlying bonds deposited in a special purpose trust.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Fund Advisors s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of such inverse floater, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate interests. Such agreements may expose the Fund to a risk of loss that exceeds its investment in the inverse floating rate securities. Absent a shortfall and forbearance agreement, the Fund would not be required to make such a reimbursement. If the Fund chooses not to enter into such an agreement, the special purpose trust could be liquidated and the Fund could incur a loss.

The Fund s investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund s inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the gearing). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund s anticipated effective leverage ratio.

The Fund will segregate or earmark liquid assets with its custodian in accordance with the 1940 Act to cover its obligations with respect to its investments in special purpose trusts. See also Segregation of Assets in the Statement of Additional Information.

The Fund invests in both inverse floating rate securities and floating rate securities (as discussed below) issued by the same special purpose trust.

Floating Rate Securities. The Fund may also invest in floating rate securities, as described above, issued by special purpose trusts. Floating rate securities may take the form of short-term floating rate securities or the option period may be substantially longer. Generally, the interest rate earned will be based upon the market rates for municipal securities with maturities or remarketing provisions that are comparable in duration to the periodic interval of the tender option, which may vary from weekly, to monthly, to extended periods of one year or multiple years. Since the option feature has a shorter-term than the final maturity or first call date of the underlying bond deposited in the trust, the Fund as the holder of the floating rate securities relies upon the terms of the agreement with the financial institution furnishing the option as well as the credit strength of that institution. As further assurance of liquidity, the terms of the trust provide for a liquidation of the municipal bond deposited in the trust and the application of the proceeds to pay off the floating rate securities. The trusts that are organized to issue both short-term floating rate securities and inverse floaters generally include liquidation triggers to protect the investor in the floating rate securities.

Special Taxing Districts. Special taxing districts are organized to plan and finance infrastructure developments to induce residential, commercial and industrial growth and redevelopment. The bond financing methods such as tax increment finance, tax assessment, special services district and Mello-Roos bonds, are generally payable solely from taxes or other revenues attributable to the specific projects financed by the bonds without recourse to the credit or taxing power of related or overlapping municipalities. They often are exposed to real estate development-related risks and can have more taxpayer concentration risk than general tax-supported bonds, such as general obligation bonds.

Further, the fees, special taxes, or tax allocations and other revenues that are established to secure such financings are generally limited as to the rate or amount that may be levied or assessed and are not subject to increase pursuant to rate covenants or municipal or corporate guarantees. The bonds could default if development failed to progress as anticipated or if larger taxpayers failed to pay the assessments, fees and taxes as provided in the financing plans of the districts.

Zero Coupon Bonds

A zero coupon bond is a bond that does not pay interest either for the entire life of the obligation or for an initial period after the issuance of the obligation. When held to its maturity, its return comes from the difference between the purchase price and its maturity value. A zero coupon bond is normally issued and traded at a deep discount from face value. Zero coupon bonds allow an issuer to avoid or delay the need to generate cash to meet current interest payments and, as a result, may involve greater credit risk than bonds that pay interest currently or in cash. The market prices of zero coupon bonds are affected to a greater extent by changes in prevailing levels of interest rates and thereby tend to be more volatile in price than securities that pay interest periodically. In addition, the Fund would be required to distribute the income on any of these instruments as it accrues, even though the Fund will not receive all of the income on a current basis or in cash. Thus, the Fund may have to sell other investments, including when it may not be advisable to do so, to make income distributions to its shareholders.

Structured Notes

The Fund may utilize structured notes and similar instruments for investment purposes and also for hedging purposes. Structured notes are privately negotiated debt obligations where the principal and/or interest is determined by reference to the performance of a benchmark asset, market or interest rate (an embedded index), such as selected securities, an index of securities or specified interest rates, or the differential performance of two assets or markets. The terms of such structured instruments normally provide that their principal and/or interest payments are to be adjusted upwards or downwards (but not ordinarily below zero) to reflect changes in the embedded index while the structured instruments are outstanding. As a result, the interest and/or principal

payments that may be made on a structured product may vary widely, depending upon a variety of factors, including the volatility of the embedded index and the effect of changes in the embedded index on principal and/or interest payments. The rate of return on structured notes may be determined by applying a multiplier to the performance or differential performance of the referenced index or indices or other assets. Application of a multiplier involves leverage that will serve to magnify the potential for gain and the risk of loss. These types of investments may generate taxable income.

Other Investment Companies

The Fund may invest up to 10% of its Managed Assets in securities of other open- or closed-end investment companies (including exchange-traded funds (often referred to as ETFs)) that invest primarily in municipal securities of the types in which the Fund may invest directly. The Fund may invest in investment companies that are advised by Nuveen Fund Advisors, Nuveen Asset Management, or their respective affiliates to the extent permitted by applicable law and/or pursuant to exemptive relief from the Securities and Exchange Commission. As a stockholder in an 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 and administrative fees with respect to assets so invested. Fund common shareholders would therefore be subject to duplicative expenses to the extent the Fund invests in other investment companies.

Nuveen Asset Management will take expenses into account when evaluating the investment merits of an investment in the investment company relative to available municipal security investments. In addition, because the securities of other investment companies may be leveraged and subject to leverage risk, the Fund may indirectly be subject to those risks. See Risks General Risks of Investing in the Fund Other Investment Companies Risk.

Derivatives

The Fund may invest in derivative instruments in pursuit of its investment objectives. Such instruments include financial futures contracts, swap contracts (including interest rate and credit default swaps), options on financial futures, options on swap contracts, or other derivative instruments. Nuveen Asset Management uses derivatives to seek to enhance return, to hedge some of the risks of its investments in fixed income securities or as a substitute for a position in the underlying asset. See the SAI for additional information.

Portfolio Investments

As used in this prospectus, the term municipal securities includes municipal securities with relatively short-term maturities. Some of these short-term securities may be variable or floating rate securities. The Fund, however, emphasizes investments in municipal securities with long- or intermediate-term maturities. The Fund buys municipal securities with different maturities and intends to maintain an average portfolio maturity of 15 to 30 years, although this may be shortened depending on market conditions. As a result, the Fund s portfolio may include long-term and intermediate-term municipal securities. If the long-term municipal security market is unstable, the Fund may temporarily invest up to 100% of its assets in temporary investments. Temporary investments are high quality, generally uninsured, short-term municipal securities that may either be tax-exempt or taxable. The Fund will buy taxable temporary investments only if suitable tax-exempt temporary investments are not available at reasonable prices and yields. The Fund will invest only in taxable temporary securities that are U.S. Government securities or corporate debt securities rated within the highest grade by Moody s, S&P or Fitch, and that mature within one year from the date of purchase or carry a variable of floating rate of interest. The Fund s policies on securities ratings only apply when the Fund buys a security, and the Fund is not required to sell securities that have been downgraded. See Appendix B to the SAI for a description of securities ratings. The Fund also may invest in taxable temporary investments that are certificates of deposit from U.S. banks with assets of at least $1 billion, or repurchase agreements. The Fund intends to allocate taxable income on temporary investments, if any, proportionately between common shares and Preferred Stock, including MTP Shares, based on the percentage of total dividends distributed to each class for that year.

RISKS

Risk is inherent in all investing. Investing in any investment company security 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 you should consider carefully the following risks that you assume when you invest in MTP Shares. The section below does not describe all of the risks associated with an investment in the Fund. Additional risks and uncertainties may also adversely affect and impact the Fund.

Risks of Investing in MTP Shares

Interest Rate Risk MTP Shares. MTP Shares pay dividends at a fixed dividend rate. Prices of fixed income investments vary inversely with changes in market yields. The market yields on securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares prior to the term redemption date. See Description of MTP Shares Dividends and Dividend Periods and Risks Risks of Investing in MTP Shares Secondary Market and Delayed Listing Risk.

Secondary Market and Delayed Listing Risk. Because the Fund has limited trading history for exchange-listed preferred shares, it is difficult to predict the trading patterns of MTP Shares, including the effective costs of trading MTP Shares. During a period of up to 30 days from the date of this prospectus, the MTP Shares will not be listed on any securities exchange. During this period, the underwriters do not intend to make a market in MTP Shares. Consequently, an investment in MTP Shares during this period will likely be illiquid and holders of MTP Shares may not be able to sell such shares as it is unlikely that a secondary market for MTP Shares will develop during this period. If a secondary market does develop during this period, holders of MTP Shares may be able to sell such shares only at substantial discounts from liquidation preference. Application has been made to list the MTP Shares on the New York Stock Exchange so that trading on such exchange will begin within 30 days from the date of this prospectus, subject to notice of issuance. If the Fund is unable to list MTP Shares on a national securities exchange, holders of MTP Shares may be unable to sell such shares at all, or if they are able to, only at substantial discounts from liquidation preference. Even after the MTP Shares are listed on the New York Stock Exchange as anticipated, there is a risk that the market for MTP Shares may be thinly traded and relatively illiquid compared to the market for other types of securities, with the spread between the bid and asked prices considerably greater than the spreads of other securities with comparable terms, credit ratings and tax-advantaged income features.

Ratings Risk. The Fund expects that, at issuance, the MTP Shares will be rated at certain minimum levels by Rating Agencies designated by the Fund s Board of Trustees, and that such ratings will be a requirement of issuance of such shares by the underwriters pursuant to an underwriting agreement. There can be no assurance that the MTP Shares will receive any particular rating from any Rating Agency, or that any such ratings will be maintained at the level originally assigned through the term of MTP Shares. In the event that one or more of the Rating Agencies do not issue a rating on the MTP Shares at all or at the minimum level required, the issuance and sale of MTP Shares in this offering may not be completed. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a Rating Agency (including Moody s, S&P and Fitch) is only the opinion of the entity issuing the rating at that time, and is not a guarantee as to quality, or an assurance of the future performance, of the rated security (in this case, MTP Shares). In addition, the manner in which the Rating Agency obtains and processes information about a particular security may affect the Rating Agency s ability to timely react to changes in an issuer s circumstances (in this case, the Fund) that could influence a particular rating. A Rating Agency could downgrade MTP Shares, which may make MTP Shares less liquid in the secondary market and reduce market prices. As described above under Description of MTP Shares Rating Agencies, S&P is currently considering adopting the S&P Proposal, which may result in S&P downgrading the MTP Shares after such proposal becomes effective. In the event that S&P downgrades the MTP Shares, the Fixed Dividend Rate would only increase if each of the other Rating Agencies also downgrades the MTP Shares. Nevertheless, a downgrade by S&P could adversely affect the market pricing and liquidity of the MTP Shares.

There can be no assurance that S&P will or will not take any action with respect to the S&P Proposal or that any such action would not result in a downgrade of MTP Shares. Further, there can be no assurance that any other Rating Agency will not also alter its rating criteria resulting in downgrades of ratings, which could further adversely affect the market pricing and liquidity of MTP Shares.

Early Redemption Risk. The Fund may voluntarily redeem MTP Shares or may be forced to redeem MTP Shares to meet regulatory requirements and the asset coverage requirements of the MTP Shares. Such redemptions may be at a time that is unfavorable to holders of MTP Shares. The Fund expects to voluntarily redeem MTP Shares before the Term Redemption Date to the extent that market conditions allow the Fund to issue other preferred shares or debt securities at a rate that is lower than the Fixed Dividend Rate on MTP Shares. For further information, see Description of MTP Shares Redemption and Asset Coverage.

Tax Risk. To qualify for the favorable U.S. federal income tax treatment generally accorded to regulated investment companies, among other things, the Fund must derive in each taxable year at least 90% of its gross income from certain prescribed sources. If for any taxable year the Fund does not qualify as a regulated investment company, all of its taxable income (including its net capital gain) would be subject to tax at regular corporate rates without any deduction for distributions to stockholders, and such distributions would be taxable as ordinary dividends to the extent of the Fund s current and accumulated earnings and profits. The value of MTP Shares may be adversely affected by changes in tax rates and policies. Because dividends from MTP Shares are generally not expected to be subject to regular federal or California income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal or California income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A substantial portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. In addition, the Fund will treat MTP Shares as stock in the Fund for federal income tax purposes. Because there is no controlling legal precedent on the classification of MTP Shares as equity for federal income tax purposes, investors should be aware that the Internal Revenue Service (IRS) could assert a contrary position- meaning that the IRS could attempt to classify MTP Shares as debt. If the IRS prevailed on such a position, the Fund would not be able to pass through tax-exempt income to holders of MTP Shares, and dividends paid on MTP Shares (including dividends already paid) could become taxable. Although there is no controlling legal precedent, the Fund s treatment of the MTP Shares as stock is consistent with the holding of a private letter ruling issued by the IRS to another regulated investment company that preferred stock substantially identical to MTP Shares qualifies as equity for federal income tax purposes. In general, private letter rulings may not be used or cited as precedent, but the courts recognize that private letter rulings reveal the interpretation put upon the statute by the IRS and that they may be helpful in establishing consistency of administrative treatment. In addition, private letter rulings are authority for purposes of determining whether there is substantial authority for the tax treatment of an item in connection with the imposition of the accuracy-related penalty under Section 6662 of the Code. The Fund does not intend currently to seek a ruling on the equity status of MTP Shares. See Tax Matters. See also the opinion of counsel included as Appendix C to the SAI.

Income Shortfall Risk. The municipal securities held in the Fund s portfolio generally pay interest based on long-term yields. Long-term, as well as intermediate-term and short-term interest rates may fluctuate. If the interest rates paid on the municipal securities held by the Fund fall below the Fixed Dividend Rate, the Fund s ability to pay dividends on MTP Shares could be jeopardized.

Subordination Risk. While holders of MTP Shares will have equal liquidation and distribution rights to any other Preferred Stock that might be issued by the Fund, they will be subordinated to the rights of holders of senior indebtedness, if any, of the Fund. Therefore, dividends, distributions and other payments to holders of MTP Shares in liquidation or otherwise may be subject to prior payments due to the holders of senior indebtedness. In addition, the 1940 Act may provide debt holders with voting rights that are superior to the voting rights of Preferred Stock holders, including holders of MTP Shares. Currently, the Fund, as a fundamental policy, may not issue debt securities that rank senior to MTP Shares. See the SAI, Investment Restrictions. If the Fund enters into borrowings in accordance with its fundamental investment policies, delayed delivery purchases and/or forward delivery contracts, the rights of lenders and counterparties in those transactions will also be senior to those of holders of MTP Shares.

Credit Crisis and Liquidity Risk. General market uncertainty and extraordinary conditions in the credit markets, including the municipal market, may impact the liquidity of the Fund s investment portfolio, which in turn, during extraordinary circumstances, could impact the Fund s distributions and/or the liquidity of the Term Redemption Liquidity Account (as described under Description of MTP Shares). Further, there may be market imbalances of sellers and buyers of MTP Shares during periods of extreme illiquidity and volatility. Such market conditions may lead to periods of thin trading in any secondary market for MTP Shares and may make valuation of MTP Shares uncertain. As a result, the spread between bid and asked prices is likely to increase significantly such that an MTP Shares investor may have greater difficulty selling his or her MTP Shares. Less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.

Inflation Risk. Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation-adjusted (or real) value of an investment in MTP Shares or the income from that investment will be worth less in the future. As inflation occurs, the real value of MTP Shares and dividends on MTP Shares declines.

Reinvestment Risk MTP Shares. Given the three-year term and potential for early redemption of MTP Shares, holders of MTP Shares may face an increased reinvestment risk, which is the risk that the return on an investment purchased with proceeds from the sale or redemption of MTP Shares may be lower than the return previously obtained from an investment in MTP Shares.

Other Dividend Risks. In addition to the interest rate risks noted above, the Fund may otherwise be unable to pay dividends on MTP Shares in extraordinary circumstances.

General Risks of Investing in the Fund

Credit and Below Investment Grade Risk. Credit risk is the risk that one or more municipal securities in the Fund s portfolio will decline in price, or the issuer thereof will fail to pay interest or principal when due, because the issuer experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. The Fund may invest up to 20% (measured at the time of investment) of its Managed Assets in municipal securities that are rated below investment grade or that are unrated but judged to be of comparable quality by Nuveen Asset Management. If a municipal security satisfies the rating requirements described above at the time of investment and is subsequently downgraded below that rating, the Fund will not be required to dispose of the security. If a downgrade occurs, Nuveen Asset Management will consider what action, including the sale of the security, is in the best interests of the Fund and its shareholders. Municipal securities of below investment grade quality are regarded as having predominately speculative characteristics with respect to the issuer s capacity to pay interest and repay principal when due, and are more susceptible to default or decline in market value due to adverse economic and business developments than investment grade municipal securities. Also, to the extent that the rating assigned to a municipal security in the Fund s portfolio is downgraded by any NRSRO, the market price and liquidity of such security may be adversely affected. The market values for municipal securities of below investment grade quality tend to be volatile, and these securities are less liquid than investment grade municipal securities. For these reasons, an investment in the Fund, compared with a portfolio consisting solely of investment grade securities, may experience the following:

- increased price sensitivity resulting from a deteriorating economic environment and changing interest rates;
- greater risk of loss due to default or declining credit quality;

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

- the possibility that a negative perception of the below investment grade market develops, resulting in the price and liquidity of below investment grade securities becoming depressed, and this negative perception could last for a significant period of time.

Municipal Securities Market Risk. Investing in the municipal securities market involves certain risks. The municipal securities market is one in which dealer firms make markets in bonds on a principal basis using their proprietary capital, and during the recent market turmoil these firms capital became severely constrained. As a result, some firms were unwilling to commit their capital to purchase and to serve as a dealer for municipal securities. The amount of public information available about the municipal securities in the Fund s portfolio is generally less than that for corporate equities or bonds, and the Fund s investment performance may therefore be more dependent on Nuveen Fund Advisors s analytical abilities than if the Fund were to invest in stocks or taxable bonds. As noted above the secondary market for municipal securities also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Fund s ability to sell its municipal securities at attractive prices or at prices approximating those at which the Fund currently values them. Municipal securities may contain redemption provisions, which may allow the securities to be called or redeemed prior to their stated maturity, potentially resulting in the distribution of principal and a reduction in subsequent interest distributions.

The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. If the current national economic recession continues, the ability of municipalities to collect revenue and service their obligations could be materially and adversely affected. The taxing power of any government entity may be limited by provisions of state constitutions or laws and an entity s credit will depend on many factors, including the entity s tax base, the extent to which the entity relies on federal or state aid, and other factors which are beyond the entity s control. See Appendix A Factors Affecting Municipal Securities in California Issues Affecting Local Governments and Special Districts Limitation on Property Taxes, Limitations on Other Taxes, Fees and Charges, and Appropriations Limits. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations, or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under the bankruptcy laws. In the event of bankruptcy of such an issuer, the Fund could experience delays in collecting principal and interest and the Fund may not, in all circumstances, be able to collect all principal and interest to which it is entitled. To enforce its rights in the event of a default in the payment of interest or repayment of principal, or both, the Fund may take possession of and manage the assets securing the issuer s obligations on such securities, which may increase the Fund s operating expenses. Any income derived from the Fund s ownership or operation of such assets may not be tax-exempt.

Revenue bonds issued by state or local agencies to finance the development of low-income, multi-family housing involve special risks in addition to those associated with municipal securities generally, including that the underlying properties may not generate sufficient income to pay expenses and interest costs. These bonds are generally non-recourse against the property owner, may be junior to the rights of others with an interest in the properties, may pay interest that changes based in part on the financial performance of the property, may be prepayable without penalty and may be used to finance the construction of housing developments which, until completed and rented, do not generate income to pay interest. Additionally, unusually high rates of default on the underlying mortgage loans may reduce revenues available for the payment of principle or interest on such mortgage revenue bonds.

Interest Rate Risk The Fund. Generally, when market interest rates rise, bond prices fall, and vice versa. Interest rate risk is the risk that the municipal securities in the Fund s portfolio will decline in value because of increases in market interest rates. In typical market interest rate environments, the prices of longer-term municipal securities generally fluctuate more than prices of shorter-term municipal securities as interest rates change.

Concentration Risk. As described above, the Fund will invest at least 80% of its net assets in state and local municipal securities whose income is exempt from regular federal and California income taxes. The Fund is therefore susceptible to political, economic or regulatory facts affecting issuers of such securities. The information set forth below and the related information in the Appendix A of this prospectus is derived from sources that are generally available to investors. The information is intended to give a recent historical description and is not intended to indicate future or continuing trends in the financial or other positions of the State of California. It should be noted that the creditworthiness of obligations issued by local California issuers may be unrelated to the creditworthiness of obligations issued by the State of California, and that there is no obligation on the part of the State to make payment on such local obligations in the event of default.

The State, as the rest of the nation, is slowly emerging from a severe economic recession. During the recession, personal income fell in the State in the fourth quarter of 2008 and the first three quarters of 2009. The decline in the first quarter of 2009, 1.8 percent, was the largest since 1993. The State experienced continuous quarterly growth in personal income between the fourth quarter of 2009 and the third quarter of 2010 based on economic data released in December 2010. Taxable sales fell sharply in the first half of 2009 before increasing in the third and fourth quarters of 2009 and the first quarter of 2010. Taxable sales fell for the second quarter of 2010 by 1.4 percent but rebounded with a 2.0 percent increase in the third quarter of 2010. The State s unemployment rate increased from 6.1 percent at the start of 2008 to 12.4 percent in January 2011. The United States unemployment rate for January 2011 was 9.0 percent. Nonfarm payroll employment fell by 1,218,900 from December 2007 to January 2011. Through January 2011, the California construction industry lost 377,000 jobs, a drop of 39.9 percent from its peak in February 2006, and the California financial activities sector lost 178,800 jobs, a loss of 19.1 percent from its peak in May 2006. From January 2008 through January 2011, ten of California s 11 major industry sectors lost jobs while the only major industry sector to add jobs was educational and health services.

In response to the most severe economic downturn in the United States since the Great Depression, the State Legislature enacted and former Governor Schwarzenegger adopted substantial spending reductions, program eliminations, revenue increases, and other solutions in order to close an estimated $60 billion budget gap over the combined 2008-09 and 2009-10 fiscal years. The State adopted reforms in nearly every area of government to better contain costs in the future.

The State appears to be slowly emerging from the recession, but economic growth remains modest and unemployment levels are still very high. In January 2010, California s projected budget gap for fiscal years 2009-10 and 2010-11 was $19.9 billion. The deterioration of the State s fiscal condition since adoption of the budget plan made in February and revised in July 2009 for the 2009-10 fiscal year (Amended 2009 Budget Act) was due to a combination of lower than projected revenues, failure to achieve expected savings (due in part to adverse court decisions) and population and caseload growth. A special session of the State Legislature in February 2010 enacted several bills that addressed about $2.1 billion of this gap. Further reduced revenue estimates ($0.6 billion) and higher expenditure estimates ($0.7 billion) added about $1.3 billion to the gap, so that the Governor s revised budget for fiscal year 2010-11 released on May 14, 2010 (2010-11 May Revision) projected the remaining budget gap at $19.1 billion. This figure is comprised of a current year shortfall of $7.7 billion, a fiscal year 2010-11 shortfall of $10.2 billion and a $1.2 billion reserve for fiscal year 2010-11.

The 2010-11 May Revision proposed additional solutions to close the remaining budget gap. Additional federal funds (over and above the $2.2 billion already approved) account for $3.4 billion in solutions, a reduction from the $6.9 billion of additional federal funds contained in the Governor s proposed budget for the 2010-11 fiscal year released on January 8, 2010 (2010-11 Governor s Budget). Spending reductions account for $12.4 billion in solutions. Additional solutions include $1.3 billion in alternative funding and $2.1 billion in fund shifts and other revenues. In response, Legislative leaders proposed two different budget plans, one of which calls for significant tax increases, and another which would rely on a borrowing plan using certain significant non-General Fund revenues. The Legislature rejected both budget plans on August 31, 2010 because of political differences. On October 8, 2010, after a 100-day impasse since the start of the 2010-11 fiscal year, the State Legislature enacted a State budget for the 2010-11 fiscal year (2010 Budget Act) that closes a revised budget gap of $19.3 billion through $8.4 billion in expenditure reductions, $5.4 billion in federal funds, and $5.5 billion in other budget solutions. The 2010 Budget Act holds general fund spending essentially flat compared to the prior fiscal year, at $86.6 billion in 2010-11 compared to $86.3 billion in 2009-10, which marks a level of spending substantially lower than the level of spending in fiscal year 2005-06, adjusted for inflation and population growth.

On November 2, 2010, voters approved three initiative measures, which impact the State s budget or finances; all three of these measures were effective upon approval. Proposition 22 restricts the ability of the State to use or borrow money from local governments and moneys dedicated to transportation financing. It also prohibits actions taken in current and prior budgets to use excise taxes on motor vehicle fuels to offset General Fund costs of debt service on certain transportation bonds, and to borrow money from certain transportation funds. Proposition 25 reduces the required vote in each house of the Legislature to adopt the annual budget act, trailer bills which accompany the budget act, and other appropriations measures to a majority from two-thirds. Proposition 26 expands the definition of taxes under existing Constitutional provisions. Changes in taxes require a two-thirds vote of the Legislative to approve a tax increase.

Governor Brown was sworn into office on January 3, 2011, and faced an estimated budget deficit of $25.4 billion through fiscal year 2011-12, comprised of a 2010-11 shortfall of $8.2 billion and a 2011-12 budget year shortfall of $17.2 billion. On January 10, 2011, Governor Brown delivered his 2011-12 proposed budget (2011-12 Governor s Budget). The Governor s budget proposes $12.5 billion in spending reductions, $12 billion in revenue extensions and modifications, $1.9 billion in other solutions and provides for a $1 billion reserve. Significant among the proposals is a realignment plan to shift control over government programs from the state level to the local level in an attempt to reduce duplication of services and the extension of 2009 tax increases upon voter approval to be sought in June 2011. On February 9, 2011, Governor Brown cancelled the proposed sale and leaseback of 11 state properties that were authorized under the fiscal year 2009-10 budget, which was assumed to provide $1.2 billion in the 2010 Budget Act. Given the cancellation of the proposed sale of the 11 state properties, the State faced an estimated budget deficit as of the end of February 2011 of $26.6 billion. On March 17 and 18, 2011, the State Legislature enacted various budget cuts and balancing measures that totaled $14.0 billion towards closing the $26.6 billion budget deficit for fiscal year 2011-12. Among the proposals enacted by the State Legislature was the realignment of public safety services and facilities from state to county and local control. The State Legislature, however, as of March 18, 2011, has yet to take up the Governor s proposal to place the extension of existing temporary tax increases for another five years in a special statewide election for State voters to decide. The five year extension of existing temporary tax increases is expected to provide an additional $11.4 billion towards closing the budget shortfall. Even if the State Legislature passes the proposal to require State voters to decide the matter of extending existing temporary tax increases for another five years in a special statewide election in June 2011, there is no guarantee that voters will approve extending the temporary tax increases, and further cuts in State services will be required if these extensions are not approved.

The sharp drop in revenues over the last several fiscal years also resulted in a significant depletion of cash resources to pay the State s obligations. For a period of one month, in February 2009, the State deferred making certain payments from the General Fund in order to conserve cash resources for high priority obligations, such as education and debt service. By July 2009, as new budget gaps were identified and with the failure to adopt corrective actions, the State s cash resources had dwindled so far that, commencing July 2, 2009, the State Controller began to issue registered warrants (or IOUs) for certain lower priority obligations in lieu of warrants (checks), which could not be immediately cashed. The registered warrants, the issuance of which did not require the consent of the recipients thereof, bore interest. The registered warrants were all called for redemption on September 4, 2009 once the State was able to access the public credit markets for cash management purposes following enactment of the Amended 2009 Budget Act. No registered warrants were used to make high-priority payments, including debt service on bonds, payments to schools, or employee payrolls. The issuance of State registered warrants in 2009 was only the second time the State has issued State registered warrants since the 1930s.

Legislation enacted during the fiscal emergency special session in early March 2010 provides the State with additional tools to manage cash during key months of the budget year by authorizing short-term deferral of certain State payments, primarily to schools and local governments. The 2010 Budget Act also includes additional cash measures to assist the State Controller in managing cash immediately after budget enactment. These additional cash management tools will aid the State in managing large sum payments that were suspended during the 100-day budget impasse but are now due upon budget enactment. Specifically, the cash management legislation included in the budget package provides for a short-term payment deferral for pension contribution for schools and potential deferrals to schools and higher education to assist the State in meeting its priority payments. See Appendix A Factors Affecting Municipal Securities in California State Cash Management.

According to the State Department of Finance monthly economic update for March 2011, the State economy grew in January 2011, the State labor markets improved, with nonfarm employment increasing for the fourth consecutive month, and improvement was also seen in State commercial construction. However, the State Department of Finance also reported weak real estate markets and disappointing home building as factors hindering the pace of economic recovery in the State.

In terms of labor market conditions, five of 11 major industry sectors added jobs in January 2011. Manufacturing added 1,000 jobs; trade, transportation, and utilities, 19,200; construction, 17,800; government, 3,000; and mining and logging, 800. The State gained 102,100 jobs from January 2010 to January 2011 (0.7%), which was the strongest year-over-year job growth since July 2007.

The pace of home building slowed in January 2011 following an end-of-the-year surge in December 2010 to beat the imposition of new building codes that took effect at the beginning of 2010. Residential permits were issued at a seasonally adjusted annual rate of 54,215 units, down almost 17 percent from December. Single-family permits fell 35.4 percent, while multi-family permitting was up 10.1 percent. On a year-over-year basis, nonresidential construction permitting rose 13.6 percent in January 2011 based on strong resurgence in the store, industrial, and other categories.

Preliminary General Fund agency cash for February 2011 was $643 million below the 2011-12 Governor s Budget forecast of $4.457 billion due in large part to adjustments in February 2011 sales and use tax receipts. Year-to-date revenues are $1.024 billion above forecast. Personal income tax revenues to the General Fund were $15 million above the month s forecast of $1.572 billion. Withholding receipts were $420 million above the. estimate of $2.841 billion and other receipts were $44 million above the anticipated $238 million. The gain in receipts was offset by refunds, which came in $449 million over the estimate of $1.479 billion. February 2011 is the first month of several significant months for 2010 tax year refunds. Proposition 63 requires that 1.76 percent of total monthly personal income tax collections be transferred to the Mental Health Services Fund (MHSF). The amount transferred to the MHSF in February 2011 matched the estimate of $28 million. Year-to-date General Fund income tax revenues are $1.286 billion above estimate. Sales and use tax receipts were $542 million below the month s forecast of $2.327 billion. Corporation tax revenues were $142 below the month s estimate of $270 million.

The longest and deepest recession in the post-Depression era may appear to be over but there is a risk that the economy s recovery may not be robust and even that a double-dip recession may occur. If the recovery continues to take hold, it will probably be moderate and prolonged by historical standards.

The pension funds managed by the State s principal retirement systems, the California Public Employees Retirement System and the California State Teachers Retirement System, have sustained significant investment losses during the economic downturn and currently have substantial unfunded liabilities which will require increased contributions from the General Fund in future years. Based on an actuarial report released by the State Controller on March 14, 2011, the State also has an unfunded liability relating to retirees post-employment healthcare benefits which was estimated to be $59.9 billion for the next 30 years as of June 30, 2010.

The credit ratings on California s general obligation bonds are among the lowest in the country because of the State s fiscal difficulties. As of February 2011, S&P, Moody s and Fitch rated the State s general obligation bonds with credit ratings of A-, A1 and A-, respectively. See

Appendix A Factors Affecting Municipal Securities in California .

California s current economic problems heighten the risk of investing in bonds issued by the State and its political subdivisions, agencies, instrumentalities and authorities, including the risk of potential issuer default. There is a heightened risk that there could be an interruption in payments to bondholders in some cases. This possibility, along with the risk of a further downgrade in the credit rating of the State s general obligation debt, could result in a reduction in the market value of the bonds held by the Fund, which could adversely affect the Fund s net asset values or the distributions paid by the Fund.

The foregoing information constitutes only a brief summary of some of the general factors that may impact certain issuers of municipal securities and does not purport to be a complete or exhaustive description of all adverse conditions to which the issuers of municipal securities held by the Fund are subject. Additionally, many factors, including national economic, social and environmental policies and conditions, which are not within the control of the issuers of the municipal securities, could affect or could have an adverse impact on the financial condition of the issuers. The Fund is unable to predict whether or to what extent such factors or other factors may affect the issuers of the municipal securities, the market value or marketability of the municipal securities or the ability of the respective issuers of the municipal securities acquired by the Fund to pay interest on or principal of the municipal securities. This information has not been independently verified. See Appendix A to this prospectus for a further discussion of factors affecting municipal securities in California.

Inverse Floating Rate Securities Risk. The Fund may invest up to 15% of its net assets in inverse floating rate securities. Typically, inverse floating rate securities represent beneficial interests in a special purpose trust (sometimes called a tender option bond trust) formed by a third party sponsor for the purpose of holding municipal securities. See Portfolio Composition Municipal Securities Inverse Floating Rate Securities. In general, income on inverse floating rate securities will decrease when interest rates increase and increase when interest rates decrease. Investments in inverse floating rate securities may subject the Fund to the risks of reduced or eliminated interest payments and losses of principal.

Inverse floating rate securities may increase or decrease in value at a greater rate than the underlying interest rate, which effectively leverages the Fund s investment. As a result, the market value of such securities generally will be more volatile than that of fixed rate securities.

The Fund may invest in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund. In Nuveen Fund Advisors s discretion, the Fund may enter into a separate shortfall and forbearance agreement with the third party sponsor of a special purpose trust. The Fund may enter into such recourse agreements (i) when the liquidity provider to the special purpose trust requires such an agreement because the level of leverage in the special purpose trust exceeds the level that the liquidity provider is willing to support absent such an agreement; and/or (ii) to seek to prevent the liquidity provider from collapsing the special purpose trust in the event that the municipal obligation held in the trust has declined in value. Such an agreement would require the Fund to reimburse the third party sponsor of the trust, upon termination of the trust issuing the inverse floater, the difference between the liquidation value of the bonds held in the trust and the principal amount due to the holders of floating rate securities. In such instances, the Fund may be at risk of loss that exceeds its investment in the inverse floating rate securities.

The Fund s investments in inverse floating rate securities issued by special purpose trusts that have recourse to the Fund may be highly leveraged. The structure and degree to which the Fund s inverse floating rate securities are highly leveraged will vary based upon a number of factors, including the size of the trust itself and the terms of the underlying municipal security held in a special purpose trust. An inverse floating rate security generally is considered highly leveraged if the principal amount of the short-term floating rate interests issued by the related special purpose trust is in excess of three times the principal amount of the inverse floating rate securities owned by the trust (the ratio of the principal amount of such short-term floating rate interests to the principal amount of the inverse floating rate securities is referred to as the gearing). In the event of a significant decline in the value of an underlying security, the Fund may suffer losses in excess of the amount of its investment (up to an amount equal to the value of the municipal securities underlying the inverse floating rate securities) as a result of liquidating special purpose trusts or other collateral required to maintain the Fund s anticipated effective leverage ratio.

The economic effect of leverage through the Fund s purchase of inverse floating rate securities creates an opportunity for increased net income and returns, but also creates the possibly that the Fund s long-term returns will be diminished if the cost of leverage exceeds the return on the inverse floating rate securities purchased by the Fund.

Inverse floating rate securities have varying degrees of liquidity based upon the liquidity of the underlying securities deposited in a special purpose trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. The leverage attributable to such inverse floating rate securities may be called away on relatively short notice and therefore may be less permanent than more traditional forms of leverage. In certain circumstances, the likelihood of an increase in the volatility of net asset value and market price of the common shares may be greater for the Fund to the extent that it relies on inverse floating rate securities to achieve a significant portion of its desired effective leverage ratio. The Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings in certain circumstances, including, but not limited to, the following:

- If the Fund has a need for cash and the securities in a special purpose trust are not actively trading due to adverse market conditions;

- If special purpose trust sponsors (as a collective group or individually) experience financial hardship and consequently seek to terminate their respective outstanding special purpose trusts; and

- If the value of an underlying security declines significantly (to a level below the notional value of the floating rate securities issued by the trust) and if additional collateral has not been posted by the Fund.

Taxability Risk. The Fund will invest in municipal securities in reliance at the time of purchase on an opinion of bond counsel to the issuer that the interest paid on those securities will be excludable from gross income for regular federal income tax purposes, and Nuveen Asset Management will not independently verify that opinion. Subsequent to the Fund s acquisition of such a municipal security, however, the security may be determined to pay, or to have paid, taxable income. As a result, the treatment of dividends previously paid or to be paid by the Fund as exempt-interest dividends could be adversely affected, subjecting the Fund s shareholders to increased federal income tax liabilities.

Under highly unusual circumstances, the IRS may determine that a municipal bond issued as tax-exempt should in fact be taxable. If the Fund held such a bond, it might have to distribute taxable ordinary income dividends or reclassify as taxable income previously distributed as exempt-interest dividends.

December 31, 2014

High CQR

$
865

$
-

$
156

$
1,021

$
3,135

$
43,852

$
48,008

$
(27,024
)

$
20,984

Average CQR

21

-

-

21

81

14,619

14,721

(8,885
)

5,836

Low CQR

-

-

707

707

-

2,754

3,461

-

3,461

Total

886

-

863

1,749

3,216

61,225

66,190

(35,909
)

30,281

March 31, 2014

High CQR

$
-

$
205

$
148

$
353

$
2,317

$

30,249

$
32,919

$
(19,641
)

$
13,278

Average CQR

-

-

-

-

-

6,950

6,950

(3,491
)

3,459

Low CQR

-

-

791

791

-

3,047

3,838

-

3,838

Total

-

205

939

1,144

2,317

40,246

43,707

(23,132
)

20,575

We estimate losses on our net credit exposure to be between 0% - 5% for customers with highest CQR, as these customers are investment grade or the equivalent of investment grade. We estimate losses on our net credit exposure to be between 2% - 25% for customers with average CQR, and between 25% - 100% for customers with low CQR, which includes customers in bankruptcy.

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5. PROPERTY, EQUIPMENT, OTHER ASSETS AND LIABILITIES

Our property, equipment, other assets and liabilities consist of the following (in thousands):

	December 31, 2014	March 31, 2014
Other current assets:		
Deposits & funds held in escrow	$ 4,717	$ 995
Prepaid assets	2,896	2,865
Supplemental benefit plan investments	-	2,544
Other	92	521
Total other current assets	$ 7,705	$ 6,925
Other assets:		
Deferred costs	$ 2,017	$ 1,591
Property and equipment, net	5,834	4,293
Other	1,196	2,129
Other assets - long term	$ 9,047	$ 8,013

	December 31, 2014	March 31, 2014
Other current liabilities		
Accrued expenses	$ 9,020	$ 5,322
Deferred compensation	222	2,544
Other	11,179	7,516
Total other current liabilities	$ 20,421	$ 15,382
Other liabilities		
Deferred revenue	$ 2,561	$ 1,822
Other	960	-
Total other liabilities - long term	$ 3,521	$ 1,822

6. NOTES PAYABLE AND CREDIT FACILITY

Non-recourse and recourse obligations consist of the following (in thousands):

	December 31, 2014	March 31, 2014
Recourse notes payable with interest rates ranging from 2.24% and 4.1% at December 31, 2014 and 2.24% and 4.84% at March 31, 2014.		
Current	$ 850	$ 1,460
Long-term	2,926	2,100
Total recourse notes payable	$ 3,776	$ 3,560

Non-recourse notes payable secured by financing receivables and investments in operating leases with interest rates ranging from 2.00% to 10.00% at December 31, 2014 and ranging from 2.00% to 11.24% as of March 31, 2014.		
Current	$ 44,290	$ 30,907
Long-term	24,434	34,421
Total non-recourse notes payable	$ 68,724	$ 65,328

Principal and interest payments on the non-recourse notes payable are generally due monthly in amounts that are approximately equal to the total payments due from the customer under the leases or notes receivable that collateralize the notes payable. The weighted average interest rate for our non-recourse notes payable was 3.35% and 3.46%, as of December 31, 2014 and March 31, 2014, respectively. The weighted average interest rate for our recourse notes payable was 3.22% and 3.85%, as of December 31, 2014 and March 31, 2014, respectively. Under recourse financing, in the event of a default by a customer, the lender has recourse to the customer, the assets serving as collateral, and us. Under non-recourse financing, in the event of a default by a customer, the lender generally only has recourse against the customer, and the assets serving as collateral, but not against us.

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In May 2014, we entered into an agreement to repurchase the rights, title, and interest to payments due under a financing agreement. This financing agreement was previously assigned to a third party financial institution and accounted for as a secured borrowing. In conjunction with the repurchase agreement, we recognized a gain of $1.4 million, which is presented within other income in our unaudited condensed consolidated statement of operations.

Our technology segment, through our subsidiary ePlus Technology, inc., finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance Corporation ("GECDF"). This facility provides short-term capital for our technology segment. There are two components of the GECDF credit facility: (1) a floor plan component and (2) an accounts receivable component. Under the floor plan component, we had outstanding balances of $110.6 million and $93.4 million as of December 31, 2014 and March 31, 2014, respectively. Under the accounts receivable component, we had no outstanding balances as of December 31, 2014 and March 31, 2014.

As of March 31, 2014, the facility agreement had an aggregate limit of the two components of $175.0 million, and the accounts receivable component had a sub-limit of $30.0 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent. On July 31, 2014, ePlus Technology, inc. amended its credit facility with GECDF, which included an increase to the aggregate credit limit. As of December 31, 2014, the facility agreement had an aggregate limit of the two components of $225.0 million, and the accounts receivable component had a sub-limit of $30.0 million, which bears interest assessed at a rate of the One Month LIBOR plus two and one half percent.

The credit facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as receivables and inventory. Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2014. In addition, the facility limits the ability of ePlus Technology, inc. to transfer funds to its affiliates in the form of dividends, loans or advances. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also includes that other operational reports be provided on a regular basis. Either party may terminate with 90 days advance notice. We are not, and do not believe that we are reasonably likely to be, in breach of the GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by certain dates. We have delivered the annual audited financial statements for the year ended March 31, 2014 as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

We have an agreement with First Virginia Community Bank to provide us with a $0.5 million credit facility, which matures on October 26, 2015. The credit facility is available for use by us and our affiliates and the lender has full recourse to us. Borrowings under this facility bear interest at the Wall Street Journal U.S. Prime rate plus 1%. The primary purpose of the facility is to provide letters of credit for landlords, taxing authorities and bids. As of December 31, 2014 and March 31, 2014, we had no outstanding balance on this credit facility.

Fair Value

As of December 31, 2014, the fair value of our long-term recourse and non-recourse notes payable approximated their carrying value.

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7. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

On May 19, 2009, we filed a complaint (the "Lawson litigation") in the United States District Court for the Eastern District of Virginia (the "trial court") against four defendants, alleging that they used or sold products, methods, processes, services and/or systems that infringe on certain of our patents. During July and August 2009, we entered into settlement and license agreements with three of the defendants. We obtained a jury verdict against the remaining defendant, Lawson Software, Inc. ("Lawson") on January 27, 2011. The jury unanimously found that Lawson infringed certain ePlus patents relating to electronic procurement systems, and additionally found that all ePlus patent claims tried in court were not invalid.

On May 23, 2011, the trial court issued a permanent injunction, ordering Lawson and its successors to: immediately stop selling and servicing products relating to its electronic procurement systems that infringe our patents; cease providing any ongoing or future maintenance, training or installation of its infringing products; and refrain from publishing any literature or information that encourages the use or sale of its infringing products. Lawson filed an appeal. On November 21, 2012, the United States Court of Appeals for the Federal Circuit (the "Appeals Court") reversed in part, vacated in part, affirmed in part, and remanded. The Appeals Court upheld the finding that the patent claims were not invalid and upheld, in part, the finding of infringement. On June 11, 2013, consistent with the Appeals Court's decision, the trial court issued an Order modifying the injunction so that it would continue in full effect with respect to those configurations of Lawson's electronic procurement systems that the Appeals Court affirmed were infringing.

On August 16, 2013, the trial court issued an order finding, by clear and convincing evidence, that Lawson was in contempt of the trial court's May 23, 2011, injunction, entering judgment in our favor in the amount of $18.2 million, and ordering that Lawson pay to the court a daily coercive fine. Lawson filed an appeal and posted a bond, and collection of the judgment and imposition of the coercive fine were stayed pending the appeal.

Patent litigation is extremely complex and issues regarding a patent's validity can arise even subsequent to a patent's issuance and a court's enforcement thereof. On April 3, 2014, the United States Patent and Trademark Office issued a notice canceling the patent at issue in the Lawson litigation. On July 25, 2014, the Appeals Court issued an Opinion vacating the injunction and contempt order. We have filed a Petition for Rehearing, and are awaiting the court's response.

These types of cases are complex in nature, are likely to have significant expenses associated with them, and we cannot predict when any litigation will be resolved, whether we will be successful in our claim for a contempt finding or damages, whether any award ultimately received will exceed the costs incurred to pursue this matter, or how long it will take to bring this matter to resolution.

We filed a claim in a class action suit in the United States District Court for the Northern District of California. The suit alleged that ten groups of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers. On August 6, 2014, the Claims Administrator issued to us a Notice of Claim Final Determination. On October 20, 2014, the court issued an order directing that approved claims be paid, and on October 31, 2014, we received payment in the amount of $6.2 million, which is presented within other income in our unaudited condensed consolidated statement of operations.

Other Matters

We may become party to various legal proceedings arising in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

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8. EARNINGS PER SHARE

Basic earnings per share is computed by dividing net earnings attributable to common shares by the weighted average number of common shares outstanding for the period. Diluted net earnings per share include the potential dilution of securities that could participate in our earnings, but not securities that are anti-dilutive. Unvested shares of restricted stock awards ("RSAs"), which contain non-forfeitable rights to dividends, whether paid or unpaid are considered participating securities because their holders have the right to participate in earnings with common stockholders. We use the two-class method to allocate net income between common shares and other participating securities. We no longer grant RSAs that contain non-forfeitable rights to dividends and as of December 31, 2014, we no longer have any unvested shares of RSAs with non-forfeitable rights to dividends.

The following table provides a reconciliation of the numerators and denominators used to calculate basic and diluted net earnings per common share as disclosed in our unaudited condensed consolidated statements of operations for the three and nine months ended December 31, 2014 and December 31, 2013 (in thousands, except per share data).

	Three months ended December 31,		Nine months ended December 31,	
	2014	2013	2014	2013
Basic and diluted common shares outstanding				
Weighted average common shares outstanding — basic	7,230	7,950	7,351	7,947
Effect of dilutive shares	49	32	62	66
Weighted average shares common outstanding — diluted	7,279	7,982	7,413	8,013
Calculation of earnings per common share - basic				
Net earnings	$15,501	$10,610	$36,930	$27,051
Net earnings attributable to participating securities	-	60	63	261
Net earnings attributable to common shareholders	$15,501	$10,550	$36,867	$26,790
Earnings per common share - basic	$2.14	$1.33	$5.02	$3.37
Calculation of earnings per common share - diluted				
Net earnings attributable to common shareholders— basic	$15,501	$10,550	$36,867	$26,790
Add: undistributed earnings attributable to participating securities	-	-	1	2
Net earnings attributable to common shareholders— diluted	$15,501	$10,550	$36,868	$26,792
Earnings per common share - diluted	$2.13	$1.32	$4.97	$3.34

9. STOCKHOLDERS' EQUITY

On June 12, 2014, our board of directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock over a 12-month period commencing June 16, 2014. The purchases may be made from time to time in the open market, or in privately negotiated transactions, subject to availability. Any repurchased shares will have the status of treasury shares and may be used, when needed, for general corporate purposes. This new authorization replaces the company´s previous repurchase plan which was to expire on November 13, 2014. The previous plan, which commenced November 14, 2013, authorized the repurchase of up to 750,000 shares of ePlus´ outstanding common stock. Since commencement of the previous plan through its termination on June 12, 2014, we repurchased 687,488 shares.

During the nine months ended December 31, 2014, we repurchased 690,922 shares of our outstanding common stock at an average cost of $50.73 per share for a total purchase price of $35.1 million under the share repurchase plans. We also purchased 35,158 shares of common stock at a value of $2.0 million to satisfy tax withholding obligations to the vesting of employees' restricted stock.

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During the nine months ended December 31, 2013, we repurchased 145,508 shares of our outstanding common stock under a share repurchase plan at the average cost of $53.62 per share for a total purchase price of $7.8 million. We purchased 42,073 shares of common stock at a value of $2.5 million to satisfy tax withholding obligations to the vesting of employees' restricted stock.

10. SHARE-BASED COMPENSATION

Share-Based Plans

As of December 31, 2014 and March 31, 2014, we had share-based awards outstanding under the following plans: (1) the 2008 Non-Employee Director Long-Term Incentive Plan ("2008 Director LTIP"), (2) the 2008 Employee Long-Term Incentive Plan ("2008 Employee LTIP") and (3) the 2012 Employee Long-Term Incentive Plan ("2012 Employee LTIP"). All the share-based plans define fair market value as the previous trading day's closing price when the grant date falls on a date the stock was not traded.

For a summary of descriptions and vesting periods of the 2008 Director LTIP, the 2008 Employee LTIP, and the 2012 Employee LTIP discussed above, refer to our 2014 Annual Report.

Stock Option Activity

As of December 31, 2014 and 2013, there were no outstanding shares of stock options, and during the nine months ended December 31, 2014 and there were no options granted or exercised. During the nine months ended December 31, 2013 there were no options granted and 40,000 options exercised.

Restricted Stock Activity

For the nine months ended December 31, 2014, we granted 10,058 restricted shares under the 2008 Director LTIP, and 78,165 restricted shares under the 2012 Employee LTIP. For the nine months ended December 31, 2013, we granted 9,244 restricted shares under the 2008 Director LTIP, and 77,115 restricted shares under the 2012 Employee LTIP. A summary of the restricted shares is as follows:

	Number of Shares	Weighted Average Grant-date Fair Value
Nonvested April 1, 2014	200,120	$ 41.11
Granted	88,223	$ 57.11
Vested	(111,860)	$ 35.63
Nonvested December 31, 2014	176,483	$ 52.70

Upon each vesting period of the restricted stock awards, employees are subject to minimum tax withholding obligations. Under the 2008 Employee LTIP and 2012 Employee LTIP, we may purchase a sufficient number of shares due to the participant to satisfy their minimum tax withholding on employee stock awards.

Compensation Expense

We recognize compensation cost for awards of restricted stock with graded vesting on a straight line basis over the requisite service period and estimate the forfeiture rate to be zero, which is based on historical experience. There are no additional conditions for vesting other than service conditions. During the three months ended December 31, 2014 and 2013, we recognized $1.2 million and $1.0 million, respectively, of total share-based compensation expense. During the nine months ended December 31, 2014 and 2013, we recognized $3.4 million and $3.0 million, respectively, of total share-based compensation expense. Unrecognized compensation expense related to non-vested restricted stock was $6.7 million as of December 31,2014, which will be fully recognized over the next thirty months.

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We also provide our employees with a contributory 401(k) plan. Employer contribution percentages are determined by us and are discretionary each year. The employer contributions vest pro-ratably over a four-year service period by the employees, after which all employer contributions will be fully vested. For the three months ended December 31, 2014 and 2013, our estimated contribution expense for the plan was $0.4 million and $0.3 million, respectively. For the nine months ended December 31, 2014 and 2013, our estimated contribution expense was $1.0 million and $0.8 million, respectively.

11. INCOME TAXES

We recognize interest and penalties for uncertain tax positions. As of December 31, 2014, our gross liability related to uncertain tax positions was $149 thousand. At December 31, 2014, if the unrecognized tax benefits of $149 thousand were to be recognized, including the effect of interest, penalties and federal tax benefit, the impact would be $195 thousand. We also recognize accrued interest and penalties related to unrecognized tax benefits as a component of tax expense. We recorded interest expense of $1 thousand and $3 thousand for the three and nine months ended December 31, 2014, and $4 thousand and $13 thousand for the three and nine months ended December 31, 2013. We did not recognize any additional penalties. We had $68 thousand and $210 thousand accrued for the payment of interest at December 31, 2014 and 2013, respectively.

12. FAIR VALUE OF FINANCIAL INSTRUMENTS

We account for the fair values of our assets and liabilities in accordance with ASC Topic 820, Fair Value Measurement and Disclosure. The following table summarizes the fair value hierarchy of our financial instruments as of December 31, 2014 and March 31, 2014 (in thousands):

		Fair Value Measurement Using			
	Recorded Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains (Losses)
December 31, 2014:					
Assets:					
Money market funds	$ 18,768	$ 18,768	$ -	$ -	$ -
Liabilities:					
Contingent consideration	$ 2,120	$ -	$ -	$ 2,120	$ (140)
March 31, 2014:					
Assets:					
Money market funds	$ 54,267	$ 54,267	$ -	$ -	$ -

We reassess the fair value of contingent consideration on a quarterly basis using a Monte Carlo simulation model.

13. SEGMENT REPORTING

Our operations are conducted through two segments. Our technology segment includes sales of information technology products, third-party software, third-party maintenance, advanced professional and managed services and our proprietary software to commercial enterprises, state and local governments, and government contractors. Our financing segment consists of the financing of IT equipment, software and related services to commercial enterprises, state and local governments, and government contractors. Our reportable segment information was as follows (in thousands):

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	Three Months Ended					
	December 31, 2014			December 31, 2013		
	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	$295,679	$-	$295,679	$255,747	$-	$255,747
Financing revenue	-	8,406	8,406	-	9,228	9,228
Fee and other income	2,140	16	2,156	2,193	14	2,207
Total revenues	297,819	8,422	306,241	257,940	9,242	267,182
Cost of sales, product and services	238,202	-	238,202	207,378	-	207,378
Direct lease costs	-	2,601	2,601	-	3,055	3,055
Total cost of revenues	238,202	2,601	240,803	207,378	3,055	210,433
Professional and other fees	1,158	278	1,436	1,770	238	2,008
Salaries and benefits	33,507	2,125	35,632	28,460	2,335	30,795
General and administrative expenses	6,918	315	7,233	5,082	315	5,397
Interest and financing costs	19	556	575	19	477	496
Operating expenses	41,602	3,274	44,876	35,331	3,365	38,696
Operating income	18,015	2,547	20,562	15,231	2,822	18,053
Other income	-	6,169	6,169	-	-	-
Earnings before provision for income taxes	$18,015	$8,716	$26,731	$15,231	$2,822	$18,053
Depreciation and amortization	$1,244	$2,566	$3,810	$810	$3,632	$4,442
Purchases of property, equipment and operating lease equipment	$1,846	$3,774	$5,620	$699	$480	$1,179
Total assets	$366,740	$224,625	$591,365	$302,487	$204,290	$506,777

	Nine Months Ended					
	December 31, 2014			December 31, 2013		
	Technology	Financing	Total	Technology	Financing	Total
Sales of product and services	$843,619	$-	$843,619	$764,067	$-	$764,067
Financing revenue	-	26,339	26,339	-	27,989	27,989
Fee and other income	5,969	90	6,059	5,478	94	5,572
Total revenues	849,588	26,429	876,017	769,545	28,083	797,628
Cost of sales, product and services	681,852	-	681,852	625,562	-	625,562
Direct lease costs	-	8,364	8,364	-	9,803	9,803
Total cost of revenues	681,852	8,364	690,216	625,562	9,803	635,365
Professional and other fees	4,065	781	4,846	6,214	940	7,154
Salaries and benefits	96,140	6,691	102,831	83,603	7,559	91,162
General and administrative expenses	19,379	1,285	20,664	15,596	861	16,457
Interest and financing costs	77	1,753	1,830	64	1,325	1,389
Operating expenses	119,661	10,510	130,171	105,477	10,685	116,162
Operating income	48,075	7,555	55,630	38,506	7,595	46,101

Other income	-	7,603	7,603	-	-	-
Earnings before provision for income taxes	$48,075	$15,158	$63,233	$38,506	$7,595	$46,101
Depreciation and amortization	$3,219	$8,222	$11,441	$2,054	$9,747	$11,801
Purchases of property, equipment and operating lease equipment	$2,932	$4,639	$7,571	$3,771	$4,167	$7,938
Total assets	$366,740	$224,625	$591,365	$302,487	$204,290	$506,777

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14. BUSINESS COMBINATIONS

On August 18, 2014, our subsidiary, ePlus Technology, inc., acquired the operating assets and assumed certain liabilities of Granite Business Solutions, Inc. dba Evolve Technology Group (“Evolve”). Evolve is a provider of IT solutions in California, expanding ePlus’ presence in the western United States. Located in Sacramento, CA, Evolve provides information security, collaboration, virtualization and data center solutions to an established customer base of state, local and educational institutions, as well as commercial enterprises.

The total purchase price was $10.7 million, which consists of cash paid, amounts to be paid to Evolve upon collection of certain accounts receivables, and the fair value of contingent consideration. We estimated the fair value of the contingent consideration to be $2.0 million as of the acquisition date using a Monte Carlo simulation model. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, including identifiable intangible assets of $4.0 million related to customer relationships with an estimated useful life of 6 years, and other net assets of $0.6 million. We recognized goodwill related to this transaction of $4.5 million, which was assigned to our technology reporting unit. Goodwill associated with the acquisition is deductible for tax purposes.

On November 14, 2013, our subsidiary, ePlus Technology, inc., acquired the assets of AdviStor, Inc., a storage-focused solutions provider located in Pittsford, New York for $2.8 million in cash. The purchase price has been allocated to the assets acquired and liabilities assumed based on their estimated fair values on the transaction date, including identifiable intangible assets of $1.6 million related to customer relationships with an estimated useful life of 6 years, and other net assets of $0.4 million. We recognized goodwill related to this transaction of $0.9 million, which was assigned to our technology reporting unit. Goodwill associated with the acquisition is deductible for tax purposes.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This discussion is intended to further the reader's understanding of our consolidated financial condition and results of operations. It should be read in conjunction with the financial statements included in this quarterly report on Form 10-Q and our annual report on Form 10-K for the year ended March 31, 2014 ("2014 Annual Report"). These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations may contain forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks described in Part I, Item 1A, "Risk Factors," in our 2014 Annual Report.

EXECUTIVE OVERVIEW

Business Description

ePlus and its consolidated subsidiaries provide leading information technology ("IT") products and services, flexible leasing and financing solutions, and enterprise supply management to enable our customers to optimize their IT infrastructure and supply chain processes.

We design, implement and provide IT solutions for our customers. We are focused primarily on specialized IT segments including data center infrastructure, networking, security, cloud and collaboration. Our solutions incorporate hardware and software products from multiple leading IT vendors, as well as third party services, maintenance and software assurance on the hardware and software products. As our customers' IT requirements have grown increasingly complex, we have evolved our offerings by investing in our professional and managed services capabilities and by expanding our relationships with existing key vendors.

We continue to strengthen our relationships with vendors focused on emerging technologies, which have enabled us to provide our customers with new and evolving IT solutions. We are an authorized reseller of products and services from over 1,000 vendors including Check Point, Cisco Systems, EMC, Hewlett-Packard, McAfee, NetApp, Oracle, Palo Alto Networks and VMware, among many others. We possess top-level engineering certifications with a broad range of leading IT vendors that enable us to offer IT solutions that are optimized for each of our customers' specific requirements. Our proprietary software solutions allow our customers to procure, control and automate their IT solutions environment.

We focus on middle market and large enterprises, and state and local government and educational institutions ("SLED"). The percentage of total sales of products and services revenue for the twelve months ended December 31, 2014 by customer end market include technology (20%), telecommunications, media and entertainment (20%), financial services (10%), healthcare (9%), and state and local government, and educational institutions (21%).

Our revenues are composed of sales of product and services, financing revenues and fee and other income. Our operations are conducted through two segments: technology and financing.

Financial Summary

During the three months and nine months ended December 31, 2014, total revenue increased 14.6% to $306.2 million and 9.8% to $876.0 million, respectively, over the same periods in the prior fiscal year. We believe that our growth outpaced the overall industry due to a gains in market share through capturing additional customer spend, and focusing on faster growing segments within the market, such as virtualization, collaboration, and security. In addition, we added new customers as a result of our own organic sales and marketing efforts as well as through increased vendor referrals, and through acquisitions, the most recent being Evolve.

Consolidated gross margins were 21.4% for the three months ended December 31, 2014, compared to 21.2% for the three months ended December 31, 2013. Consolidated gross margins were 21.2% for the nine months ended December 31, 2014, compared to 20.3% for the same period for the prior fiscal year. Our gross margin for product and services was 19.4% and 19.2% during the three and nine months ended December 31, 2014, respectively, compared to 18.9% and 18.1% during the three and nine months ended December 31, 2013. The increase in gross margins was due to shifts in our product mix resulting from our continued focus on value added services for our customers, including the increase in sales of our professional and managed services, and the sale of third party maintenance agreements on core elements of our customers' IT environment. Revenues on the sale of third party services, such as software assurances and maintenance, are recognized on a net basis.

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Operating income for the quarter increased 13.9% to $20.6 million, as compared to the three months ended December 31, 2013 and for the current nine months increased 20.7% to $55.6 million, as compared to the nine months ended December 31, 2013. Net earnings for the quarter increased 46.1% to $15.5 million, as compared to the three months ended December 31, 2013 and for the current nine months increased 36.5% to $36.9 million, as compared to the nine months ended December 31, 2013. Net earnings included other non-operating income of $6.2 million for the three months ended December 31, 2014 from a class action suit which alleged that a group of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers. Net earnings included other non-operating income of $7.6 million for the nine months ended December 31, 2014.

Diluted earnings per share increased 61.4% to $2.13 and 48.8% to $4.97 per share for the three and nine months ended December 31, 2014, respectively, as compared to $1.32 and $3.34 per share for the three and nine months ended December 31, 2013.

Cash and cash equivalents decreased $28.7 million or 35.7% to $51.5 million at December 31, 2014 compared to March 31, 2014. The decrease in our cash and cash equivalents was due, in part, to share repurchases during the nine months ended December 31, 2014 and the acquisition of Evolve. Share repurchases included 400,000 shares of our common stock for $19.0 million in connection with the public underwritten secondary offering by certain of our existing shareholders. During the nine months ended December 31, 2014, we repurchased 690,922 shares of our common stock for a total purchase price of $35.1 million. Our cash on hand, funds generated from operations, amounts available under our credit facility and the possible monetization of our investment portfolio provide sufficient liquidity for our business.

Segment Overview

Technology Segment

The technology segment sells IT products, software, advance professional and managed services, and third party services primarily to corporate customers, state and local governments, and higher education institutions on a nationwide basis, with geographic concentrations relating to our physical locations. The technology segment also provides Internet-based business-to-business supply chain management solutions for information technology products. Our technology segment derives revenue from the sales of new equipment and service engagements. Customers who purchase IT equipment and services from us may have customer master agreements, or CMAs, with our company, which stipulate the terms and conditions of the relationship. Some CMAs contain pricing arrangements, and most contain mutual voluntary termination clauses. Our other customers place orders using purchase orders without a CMA in place or with other documentation customary for the business. Often, our work with state and local governments is based on public bids and our written bid responses.

Included in the sales of product and services are revenues derived from performing advanced professional and managed services that may be sold together with and integral to third-party products and software. Our advanced professional service engagements are generally governed by statements of work, and are primarily fixed price (with allowance for changes); however, some service agreements are based on time and materials. Our managed services arrangements are for terms of one, two, or three year periods.

A substantial portion of our sales of product and services are from sales of Cisco Systems, Hewlett-Packard, and NetApp products, which represent approximately 45%, 7%, and 8%, and 50%, 8%, and 7% of sales of product and services, respectively, for the three and nine months ended December 31, 2014 as compared to 46%, 10%, and 11%, and 49%, 10%, and 9%, of total revenues, respectively, for the three and nine months ended December 31, 2013.

We endeavor to minimize the cost of sales in our technology segment through vendor incentive programs provided by vendors and other incentives provided by distributors. The programs we qualify for are generally set by our reseller authorization level with the vendor. The authorization level we achieve and maintain governs the types of products we can resell as well as such items as pricing received, funds provided for the marketing of these products and other special promotions. These authorization levels are achieved by us through purchase volume, certifications held by sales executives or engineers and/or contractual commitments by us. The authorization levels are costly to maintain and these programs continually change and, therefore, there is no guarantee of future reductions of costs provided by these vendor incentive programs. Certain of our sales qualify for incentives that are related to specific customers and products that they may purchase.

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We currently maintain the following authorization levels with our primary vendors:

Vendor	Vendor Authorization Level
Apple	Apple Authorized Corporate Reseller (National)
Cisco Systems	Cisco Gold DVAR (National)
	Master Cloud Builder Specialization
	Master Collaboration Specialization
	Master Security Specialization
	Master UC Specialization
	Cloud and Managed Services Master Partner
	Cloud Services Reseller
	Flexpod Premium Partner
	ATP Cisco Enterprise Mobility Services Platform Reseller
	ATP Cisco Telepresence Video Master
	ATP Telehealth Reseller
	ATP Data Virtualization Reseller
	ATP Identity Services Engine
	ATP Physical Security
	Advanced Data Center Storage Networking
	Advanced Routing and Switching
	Advanced Wireless LAN
	Cisco Authorized SP Video Partner
Check Point Software Technologies Ltd.	Platinum Reseller
Citrix Systems, Inc.	Citrix Platinum Partner (National)
Dell	Premier Partner
EMC	EMC Velocity Gold Partner (National)
Hewlett Packard	Platinum - Converged Infrastructure Partner (National)
	Gold Storage / Networking / Server / ServiceOne Specialists
	Gold Cloud Builder Specialist
	QSA - IT Management Ops and Apps
	BCS Gold Specialist
	Autonomy IM Solutions – Data Protector
IBM	Premier IBM Business Partner (National)
Lenovo	Lenovo Premium (National)
McAfee, Inc.	Elite Reseller
Microsoft	Microsoft Gold (National)
NetApp	NetApp STAR Partner (National)
Oracle Gold Partner	Sun SPA Executive Partner (National)
	Sun National Strategic Data Center Authorized
Palo Alto Networks, Inc.	Platinum Reseller
NetApp	NetApp STAR Partner (National)
Oracle Gold Partner	Sun SPA Executive Partner (National)
	Sun National Strategic Data Center Authorized
VMware	National Premier Partner

We also generate revenue in our technology segment through hosting arrangements, sales of our Internet-based business-to-business supply chain management software and related maintenance, and agent fees received from various vendors.

Our revenues include certain transactions that are infrequent, and there is no guarantee that future transactions of the same nature, size or profitability will occur. Our ability to consummate such transactions, and the timing thereof, may depend largely upon factors outside the direct control of management. The revenues from these types of transactions in a particular period may not be indicative of the revenues that can be expected in future periods.

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Financing Segment

The financing segment offers financing solutions to domestic governmental entities and corporations nationwide and in certain other countries. The financing segment derives revenue from leasing IT equipment, furniture, and medical equipment and the disposition of that equipment at the end of the lease. The financing segment also derives revenues from the financing of third-party software licenses, software assurance, maintenance and other services. Financing revenue generally falls into three categories: portfolio income, transactional gains and post-contract earnings.

- Portfolio income consists of interest income from financing receivables and rents due under operating leases;
- Transactional gains consist of net gains or losses on the sale of financial assets; and
- Post-contract earnings include month-to-month rents; early termination, prepayment, make-whole, or buyout fees; and net gains on the sale of off-lease (used) equipment.

The types of revenue and costs recognized for investments in leases are determined by each lease's classification. Each lease is classified as either a direct financing lease, sales-type lease, or operating lease, as appropriate.

- For direct financing and sales-type leases, we record the net investment in leases, which consists of the sum of the minimum lease payments, initial direct costs (direct financing leases only), and unguaranteed residual value (gross investment) less the unearned income. The unearned income is amortized over the life of the lease using the interest method. Under sales-type leases, the difference between the present value of minimum lease payments and the cost of the leased property plus initial direct costs (net margins) is recorded as profit at the inception of the lease.
- For operating leases, rental amounts are accrued on a straight-line basis over the lease term and are recognized as financing revenue.

We enter into arrangements to transfer the contractual payments due under financing arrangements, which are accounted for as sales or secured borrowings in accordance with ASC Topic 860, Transfers and Servicing. For transfers accounted for as sales, we derecognize the carrying value of the asset transferred and recognize a net gain or loss on the sale, which is presented within financing revenues in the unaudited condensed consolidated statement of operations. For transfers accounted for as a secured borrowing, the corresponding investments serve as collateral for non-recourse notes payable. We classify the interest and financing costs associated with these borrowings as an operating expense, consistent with industry practice.

Our financing segment sells the equipment underlying a lease to the lessee or a third-party other than the lessee. These sales occur at the end of the lease term and revenues from the sales of such equipment are recognized at the date of sale. We also recognize revenue from events that occur after the initial sale of a financial asset and remarketing fees from certain residual value investments.

Fluctuations in Revenues

Our results of operations are susceptible to fluctuations for a number of reasons, including, without limitation, customer demand for our products and services, supplier costs, changes in vendor incentive programs, interest rate fluctuations, general economic conditions, and differences between estimated residual values and actual amounts realized related to the equipment we lease. Operating results could also fluctuate as a result of a sale prior to the expiration of the lease term to the lessee or to a third-party or from other post-term events.

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CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that alternative accounting policies would have been applied, resulting in a change in financial results. On an ongoing basis, we reevaluate our estimates, including those related to revenue recognition, residual values, vendor incentives, lease classification, goodwill and intangibles, reserves for credit losses and income taxes specifically relating to uncertain tax positions. We base estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. For all such estimates, we caution that future events rarely develop exactly as forecasted, and therefore, these estimates may require adjustment.

Our critical accounting estimates have not changed from those reported in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2014 Annual Report.

RESULTS OF OPERATIONS

The Three and Nine months ended December 31, 2014 Compared to the Three and Nine months ended December 31, 2013

Technology Segment

The results of operations for our technology segment for the three and nine months ended December 31, 2014 and 2013 were as follows (dollars in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2014	2013	Change		2014	2013	Change	
Sales of product and services	$295,679	$255,747	$39,932	15.6 %	$843,619	$764,067	$79,552	10.4 %
Fee and other income	2,140	2,193	(53)	(2.4 %)	5,969	5,478	491	9.0 %
Total revenues	297,819	257,940	39,879	15.5 %	849,588	769,545	80,043	10.4 %
Cost of sales, product and services	238,202	207,378	30,824	14.9 %	681,852	625,562	56,290	9.0 %
Professional and other fees	1,158	1,770	(612)	(34.6%)	4,065	6,214	(2,149)	(34.6%)
Salaries and benefits	33,507	28,460	5,047	17.7 %	96,140	83,603	12,537	15.0 %
General and administrative	6,918	5,082	1,836	36.1 %	19,379	15,596	3,783	24.3 %
Interest and financing costs	19	19	-	0.0 %	77	64	13	20.3 %
Operating expenses	41,602	35,331	6,271	17.7 %	119,661	105,477	14,184	13.4 %
Segment earnings	$18,015	$15,231	$2,784	18.3 %	$48,075	$38,506	$9,569	24.9 %

Total revenues: Total revenues during the three months ended December 31, 2014 were $297.8 million compared to $257.9 million during the three months ended December 31, 2013, an increase of 15.5%, which was due to increases in demand for our products and services. Total revenues increased 10.4% during the nine months ended December 31, 2014 to $849.6 million compared to $769.5 million during the nine months ended December 31, 2013. The increase in revenues for the current quarter and nine month period was primarily from our large and middle market commercial customers.

Total sales of product and services before the adjustment to present third party services on a net basis, or gross revenues, for the three months ended December 31, 2014 were $377.3 million compared to $327.6 million during the three months ended December 31, 2013, an increase of 15.2% or $49.7 million. Total sales of product and services presented on a gross basis increased 15.0% or $143.0 million during the nine months ended December 31, 2014 to $1,095.0 million compared to $952.0 million during the nine months ended December 31, 2013.

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We experienced year over year increases in the sales of product and services for all the quarters ended from December 31, 2013 through December 31, 2014, as summarized below:

Quarter Ended	Sequential	Year over Year
December 31, 2014	3.2 %	15.6 %
September 30, 2014	9.7 %	9.7 %
June 30, 2014	4.8 %	5.8 %
March 31, 2014	(2.5 %)	11.4 %
December 31, 2013	(2.1 %)	12.1 %

We rely on our vendors to fulfill a large majority of shipments to our customers. As of December 31, 2014, we had open orders of $92.1 million and deferred revenue of $28.5 million. As of December 31, 2013, we had open orders of $67.1 million and deferred revenues of $22.7 million.

Cost of sales, product and services: Our gross margin for product and services increased to 19.4% from 18.9% during the three months ended December 31, 2014 and 2013, respectively, due to an increase in the sales of our advanced professional and managed services. Our gross margin for product and services increased to 19.2% from 18.1% during the nine months ended December 31, 2014 and 2013, respectively, due to an increase in the sales of third party maintenances and services, which are recognized on a net basis.

The change in the amount of vendor incentives earned during the three and nine months ended December 31, 2014 resulted in a 0.4% decrease and 0.1% decrease in gross margins from the prior year, respectively. There are ongoing changes to the incentives programs offered to us by our vendors. Accordingly, if we are unable to maintain the level of manufacturer incentives we are currently receiving, gross margins may decrease.

Operating expenses: Operating expenses were $41.6 million for the current quarter or 17.7% higher than the three months ended December 31, 2013. Operating expenses were $119.7 million, or 13.4%, higher than the nine months ended December 31, 2013. These increases were due to increases in personnel, commissions, and general and administrative expenses.

Professional and other fees decreased $0.6 million, or 34.6%, to $1.2 million for the three months ended December 31, 2014, compared to $1.8 million during the three months ended December 31, 2013. This decrease was primarily due to a decrease of $0.6 million in legal and other fees related to the Lawson litigation. During the nine months ended December 31, 2014, professional and other fees decreased $2.1 million, or 34.6%, to $4.1 million, compared to $6.2 million during the nine months ended December 31, 2013. This decrease was primarily due to lower legal and other fees related to the Lawson litigation, which decreased $1.8 million for the nine months ended December 31, 2014.

Salaries and benefits increased $5.0 million, or 17.7%, to $33.5 million during the three months ended December 31, 2014, compared to $28.5 million during the three months ended December 31, 2013, of which 51% of the increase was due to variable compensation as a result of the increase in gross profit. For the nine months ended December 31, 2014, salaries and benefits increased $12.5 million, or 15.0%, to $96.1 million, compared to $83.6 million during the nine months ended December 31, 2013, of which 49% of the increase was due to variable compensation as a result of the increase in gross profit. The remainder of the increase was driven by increases in the number of employees and related benefits. Our technology segment had 927 employees as of December 31, 2014, an increase of 24 from 903 at December 31, 2013. Most of the increase in personnel relates to sales and engineering positions from the acquisition of Evolve. We continue to invest in sales and engineering talent in order to expand our geographical presence in the continental U.S. as well as extend our advanced technology solutions offerings.

General and administrative expenses increased $1.8 million, or 36.1% during the three months ended December 31, 2014 over the same period for the prior year. For the nine months ended December 31, 2014, general and administrative expenses increased $3.8 million, or 24.3% over the same period for the prior year. This increase was primarily due to incremental costs associated with the acquisition of Evolve, higher depreciation due to the refresh of our data center equipment, and other costs related to the ongoing expansion of our business.

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Segment earnings: As a result of the foregoing, segment earnings were $18.0 million, an increase of $2.8 million, or 18.3% for the three months ended December 31, 2014, and segment earnings were $48.1 million, an increase of $9.6 million, or 24.9% for the nine months ended December 31, 2014 as compared to the same period for the prior year.

Financing Segment

The results of operations for our financing segment for the three and nine months ended December 31, 2014 and 2013 were as follows (dollars in thousands):

	Three Months Ended December 31,				Nine Months Ended December 31,			
	2014	2013	Change		2014	2013	Change	
Financing revenue	$8,406	$9,228	$(822)	(8.9 %)	$26,339	$27,989	$(1,650)	(5.9 %)
Fee and other income	16	14	2	14.3 %	90	94	(4)	(4.3 %)
Total revenues	8,422	9,242	(820)	(8.9 %)	26,429	28,083	(1,654)	(5.9 %)
Direct lease costs	2,601	3,055	(454)	(14.9 %)	8,364	9,803	(1,439)	(14.7%)
Professional and other fees	278	238	40	16.8 %	781	940	(159)	(16.9%)
Salaries and benefits	2,125	2,335	(210)	(9.0 %)	6,691	7,559	(868)	(11.5%)
General and administrative	315	315	-	0.0 %	1,285	861	424	49.2 %
Interest and financing costs	556	477	79	16.6 %	1,753	1,325	428	32.3 %
Operating expenses	3,274	3,365	(91)	(2.7 %)	10,510	10,685	(175)	(1.6 %)
Operating income	2,547	2,822	(275)	(9.7 %)	7,555	7,595	(40)	(0.5 %)
Other income	6,169	-	6,169	n/a	7,603	-	7,603	n/a
Segment earnings	$8,716	$2,822	$5,894	208.9%	$15,158	$7,595	$7,563	99.6 %

Total revenues: Total revenues decreased by $0.8 million, or 8.9%, to $8.4 million for the three months ended December 31, 2014, as compared to the three months ended December 31, 2013 predominately due to lower transactional gains. During the quarters ended December 31, 2014 and 2013, we recognized net gains on sales of financial assets of $1.5 million and $2.3 million, respectively, and the fair value of assets received from these sales were $44.8 million and $45.7 million, respectively. Post contract earnings were $2.3 million for both the three months ended December 31, 2014 and 2013.

For the nine months ended December 31, 2014, total revenues decreased by $1.7 million, or 5.9%, to $26.4 million, as compared to the nine months ended December 31, 2013 due to lower transactional gains; partially offset by higher post contract earnings due to an increase in customer renewal rents. During the nine months ended December 31, 2014 and 2013, we recognized net gains on sales of financial assets of $4.6 million and $7.9 million, respectively, and the fair value of assets obtained from these sales were $138.6 million and $168.1 million, respectively. Post contract earnings increased $1.7 million to $7.8 million for the nine months ended December 31, 2014.

At December 31, 2014, we had $165.1 million in financing receivables and operating leases, compared to $140.1 million as of December 31, 2013, an increase of $25.1 million or 17.9%.

Direct lease costs: Direct lease costs decreased $0.5 million, or 14.9%, to $2.6 million and decreased $1.4 million, or 14.7%, to $8.4 million for the three and nine months ended December 31, 2014, respectively, mostly due to decreases in depreciation expense for equipment under operating leases as compared to the same periods for the prior year.

Operating expenses: For the three months ended December 31, 2014, operating expenses decreased $0.1 million, or 2.7%, which was a result of decrease of $0.2 million in salaries and benefits due to a decrease in personnel. General and administrative expenses were $0.3 for both the three months ended December 31, 2014 and 2013.

For the nine months ended December 31, 2014, operating expenses decreased $0.2 million, or 1.6%. Salaries and benefits decreased $0.9 million or 11.5% to $6.7 million due to a decrease in personnel within this segment. Our financing segment had 54 employees as of December 31, 2014, a decrease of 4 from 58 employees as of December 31, 2013. General and administrative expenses increased $0.4 million, due primarily to an increase in our reserve for credit losses for the nine months ended December 31, 2014 over the prior year period.

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Interest and financing costs increased $0.1 million and $0.4 million, respectively, for the three month and nine months over prior year periods due to an increase in total notes payable to $72.5 million as of December 31, 2014, an increase of $19.1 million or 35.9% compared to $53.4 million as of December 31, 2013. Our weighted average interest rate for non-recourse notes payable was 3.35% and 3.46%, as of December 31, 2014 and December 31, 2013, respectively.

Other income: On October 31, 2014, we received payment in the amount of $6.2 million, relate to a claim in a class action suit which alleged that a group of companies conspired to fix, raise, maintain or stabilize prices of certain flat panels used in many flat screen televisions, monitors and notebook computers.

In April 2014, we entered into an arrangement to repurchase the rights, title, and interest to payments due under a financing arrangement. This financing arrangement was previously assigned to a third party financial institution and accounted for as a secured borrowing. In conjunction with the repurchase agreement, we recognized a gain of $1.4 million.

Segment earnings: As a result of the foregoing, earnings increased $5.9 million and $7.6 million for the three and nine months ended December 31, 2014, respectively, over the prior year periods.

Consolidated

Income taxes: Our provision for income tax expense increased $3.8 million to $11.2 million for the three months ended December 31, 2014, and increased $7.3 million to $26.3 million for the nine months ended December 31, 2014 as compared to the same period for the prior fiscal year. Our effective income tax rates for the three and nine months ended December 31, 2014 was 42.0% and 41.6%, respectively, as compared to 41.2% and 41.3% for the three and nine months ended December 31, 2013.

Net earnings: The foregoing resulted in net earnings of $15.5 million for the three months ended December 31, 2014, an increase of 46.1%, as compared to $10.6 million during the three months ended December 31, 2013. For the nine months ended December 31, 2014, net earnings was $36.9 million, an increase of 36.5%, as compared to $27.1 million for the nine months ended December 31, 2013.

Basic and fully diluted earnings per common share were $2.14 and $2.13, for the three months ended December 31, 2014, as compared to $1.33 and $1.32, respectively, for the three months ended December 31, 2013. Basic and fully diluted earnings per common share were $5.02 and $4.97, respectively, for the nine months ended December 31, 2014, as compared to $3.37 and $3.34, respectively, for the nine months ended December 31, 2013.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended December 31, 2014 were 7.2 million and 7.3 million, respectively. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the three months ended December 31, 2013 were 8.0 million.

Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the nine months ended December 31, 2014 were both 7.4 million. Weighted average common shares outstanding used in the calculation of basic and diluted earnings per common share for the nine months ended December 31, 2013 were 7.9 million and 8.0 million, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity Overview

Our primary sources of liquidity have historically been cash and cash equivalents, internally generated funds from operations, and borrowings, both non-recourse and recourse. We have used those funds to meet our capital requirements, which have historically consisted of working capital for operational needs, capital expenditures, purchases of equipment or software that are financed for our customers, payments of principal and interest on indebtedness outstanding, acquisitions and the repurchase of shares of our common stock.

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Our subsidiary ePlus Technology, inc., part of our technology segment, finances its operations with funds generated from operations, and with a credit facility with GE Commercial Distribution Finance, or GECDF, with an aggregate credit limit of $225 million. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. After a customer places a purchase order with us and we have completed our credit check, we place an order for the equipment with one of our vendors. Generally, most purchase orders from us to our vendors are first financed under the floor plan component and reflected in "accounts payable—floor plan" in our unaudited condensed consolidated balance sheets. Payments on the floor plan component are due on three specified dates each month, generally 30-60 days from the invoice date. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our unaudited condensed consolidated balance sheets. There was no outstanding balance at December 31, 2014 or March 31, 2014, while the maximum credit limit was $30.0 million for both periods. The borrowings and repayments under the floor plan component are reflected as "net borrowings on floor plan facility" in the cash flows from financing activities section of our unaudited condensed consolidated statements of cash flows.

Most customer payments in our technology segment are remitted to our lockboxes. Once payments are cleared, the monies in the lockbox accounts are automatically transferred to our operating account on a daily basis. On the due dates of the floor plan component, we make cash payments to GECDF. These payments from the accounts receivable component to the floor plan component and repayments from our cash are reflected as "net borrowings on floor plan facility" in the cash flows from financing activities section of our unaudited condensed consolidated statements of cash flows. We engage in this payment structure in order to minimize our interest expense and bank fees in connection with financing the operations of our technology segment.

We believe that cash on hand, and funds generated from operations, together with available credit under our credit facility, will be sufficient to finance our working capital, capital expenditures and other requirements for at least the next twelve calendar months.

Our working capital generally fluctuates as a result of changes in demand for our products and services; however, specific changes in certain elements of working capital may not coincide with changes in other elements of our financial statements. For example, accounts receivable-trade may change by more or less than the change in our revenues, as there are variables impacting accounts receivable that may not impact revenues, such as the amount of third-party software assurance, maintenance and services invoiced, for which revenues are presented on a net basis, or significant changes in our deferred revenues.

We experience fluctuations in certain working capital accounts, which are primarily due to changes in the timing of purchases of equipment by our customers throughout the comparative periods. Our accounts receivable—trade increased by $35.7 million, or 16.9% which is consistent with the increase in revenues from the quarter ended March 31, 2014. We also experienced a decrease in accounts payable—trade of $14.9 million, which was more than offset by an increase in accounts payable—floor plan of $17.2 million. Our accounts payable—floor plan consists of purchases through the GECDF credit facility, which are generally paid within 30-60 days from the invoice date. We experience fluctuations in accounts payable—equipment due to timing of purchases of assets that will be leased or financed for our customers and accounts payable – equipment increased $12.0 million from March 31, 2014.

Our ability to continue to fund our planned growth, both internally and externally, is dependent upon our ability to generate sufficient cash flow from operations or to obtain additional funds through equity or debt financing, or from other sources of financing, as may be required. While at this time we do not anticipate requiring any additional sources of financing to fund operations, if demand for IT products declines, our cash flows from operations may be substantially affected.

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Cash Flows

The following table summarizes our sources and uses of cash over the periods indicated (in thousands):

	Nine Months Ended December 31,	
	2014	2013
Net cash used in operating activities	$(9,930)	$(26,766)
Net cash used in investing activities	(31,705)	(21,228)
Net cash provided by financing activities	13,002	35,766
Effect of exchange rate changes on cash	(24)	6
Net decrease in cash and cash equivalents	$(28,657)	$(12,222)

Net cash used in operating activities. Cash used in operating activities totaled $9.9 million during the nine months ended December 31, 2014. Net earnings adjusted for the impact of non-cash items was $36.9 million. Net changes in assets and liabilities resulted in a decrease of cash and cash equivalents of $46.8 million, primarily due to increases in accounts receivable—trade $27.4 million, financing receivables of $14.9 million, and cash used for accounts payable—trade of $15.5 million, partially offset by changes in salaries and commissions payable of $13.7 million.

Cash used in operating activities totaled $26.8 million during the nine months ended December 31, 2013. Net earnings adjusted for the impact of non-cash items was $27.4 million. Net changes in assets and liabilities resulted in a decrease of $54.1 million due to decreases in accounts receivable—trade of $39.6 million, inventories of $9.2 million and investment in financing receivables of $20.1 million, offset by increases in accounts payable—trade of $10.8 million, and accounts payable—equipment of $2.5 million, and salaries and commission payable of $5.5 million.

Net cash used in investing activities. Cash used in investing activities was $31.7 million during the nine months ended December 31, 2014. Cash used in investing activities during the nine months ended December 31, 2014 was primarily driven by an issuance of financing receivables of $93.2 million, purchase of assets to be leased and property and equipment of $15.2 million, and cash used in acquisitions of $8.0 million, which was partially offset by cash proceeds from the sale of financing receivable of $24.2 million, the repayment of financing receivables of $50.6 million, and proceeds from sale of property, equipment and operating lease assets of $7.4 million.

Cash used in investing activities was $21.2 million during the nine months ended December 31, 2013, which was primarily driven by issuance of financing receivables (net of issuance, proceeds from the sale, and repayments) of $6.3 million, purchase of assets to be leased of $8.3 million, and purchases of property, equipment and operating lease equipment of $7.9 million, which were partially offset by proceeds from the sales of property, equipment and operating lease equipment of $3.3 million.

Net cash provided by financing activities. Cash provided by financing activities of $13.0 million during the nine months ended December 31, 2014 was due to net borrowings of non-recourse and recourse notes payable of $38.7 million and net borrowings on the floor plan facility of $10.7 million, partially offset by the repurchase of common stock of $37.1 million. In the prior year, cash provided by financing activities was $35.8 million during the nine month period, which was due to net borrowings of non-recourse and recourse notes payable of $26.8 million, net borrowings on the floor plan facility of $18.5 million and, partially offset by the purchase of treasury stock of $10.3 million.

Non-Cash Activities

We transfer financial assets to third-party financial institutions, some of which are accounted for as secured borrowings. As a condition to the agreement, certain financial institutions may request the customer remit their payments to a trustee rather than to us, and the trustee pays the financial institution. Alternatively, if the structure of the agreement does not require a trustee, the customer will continue to make payments to us, and we will remit the payment to the financial institution. The economic impact to us under either structure is similar, in that the assigned contractual payments are paid by the customer and remitted to the lender to pay down the corresponding non-recourse notes payable. However, these structures are classified differently within our unaudited condensed consolidated statement of cash flows. More specifically, we are required to exclude non-cash transactions from our unaudited condensed consolidated statement of cash flows, so payments made by our customer to the trustee are excluded from our operating or investing cash receipts and the corresponding re-payment of the non-recourse notes payable from the trustee to the third party financial institution are excluded from our cash flows from financing activities. Given that the transfer of these payments is economically the same regardless of the structure of the payments, we evaluate our cash flows from operating, investing and financing activities as if the transfer had been structured without an intermediary.

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The non-GAAP financial measure for our cash flows from operating activities is as follows (in thousands):

	Nine Months Ended December 31,	
	2014	2013
GAAP: net cash used in operating activities	$(9,930)	$(26,766)
Principal payments from customers directly to lenders	9,777	14,516
Non-GAAP: adjusted net cash used in operating activities	$(153)	$(12,250)

The non-GAAP financial measure for our cash flows from investing activities is as follows (in thousands):

	Nine Months Ended December 31,	
	2014	2013
GAAP: net cash used in investing activities	$(31,705)	$(21,228)
Principal payments from customer directly to lenders	16,692	631
Non-GAAP: adjusted net cash used in investing activities	$(15,013)	$(20,597)

The non-GAAP financial measure for our cash flows from financing activities is as follows (in thousands):

	Nine Months Ended December 31,	
	2014	2013
GAAP: net cash provided by financing activities	$ 13,002	$ 35,766
Principal payments from customers directly to lenders	(26,469)	(15,147)
Non-GAAP: adjusted net cash (used in) provided by financing activities	$ (13,467)	$ 20,619

A “non-GAAP financial measure” is a numerical measure of a company’s historical or future financial performance, financial position or cash flows that excludes amounts, or is subject to adjustments that have the effect of excluding amounts, that are included in the most directly comparable measure calculated and presented in accordance with U.S. GAAP in the statement of income, balance sheet or statement of cash flows of the company; or includes amounts, or is subject to adjustments that have the effect of including amounts, that are excluded from the most directly comparable measure so calculated and presented. We use the financial measures in our internal evaluation and management of our business. We believe that these measures and the information they provide are useful to investors because they permit investors to view our performance using the same tools that we use and to better evaluate our ongoing business performance. These measures should not be considered an alternative to measurements required by U.S. GAAP, such as cash provided by (used in) operating activities, cash provided by (used in) investing activities and cash provided by (used in) financing activities. These non-GAAP measures are unlikely to be comparable to non-GAAP information provided by other companies.

Liquidity and Capital Resources

We may utilize non-recourse notes payable to finance approximately 80% to 100% of the purchase price of the assets being leased by our customers. Any balance of the purchase price remaining after non-recourse funding and any upfront payments received from the lessee (our equity investment in the equipment) must generally be financed by cash flows from our operations, the sale of the equipment leased to third parties, or other internal means. Although we expect that the credit quality of our financing arrangements and our residual return history will continue to allow us to obtain such financing, such financing may not be available on acceptable terms, or at all.

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The financing necessary to support our lease and financing activities has been provided by our cash and non-recourse borrowings. We monitor our exposure closely. Historically, we have obtained mostly non-recourse borrowings from third party banks and finance companies. We continue to be able to obtain financing through our traditional lending sources. Non-recourse financings are loans whose repayment is the responsibility of a specific customer, although we may make representations and warranties to the lender regarding the specific contract or have ongoing loan servicing obligations. Under a non-recourse loan, we borrow from a lender an amount based on the present value of the contractually committed lease payments under the lease at a fixed rate of interest, and the lender secures a lien on the financed assets. When the lender is fully repaid from the lease payments, the lien is released and all further rental or sale proceeds are ours. We are not liable for the repayment of non-recourse loans unless we breach our representations and warranties in the loan agreements. The lender assumes the credit risk of each lease, and the lender's only recourse, upon default by the lessee, is against the lessee and the specific equipment under lease. At December 31, 2014, our non-recourse notes payable increased 5.2% to $68.7 million, as compared to $65.3 million at March 31, 2014. Recourse notes payable increased 6.1% to $3.8 million as of December 31, 2014 compared to $3.6 million as of March 31, 2014.

Whenever desirable, we arrange for equity investment financing, which includes selling lease payments, including the residual portions, to third parties and financing the equity investment on a non-recourse basis. We generally retain customer control and operational services, and have minimal residual risk. We usually reserve the right to share in remarketing proceeds of the equipment on a subordinated basis after the investor has received an agreed-to return on its investment.

Credit Facility — ePlus Technology, inc.

Our subsidiary, ePlus Technology, inc., has a financing facility from GECDF to finance its working capital requirements for inventories and accounts receivable. There are two components of this facility: (1) a floor plan component; and (2) an accounts receivable component. This facility has full recourse to ePlus Technology, inc. and is secured by a blanket lien against all its assets, such as chattel paper, receivables, and inventory. As of December 31, 2014, the facility had an aggregate limit of the two components of $225.0 million with an accounts receivable sub-limit of $30.0 million.

Availability under the facility may be limited by the asset value of equipment we purchase or accounts receivable, and may be further limited by certain covenants and terms and conditions of the facility. These covenants include but are not limited to a minimum excess availability of the facility and minimum earnings before interest, taxes, depreciation and amortization of ePlus Technology, inc. We were in compliance with these covenants as of December 31, 2014. Interest on the facility is assessed at a rate of the One Month LIBOR plus two and one half percent if the payments are not made on the three specified dates each month. The facility also requires that financial statements of ePlus Technology, inc. be provided within 45 days of each quarter and 90 days of each fiscal year end and also requires other operational reports be provided on a regular basis. Either party may terminate the facility with 90 days advance written notice.

We are not, and do not believe that we are reasonably likely to be, in breach of the GECDF credit facility. In addition, we do not believe that the covenants of the GECDF credit facility materially limit our ability to undertake financing. In this regard, the covenants apply only to our subsidiary, ePlus Technology, inc. This credit facility is secured by the assets of only ePlus Technology, inc. and the guaranty as described below.

The facility provided by GECDF requires a guaranty of $10.5 million by ePlus inc. The guaranty requires ePlus inc. to deliver its annual audited financial statements by a certain date. We have delivered the annual audited financial statements for the year ended March 31, 2014, as required. The loss of the GECDF credit facility could have a material adverse effect on our future results as we currently rely on this facility and its components for daily working capital and liquidity for our technology segment and as an operational function of our accounts payable process.

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Floor Plan Component

The traditional business of ePlus Technology, inc. as a seller of computer technology, related peripherals and software products, is in part financed through a floor plan component in which interest expense for the first thirty to sixty days, in general, is not charged. The floor plan liabilities are recorded as accounts payable—floor plan on our unaudited condensed consolidated balance sheets, as they are normally repaid within the fifteen to sixty-day time frame and represent assigned accounts payable originally generated with the manufacturer/distributor. In some cases we are able to pay invoices early and receive a discount, but if the fifteen to sixty-day obligation is not paid timely, interest is then assessed at stated contractual rates.

The respective floor plan component credit limits and actual outstanding balances for the dates indicated were as follows (in thousands):

Maximum Credit Limit at December 31, 2014	Balance as of December 31, 2014	Maximum Credit Limit at March 31,2014	Balance as of March 31, 2014
$225,000	$110,625	$175,000	$93,416

Accounts Receivable Component

Included within the credit facility, ePlus Technology, inc. has an accounts receivable component from GECDF, which has a revolving line of credit. On the due date of the invoices financed by the floor plan component, the invoices are paid by the accounts receivable component of the credit facility. The balance of the accounts receivable component is then reduced by payments from our available cash. The outstanding balance under the accounts receivable component is recorded as recourse notes payable on our unaudited condensed consolidated balance sheets. There was no outstanding balance at December 31, 2014 or March 31, 2014, while the maximum credit limit was $30.0 million for both periods.

Credit Facility — General

First Virginia Community Bank provides us with a $0.5 million credit facility, which will mature on October 26, 2015. The credit facility is available for use by us and our affiliates and is full recourse to us. Borrowings under this facility bear interest at Wall Street Journal U.S. Prime rate plus 1%. The primary purpose of the facility is to provide letters of credit for landlords, taxing authorities and bids. As of December 31, 2014, we had no outstanding balance on this credit facility.

Performance Guarantees

In the normal course of business, we may provide certain customers with performance guarantees, which are generally backed by surety bonds. In general, we would only be liable for the amount of these guarantees in the event of default in the performance of our obligations. We are in compliance with the material performance obligations under all service contracts for which there is a performance guarantee, and we believe that any liability incurred in connection with these guarantees would not have a material adverse effect on our financial condition or results of operations.

Off-Balance Sheet Arrangements

As part of our ongoing business, we do not participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements as defined in Item 303(a)(4)(ii) of Regulation S-K or other contractually narrow or limited purposes. As of December 31, 2014, we were not involved in any unconsolidated special purpose entity transactions.

Adequacy of Capital Resources

The continued implementation of our business strategy will require a significant investment in both resources and managerial focus. In addition, we may selectively acquire other companies that have attractive customer relationships and skilled sales and/or engineering forces. We may also start offices in new geographic areas, which may require a significant investment of cash. We may also acquire technology companies to expand and enhance the platform of bundled solutions to provide additional functionality and value-added services. We may continue to use our internally generated funds to finance investments in leased assets or investments in notes receivables due from our customers. As a result, we may require additional financing to fund our strategy, implementation and potential future acquisitions, which may include additional debt and equity financing.

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Inflation

For the periods presented herein, inflation has been relatively low and we believe that inflation has not had a material effect on our results of operations.

Potential Fluctuations in Quarterly Operating Results

Our future quarterly operating results and the market price of our common stock may fluctuate. In the event our revenues or earnings for any quarter are less than the level expected by securities analysts or the market in general, such shortfall could have an immediate and significant adverse impact on the market price of our common stock. Any such adverse impact could be greater if any such shortfall occurs near the time of any material decrease in any widely followed stock index or in the market price of the stock of one or more public equipment leasing and financing companies, IT resellers, software competitors, major customers or vendors of ours.

Our quarterly results of operations are susceptible to fluctuations for a number of reasons, including, but not limited to, reduction in IT spending, any reduction of expected residual values related to the equipment under our leases, the timing and mix of specific transactions, the reduction of manufacturer incentive programs, and other factors. Quarterly operating results could also fluctuate as a result of our sale of equipment in our lease portfolio at the expiration of a lease term or prior to such expiration, to a lessee or to a third party and the transfer of financial assets. Sales of equipment and transfers of financial assets may have the effect of increasing revenues and net income during the quarter in which the sale occurs, and reducing revenues and net income otherwise expected in subsequent quarters. See Part I, Item 1A, “Risk Factors,” in our 2014 Annual Report.

We believe that comparisons of quarterly results of our operations are not necessarily meaningful and that results for one quarter should not be relied upon as an indication of future performance.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Although a portion of our liabilities are non-recourse, fixed-interest-rate instruments, we utilize our line of credit and other financing facilities which are subject to fluctuations in short-term interest rates. These instruments, which are denominated in U.S. dollars, were entered into for other than trading purposes and, with the exception of amounts drawn under the GECDF facility, bear interest at a fixed rate. Because the interest rate on these instruments is fixed, changes in interest rates will not directly impact our cash flows. Changes in interest rates may affect our ability to fund or transfer our financing arrangements if the rate rises above the fixed rate of the instrument. Borrowings under the GECDF facility bear interest at a market-based variable rate. As of December 31, 2014, the aggregate fair value of our non-recourse notes payable approximated their carrying value.

We have financed certain customer leases for equipment which is located in Canada and Iceland. As such, we have entered into lease contracts and non-recourse, fixed-interest-rate financing denominated in Canadian dollars and Icelandic krona. To date, our Canadian and Icelandic operations have been insignificant and we believe that potential fluctuations in currency exchange rates will not have a material effect on our financial position. We also transact business in other foreign currencies which are subject to fluctuations, however, the dollar volume of these transactions is immaterial.

Item 4. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of our disclosure controls and procedures, or "disclosure controls," as defined in Securities Exchange Act of 1934 ("Exchange Act") Rule 13a-15(e). Disclosure controls are controls and procedures designed to reasonably ensure that information required to be disclosed in our reports filed under the Exchange Act, such as this quarterly report, is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms. Disclosure controls include, without limitation, controls and procedures designed to ensure that information required to be disclosed in our reports filed under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Our disclosure controls include some, but not all, components of our internal control over financial reporting. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of December 31, 2014.

Changes in Internal Controls

There have not been any changes in our internal control over financial reporting during the quarter ended December 31, 2014, which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system cannot provide absolute assurance due to its inherent limitations; it is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. A control system also can be circumvented by collusion or improper management override. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of such limitations, disclosure controls and internal control over financial reporting cannot prevent or detect all misstatements, whether unintentional errors or fraud. However, these inherent limitations are known features of the financial reporting process; therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

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PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We were the plaintiff in a lawsuit in the United States District Court for the Eastern District of Virginia ("the trial court") in which a jury unanimously found that Lawson Software, Inc. ("Lawson") infringed certain ePlus patents. The jury verdict, which was reached on January 27, 2011, also found that all of ePlus' patent claims tried in court were not invalid. On May 23, 2011, the trial court issued a permanent injunction, ordering Lawson and its successors to: immediately stop selling and servicing products relating to its electronic procurement systems that infringe our patents; cease providing any ongoing or future maintenance, training or installation of its infringing products; and refrain from publishing any literature or information that encourages the use or sale of its infringing products. Lawson filed an appeal. On November 21, 2012, the United States Court of Appeals for the Federal Circuit (the "Appeals Court") reversed in part, vacated in part, affirmed in part, and remanded. The Appeals Court upheld the finding that the patent claims were not invalid and upheld, in part, the finding of infringement. The Appeals Court remanded the case to the trial court for consideration of what changes, if any, are required to the terms of the injunction. Consistent with the Appeals Court's decision, on June 11, 2013, the trial court issued an order modifying the injunction so that it would continue in full effect with respect to those configurations of Lawson's electronic procurement systems that the Appeals Court affirmed were infringing.

On August 16, 2013, the trial court issued an order finding, by clear and convincing evidence, that Lawson was in contempt of the trial court's May 23, 2011, injunction, entering judgment in our favor in the amount of $18.2 million, and ordering that Lawson pay to the court a daily coercive fine. Lawson filed an appeal and posted a bond, and collection of the judgment and the imposition of the coercive fine were stayed pending the appeal.

Patent litigation is extremely complex and issues regarding a patent's validity can arise even subsequent to a patent's issuance and a court's enforcement thereof. On April 3, 2014, the United States Patent and Trademark Office issued a notice canceling the patent at issue in the Lawson litigation. On July 25, 2014, the Appeals Court issued an Opinion vacating the injunction and contempt order. We have filed a Petition for Rehearing, and are awaiting the court's response.

Court calendars and rulings are inherently unpredictable, and we cannot predict when any litigation will be resolved, or the outcome thereof.

Other Matters

We may become party to various legal proceedings arising in the ordinary course of business including preference payment claims asserted in customer bankruptcy proceedings, claims of alleged infringement of patents, trademarks, copyrights and other intellectual property rights, claims of alleged non-compliance with contract provisions, employment related claims, claims by competitors, vendors or customers, claims related to alleged violations of laws and regulations, and claims relating to alleged security or privacy breaches. Although we do not expect that the outcome in any of these matters, individually or collectively, will have a material adverse effect on our financial condition or results of operations, litigation is inherently unpredictable. Therefore, judgments could be rendered or settlements entered that could adversely affect our results of operations or cash flows in a particular period. We provide for costs related to contingencies when a loss is probable and the amount is reasonably determinable.

Item 1A. Risk Factors

There have not been any material changes in the risk factors previously disclosed in Part I, Item 1A of our 2014 Annual Report.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information regarding our purchases of ePlus inc. common stock during the nine months ended December 31, 2014.

Period	Total number of shares purchased (1)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
April 1, 2014 through April 30, 2014	414,013	$ 47.78	414,013	200,572 (2)
May 1, 2014 through May 31, 2014	115,230	$ 53.54	115,230	85,342 (3)
June 1, 2014 through June 15, 2014	22,830	$ 55.69	22,830	62,512 (4)
June 16, 2014 through June 30, 2014	35,158	$ 57.69	-	500,000 (5)
July 1, 2014 through July 31, 2014	25,740	$ 55.67	25,740	474,260 (6)
August 1, 2014 through August 31, 2014	15,377	$ 54.74	15,377	458,883 (7)
September 1, 2014 through September 30, 2014	57,829	$ 56.34	57,829	401,054 (8)
October 1, 2014 through October 31, 2014	39,903	$ 57.59	39,903	361,151 (9)
November 1, 2014 through November 30, 2014	-		-	361,151 (10)
December 1, 2014 through December 31, 2014	-		-	361,151 (11)

The timing and expiration date of the current stock repurchase authorizations are included in Note 9, "Stockholders' Equity" to our unaudited condensed consolidated financial statements included elsewhere in this report.

(1) All shares acquired were in open-market purchases, except for 35,158 shares, which were repurchased to satisfy tax withholding obligations that arose due to the vesting of shares of restricted stock.

(2) The share purchase authorization in place for the month ended April 30, 2014 had purchase limitations on the number of shares of up to 750,000 shares. As of April 30, 2014, the remaining authorized shares to be purchased were 200,572.

(3) The share purchase authorization in place for the month ended May 31, 2014 had purchase limitations on the number of shares of up to 750,000 shares. As of May 31, 2014, the remaining authorized shares to be purchased were 85,342.

(4) The share purchase authorization in place through June 15, 2014 had purchase limitations on the number of shares of up to 750,000 shares. As of June 15, 2014, the remaining authorized shares to be purchased were 62,512.

(5) On June 12, 2014, the board of directors authorized the Company to repurchase up to 500,000 shares of its outstanding common stock over a 12-month period commencing June 16, 2014. As of June 30, 2014, the remaining authorized shares to be purchased were 500,000.

(6) The share purchase authorization in place for the month ended July 31, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of July 31, 2014, the remaining authorized shares to be purchased were 474,260.

(7) The share purchase authorization in place for the month ended August 31, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of August 31, 2014, the remaining authorized shares to be purchased were 458,883.

(8)

The share purchase authorization in place for the month ended September 30, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of September 30, 2014, the remaining authorized shares to be purchased were 401,054.

(9) The share purchase authorization in place for the month ended October 31, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of October 31, 2014, the remaining authorized shares to be purchased were 361,151.

(10) The share purchase authorization in place for the month ended November 30, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of November 30, 2014, the remaining authorized shares to be purchased were 361,151.

(11) The share purchase authorization in place for the month ended December 31, 2014 had purchase limitations on the number of shares of up to 500,000 shares. As of December 31, 2014, the remaining authorized shares to be purchased were 361,151.

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Item 3. Defaults Upon Senior Securities

Not Applicable.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

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Item 6. Exhibits

31.1	Certification of the Chief Executive Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).
31.2	Certification of the Chief Financial Officer of ePlus inc. pursuant to the Securities Exchange Act Rules 13a-14(a) and 15d-14(a).
32	Certification of the Chief Executive Officer and Chief Financial Officer of ePlus inc. pursuant to 18 U.S.C. § 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

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

	ePlus inc.
Date: February 5, 2015	/s/ PHILLIP G. NORTON By: Phillip G. Norton, Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)
Date: February 5, 2015	/s/ ELAINE D. MARION By: Elaine D. Marion Chief Financial Officer (Principal Financial Officer)