

NUVEEN PREMIUM INCOME MUNICIPAL FUND INC
Form N-2
April 24, 2009

As filed with the Securities and Exchange Commission on April 24, 2009

1933 Act File No. 333-

1940 Act File No. 811-05570

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form N-2

(Check appropriate box or boxes)

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No.

Post-Effective Amendment No.

and

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

Amendment No. 20

Nuveen Premium Income Municipal Fund, Inc.

Exact Name of Registrant as Specified in Articles of Incorporation

333 West Wacker Drive, Chicago, Illinois 60606

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(800) 257-8787

Registrant's Telephone Number, including Area Code

Kevin J. McCarthy

Vice President and Secretary

333 West Wacker Drive

Chicago, Illinois 60606

Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

Copies of Communications to:

Stacy H. Winick
K&L Gates LLP
1601 K Street, N.W.
Washington, DC 20006

Eric F. Fess
Chapman and Cutler LLP
111 W. Monroe
Chicago, IL 60603

Approximate Date of Proposed Public Offering:

As soon as practicable after the effective date of this Registration Statement

If any of the securities being registered on this form are offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, other than securities offered in connection with a dividend reinvestment plan, check the following box. "

It is proposed that this filing will become effective (check appropriate box)

" when declared effective pursuant to section 8(c)

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Unit	Proposed Maximum Aggregate Offering Price(2)	Amount of Registration Fee
Municipal Term Preferred Shares, Series June and June	1,000 Shares(1)	\$ 1,000	\$ 1,000,000	\$ 55.80

- (1) The Fund will offer, in the aggregate, up to 1,000 shares of Municipal Term Preferred Shares, % Series June and June , at an offering price of \$1,000.
- (2) Estimated solely for the purpose of calculating the registration fee.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such dates as the Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus (Subject to Completion)

Issued 2009

\$

Nuveen Premium Income Municipal Fund, Inc.

MUNICIPAL TERM PREFERRED SHARES

Shares, % Series June

Shares, % Series June

Liquidation Preference \$1,000 Per Share

The Fund. *Nuveen Premium Income Municipal Fund, Inc. (the Fund) is a diversified, closed-end management investment company. The Fund's investment objective is a high level of current income exempt from regular federal income tax, consistent with preservation of capital. The Fund seeks to achieve its investment objective by investing substantially all of its assets (more than 80%) in a diversified portfolio of tax-exempt municipal securities rated within the four highest grades (Baa or BBB or better) by Moody's Investor Services, Inc. (Moody's) or Standard & Poor's Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc. (S&P), except that the Fund may invest up to 20% of its assets in unrated municipal securities that, in the opinion of the Fund's adviser, are of comparable quality to those so rated. There is no assurance that the Fund will achieve its investment objective. See The Fund's Investments.*

The Offering. *The Fund is offering Municipal Term Preferred Shares, % Series June (Series MTP Shares) and Municipal Term Preferred Shares, % Series June (Series MTP Shares), each with a liquidation preference of \$1,000 per share (collectively, MTP Shares). Each such series is referred to as a Series. The offering of each Series is independent of the offering of the other Series, and no offering is contingent upon the closing of the other Series. The Fund intends to use the net proceeds from the*

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sale of MTP Shares to refinance and redeem all or a portion of the Fund's outstanding Municipal Auction Rate Cumulative Preferred Shares (MuniPreferredShares), and to maintain the Fund's leveraged capital structure.

Ratings. MTP Shares will have upon issuance a long-term credit rating of _____ from Moody's and a long-term issue credit rating of _____ from S&P. See Description of MTP Shares Rating Agencies.

Fixed Dividend Rates:	% Series June	% per annum
	% Series June	% per annum

The Fixed Dividend Rate may be adjusted in certain circumstances, including a change in the credit rating of the MTP Shares, as described herein (the Fixed Dividend Rate as it may be adjusted is referred to as the Dividend Rate). See Description of MTP Shares Dividends and Dividend Periods.

Investing in Municipal Term Preferred Shares Involves Certain Risks, which are described in the Risks Section Beginning on Page _____ of this prospectus.

(continued from previous page)

Dividends. Dividends will be declared daily to holders of record on the close of business on each such day. The initial dividend payment date will be on June 1, 2009, covering the initial period from the date of issuance. Thereafter, dividends will be paid semi-annually, on each December 1 and June 1, to and including June 1, (for each Series) and June 1, (for MTP Shares, Series only) to holders of record on the previous Business Day (as defined below).

Redemption. The Fund is required to redeem Series MTP Shares on June 1, and Series MTP Shares on June 1, in each case unless earlier redeemed or repurchased by the Fund. In addition, MTP Shares are subject to optional and mandatory redemption in certain circumstances. See Description of MTP Shares Redemption.

Tax Exemption. Dividends paid to holders of MTP Shares are expected to be exempt from federal income taxes to the extent payable from tax-exempt income earned from the Fund's portfolio, with exceptions for a portion that may represent a pass-through of income subject to federal alternative minimum income tax. From time to time, dividends may also include allocations of capital gains or ordinary income resulting from portfolio transactions. To the extent capital gains or ordinary income is included in the semi-annual distributions, the dividend payments will be increased above the Dividend Rate, based upon the maximum marginal federal income tax rates in effect at the time of such payment or alternatively the Fund will directly distribute to holders of MTP Shares the portion of the taxable amount allocable to MTP Shares in a supplemental distribution. Investors are advised to consult with their own tax advisors before making an investment in the Fund. See Tax Matters and Description of MTP Shares Distribution with respect to Taxable Allocations.

Priority of Payment. MTP Shares will be senior securities of stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and distribution of assets. Each Series of MTP Shares will have equal priority as to payments of dividends and distribution of assets and will be in parity in all respects with other preferred shares currently outstanding. The Fund may issue additional preferred stock on parity with MTP Shares, subject to certain limitations. 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 the Statement of Additional Information, Investment Restrictions.

Not Listed. The Fund does not intend to apply for a listing of MTP Shares on a securities exchange or an automated dealer quotation system. The Fund expects that certain broker-dealers may make a secondary market in MTP Shares at market prices that will vary (above or below the liquidation preference amount), depending on market conditions. No broker dealer is contractually obligated to make a market in the MTP Shares and there can be no assurance as to the development or liquidity of any market for MTP Shares outside of the redemption procedures as described herein.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	\$ 1,000	\$
Sales Load ¹	\$	\$
Proceeds to the Fund	\$	\$

¹ Total expenses of issuance and distribution, excluding sales load, are estimated to be \$.

(continued from previous page)

CUSIP No[s].

NUVEEN INVESTMENTS, LLC

, 2009

Book-Entry Only. The underwriters are offering MTP Shares subject to various conditions. 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 , 2009.

Transfers of MTP Shares. In connection with any transfer of MTP Shares, the transferor will be deemed to have agreed pursuant to the terms of the MTP Shares to transfer to the transferee the right to receive from the Fund any dividends declared and unpaid for each day prior to the transferee becoming the holder of such MTP Shares and the right to receive any other distributions with respect to such MTP Shares in exchange for payment of the transfer price paid by the transferee for such MTP Shares.

Redemption and Paying Agent. The redemption and paying agent for each Series of MTP Shares will be , [New York, New York].

Adviser. Nuveen Asset Management (NAM), the Fund's investment adviser, is responsible for determining the Fund's overall investment strategy and its implementation.

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 , 2009, 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 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.

You should rely only on the information contained in or incorporated by reference to this prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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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 Municipal 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 Premium Income Municipal Fund, Inc. (the Fund) is a diversified, closed-end management investment company. The Fund's common shares, \$0.01 par value, are traded on the New York Stock Exchange (the Exchange) under the symbol NPI. See Description of Outstanding Shares Common Shares. The Fund commenced investment operations on July 1, 1988. As of [redacted], 2009, the Fund had [redacted] common shares outstanding and [redacted] preferred shares outstanding. Preferred shares previously offered by the Fund are referred to as MuniPreferred shares. MTP Shares, as defined below, and any other preferred shares, including MuniPreferred shares, that may then be outstanding are collectively referred to as Preferred Stock.

The Offering

The Fund is offering [redacted] Municipal Term Preferred Shares, [redacted] % Series June (Series [redacted] MTP Shares) and [redacted] Municipal Term Preferred Shares, [redacted] % Series June (Series [redacted] MTP Shares), each at a purchase price of \$1,000 per share (collectively, [redacted] MTP Shares). MTP Shares are being offered by the underwriters listed under Underwriting. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all or a portion of the outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure.

The issuance date of the MTP Shares is referred to herein as the Date of Original Issue. MTP Shares will be senior securities of stock of the Fund and are senior, with priority in all respects, to the Fund's common shares as to payments of dividends and distribution of assets. Each Series of MTP Shares will have equal priority as to payments of dividends and distributions of assets and will be in parity in all respects to MuniPreferred shares outstanding.

Fixed Dividend Rate

MTP Shares pay a dividend at a fixed rate of [redacted] % per annum of the \$1,000 liquidation preference (the Fixed Dividend Rate), subject to certain adjustments, including adjustments based on the credit rating of the MTP Shares as described herein (the Dividend Rate). See Description of MTP Shares Dividends and Dividend Periods Dividend Rate and Description of MTP Shares Dividends and Dividend Periods Default Period.

Dividend Payments

The holders of each Series of MTP Shares will be entitled to receive cumulative cash dividends and distributions, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds

legally available for payment. Dividends are declared daily to holders of record at the close of business on such day and paid semi-annually on [June 1] and [December 1] each year commencing on _____ to holders of record on the Business Day (as defined below) preceding such date. See Description of MTP Shares Dividends and Dividend Periods Dividend Rate.

Business Day means any day on which the Exchange is open for trading.

Term Redemption

The Fund is required to provide for the mandatory redemption of (i) all outstanding Series _____ MTP Shares on June 1, _____ and (ii) all outstanding Series _____ MTP Shares on June 1, _____, each at a redemption price equal to \$1,000 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 date (the Term Redemption Price _____). No amendment, alteration or repeal of the obligations of the Fund to redeem all of the Series _____ MTP Shares and Series _____ MTP Shares on June 1, _____ and June 1, _____, respectively, can be effected without the prior unanimous vote or consent of each holder of Series _____ MTP Shares and Series _____ MTP Shares, respectively. See Description of MTP Shares Redemptions.

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]% after a sixty day cure period, the Fund will redeem the number of shares of Preferred Stock as described below at a redemption price equal to the liquidation value per share of the applicable Preferred Stock plus accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for such redemption by the Board of Directors for such redemption (the Mandatory Redemption Price _____). If the Fund fails to have such Asset Coverage of at least [225]% as described above the Fund will redeem shares of Preferred Stock (in whole or from time to time, in part) equal to the lesser of the minimum number of shares of Preferred Stock that will result in the Fund having Asset Coverage after such redemption of at least [230]% and 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 [275]%.

Effective Leverage Ratio. The Fund is required to limit its use of leverage as measured by the Effective Leverage Ratio (as defined below). If the Fund fails to comply with the Effective Leverage Ratio requirement 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 sixty days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within thirty days following the Effective Leverage Ratio Cure Date cause the Fund to have an Effective Leverage Ratio not to exceed 50% by (A) engaging in transactions involving or relating to the floating rate trust certificates not owned by the Fund and/or the residual floating rate trust certificates owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming in accordance with the Fund's Articles of Incorporation a sufficient number of shares of Preferred Stock, which at the Fund's determination may include any number or proportion of MTP Shares of any Series, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B).

Optional Redemption

As of June 1, _____, and June 1, _____, respectively, Series _____ MTP Shares and Series _____ MTP Shares will be subject to an optional redemption (in whole or from time to time, in part) at the sole option of the Fund out of monies legally available therefore, at the redemption price per share equal to the sum of \$1,000 plus (i) an initial premium of _____ % of the liquidation preference (with such premium declining by _____ % every _____ months so that by June 1, _____ (with respect to Series _____ MTP Shares) and June 1, _____ (with respect to Series _____ MTP Shares) 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 (the Optional Redemption Price). The period from the Date of Original Issue to the date that the MTP Shares are subject to an optional redemption is referred to herein as the Non-Call Period. See Description of MTP Shares Redemptions.

Federal 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 income tax, the dividends designated 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 state and local taxes. All or a 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 MTP Share 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.

Secondary Trading Market

The Fund does not intend to apply for a listing of MTP Shares on a securities exchange or an automated dealer quotation system. The Fund expects that certain broker-dealers may make a secondary market in MTP Shares at market prices that will vary (above or below the liquidation preference amount), depending on market conditions. No broker dealer is contractually obligated to make a market in the MTP Shares and there can be no assurance as to the development or liquidity of any market for MTP Shares outside of the redemption procedures as described herein.

In connection with any transfer of MTP Shares, the transferor will be deemed to have agreed pursuant to the terms of the MTP Shares to transfer to the transferee the right to receive from the Fund any dividends declared and unpaid for each day prior to the transferee becoming the holder of such MTP Shares and the right to receive any other distributions with respect to such MTP Shares in exchange for payment of the transfer price paid by the transferee for such MTP Shares.

Ratings

It is a condition of the underwriters' obligation to purchase each Series of MTP Shares that each Series of MTP Shares will be rated _____ and _____ by Moody's and S&P, respectively, as of the Date of Original Issue. There can be no assurance that such ratings will be maintained at the level originally assigned through the applicable term of each Series of MTP Shares. The ratings are based on current information furnished to Moody's and S&P by the Fund and its investment adviser. 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 (Moody's, S&P or Fitch Ratings, Inc. (Fitch)) to publish a credit rating with respect to each Series of MTP Shares for so long as such Series is outstanding. The Fixed Dividend Rate will be subject to an increase in the event that the ratings of the MTP Shares by both Moody's and S&P are downgraded from _____ and _____, respectively. See Description of MTP Shares Dividends and Dividend Periods Possible Adjustments to Fixed Dividend Rate.

Asset Coverage

The Fund must maintain asset coverage for Preferred Stock of at least [225]% as of the close of business on the last Business Day of each calendar week. Asset coverage for Preferred Stock is calculated pursuant to Section 18(h) of the Investment Company Act of 1940 (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 the weekly determination (Asset Coverage). See Description of MTP Shares Asset Coverage.

The Fund estimates that on the [Date of Original Issue], the average Asset Coverage, based on the composition of its portfolio as of _____, 2009, and after giving effect to the issuance of each Series _____,

of MTP Shares offered hereby (\$) to the Fund, the [deduction of sales loads and estimated offering expenses for such MTP Shares (\$)] and the redemption of all or a portion of the MuniPreferred shares will be %.

Effective Leverage Ratio

The Fund's Effective Leverage Ratio (as defined below) will not exceed 50% as of the close of business on the last Business Day of each calendar week.

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 trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedure) 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 trust certificates), and (B) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund.

Voting Rights

Except as otherwise provided in the Fund's Articles of Incorporation 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 Directors and will elect a majority of the Fund's Directors 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 \$1,000 per share 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 Objective and Policies

The Fund's investment objective is a high level of current income exempt from regular federal income tax, consistent with the preservation of capital. The Fund seeks to achieve its investment objective by investing substantially all of its assets (more than 80%) in a diversified portfolio of tax-exempt municipal securities rated within the four highest grades (Baa or BBB or better) by Moody's Investor Services, Inc. (Moody's) or Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. (S&P), except that the Fund may invest up to 20% of its assets in unrated municipal securities that, in the opinion of the Fund's adviser, are of comparable quality to those so rated. There is no assurance that the Fund will achieve its objective. See Investment Objective and Policies.

Investment Adviser

Nuveen Asset Management (NAM) 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 and Portfolio Managers.

Redemption and Paying Agent

The Fund will enter into a Redemption and Paying Agent Agreement with _____, [New York, New York] (the Redemption and Paying Agent). The Redemption and Paying Agent will serve as the Fund's transfer agent and registrar, dividend disbursing agent, and paying agent and redemption price disbursing 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 of market yields. The market yields on shorter-term securities comparable to MTP Shares may increase, which would likely result in a decline in the secondary market price of MTP Shares (to the extent such a market exists) prior to its term redemption.
- *No Established Trading Market Risk.* Each Series of MTP Shares is a new issue of securities and there is currently no established trading market for such shares. The Fund does not intend to apply for a listing of MTP Shares on a securities

exchange or an automated dealer quotation system. The Fund expects that certain broker-dealers may make a secondary market in MTP Shares at market prices that will vary (above or below the liquidation preference amount), depending on market conditions. There can be no assurance as to the development or liquidity of any market for MTP Shares outside of the redemption procedures as described herein, or that the price at which a holder could sell MTP Shares on such market would not be significantly less than the prices available for securities of comparable credit quality and effective maturity. **As a result, holders of MTP Shares may choose to treat them as illiquid.**

- *Secondary Market Risk.* If a secondary market for MTP Shares does develop, 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, each Series of MTP Shares will be rated and by Moody's and S&P, respectively and that such ratings will be a requirement of issuance of such Series by the underwriters pursuant to an underwriting agreement. There can be no assurance that such ratings will be assigned or maintained at the level originally assigned through the term of MTP Shares. Ratings do not eliminate or mitigate the risks of investing in MTP Shares. A rating issued by a rating agency (including Moody's and S&P) (each a Rating Agency as further defined below) 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 a Series of MTP Shares, which may make MTP Shares less liquid in any secondary market, though with higher resulting dividend rates than the Fixed Dividend Rate. If the Rating Agencies downgrade a Series of MTP Shares, the Fund is required to pay a higher dividend rate on such Series.
- *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 MTP Shareholders. For further information, see Description of MTP Shares Redemptions and Description of MTP Shares 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 income taxation, the attractiveness of such shares in relation to other investment alternatives is affected by changes in federal income tax rates or changes in the tax-exempt treatment of dividends on MTP Shares. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax. In addition, the Fund intends to treat each Series of MTP Shares as stock in the Fund for federal income tax purposes. See Tax Matters. 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 Sinking Fund (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, if such a market develops, 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 investor may have greater difficulty selling his or her MTP Shares. The lack of price transparency that may result from less liquid and more volatile trading environments could result in sudden and significant valuation increases or declines in MTP Shares.

General Risks of Investing in the Fund

- *Credit Risk.* Credit risk is the risk that an issuer of a municipal security held in the Fund's portfolio will become unable to meet its obligation to make interest and principal payments. In general, lower rated municipal securities carry a greater degree of credit risk. If rating agencies lower their ratings of municipal securities in the Fund's portfolio, the value of those securities could decline, which could jeopardize the rating agencies' ratings of a Series of MTP Shares. Because the primary source of income for the Fund is the interest and principal payments on the municipal securities in which the Fund invests, any default by an issuer of a municipal

security could have a negative impact on the Fund's ability to pay dividends on its MTP Shares and could result in the redemption of some or all of its MTP Shares.

- *Municipal Securities Market Risk.* Investing in the municipal securities market involves certain risks. The municipal 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 was 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 NAM's analytical abilities than if the Fund were to invest in stocks or taxable bonds. 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.
- *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 The Fund's Investments 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 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 possibility 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 tender option bond trust. The market price of inverse floating rate securities is more volatile than the underlying securities due to leverage. In circumstances where the Fund has a need for cash and the securities in a tender option bond trust are not actively trading, the Fund may be required to sell its inverse floating rate securities at less than favorable prices, or liquidate other Fund portfolio holdings.

- *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.* 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 Articles of Incorporation 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 Articles of Incorporation and By-Laws.

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

Governing Law

The Articles of Incorporation and the Statement are governed by the laws of the state of Minnesota.

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 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 shares of common stock of the Fund (assuming reinvestment of all dividends). The information with respect to the fiscal years ended October 31, 2008 has been audited by _____ whose report for the fiscal year ended October 31, 2008, along with the financial statements of the Fund, are included in the Fund's 2008 Annual Report, which is incorporated herein by reference. [The information with respect to the six months ended _____ is unaudited and is included in the Fund's 2008 Semi-Annual Report, which is incorporated by reference herein. Results for the interim period are not necessarily indicative of results of the full year. A copy of the Annual Report and the Semi-Annual Report may be obtained from www.sec.gov or by visiting www.nuveen.com. 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.

[Insert Financial Highlights Table]

THE FUND

The Fund is a diversified, closed-end management investment company registered under the 1940 Act. The Fund's common shares are listed on the New York Stock Exchange (the Exchange) under the symbol NPI. The Fund's principal office is located at 333 West Wacker Drive, Chicago, Illinois 60606, and its telephone number is (800) 257-8787.

The Fund was organized as a Minnesota corporation on April 15, 1988 and commenced investment operations on July 1, 1988. The Fund may issue up to 1 million preferred shares and up to 200 million shares of common stock. In 1988, the Fund issued 50,000,000 shares of common stock. In November 1988, the Fund issued 3,500 shares of Remarketed Preferred Stock in five offerings (700 shares each of Series A, B, C, D and E). In January 1994 the Fund issued rights to subscribe for an aggregate of 17,695,926 additional shares of common stock. 30,187,275 rights were subscribed for, which were converted into 10,062,425 shares of common stock. On August 1, 1995, the Fund conducted a 4-for-1 preferred stock split which was effected by dividing each outstanding share of Remarketed Preferred Stock into four shares, with a liquidation preference of \$25,000 per share, for an aggregate of 14,000 Remarketed Preferred shares. On August 12, 1997, the terms of the Fund's preferred stock were amended, converting the Remarketed Preferred Stock into MuniPreferred shares and converting Series A, B, C, D and E into Series M, T, W, TH and F, respectively. In September and October 1997, the Fund issued an additional 5,000 MuniPreferred shares in five offerings (1,000 shares each of Series M, T, W, TH and F). On May 18, 1999, the Fund issued 2,000 shares of MuniPreferred shares, Series M2. The Fund had _____ shares of common stock outstanding as of _____, 2009.

The table below provides information on Preferred Stock since 1998.

Year ended 10/31	Amount Outstanding Exclusive of Treasury Securities	Asset Coverage Per Share*	Involuntary Liquidating Preference Per Share
1998	19,000	77,566	25,000
1999			
2000			
2001			
2002			
2003			
2004			
2005			
2006			
2007			
2008			

* Calculated by dividing net assets by the number of shares of Preferred Stock outstanding.

The following provides information about the Fund's outstanding shares as of _____, 2009.

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding
Common			
MuniPreferred			
Series M			3,800
Series M2			2,000
Series T			3,800
Series W			3,800
Series TH			3,800
Series F			3,800
MTP			
Series			*
Series			*

* Assumes all MTP Shares offered hereby are sold.

USE OF PROCEEDS

The net proceeds of the offering of MTP Shares will be approximately \$ _____ (assuming all MTP Shares offered hereby are issued and sold) after payment of the sales load and estimated offering costs. The Fund intends to use the net proceeds from the sale of MTP Shares to refinance and redeem all or a portion of the Fund's outstanding MuniPreferred shares, and to maintain the Fund's leveraged capital structure. Such redemption of the MuniPreferred shares is expected to occur within _____ months of the closing of the offering.

CAPITALIZATION [UNAUDITED]

The following table sets forth the capitalization of the Fund as of _____, 2009, and as adjusted to give effect to (i) the issuance of all MTP Shares offered hereby and (ii) the redemption of [all] outstanding MuniPreferred shares through the proceeds of the issuance of MTP Shares. Fewer than all of the MuniPreferred shares may be redeemed.

	<u>Actual , 2009 (UNAUDITED)</u>	<u>As Adjusted , 2009 (UNAUDITED)</u>
PREFERRED SHAREHOLDERS EQUITY		
MuniPreferred shares, \$25,000 stated value per share, at liquidation value; 1,000,000 preferred shares authorized (_____ shares outstanding and _____ MuniPreferred Shares outstanding, as adjusted, respectively)*	\$	\$
MTP Shares, \$1,000 stated value per share, at liquidation value; 1,000,000 preferred shares authorized; (no MTP Shares outstanding and _____ shares outstanding)*, as adjusted	\$	\$
COMMON SHAREHOLDERS EQUITY:		
Common shares, \$.01 par value per share; 200,000,000 shares authorized, _____ shares outstanding*	\$	\$
Paid-in surplus**		
Undistributed net investment income		
Accumulated net realized gain (loss) from investments and derivative transactions		
Net unrealized appreciation (depreciation) of investments and derivative transactions		
Net assets applicable to common shares	\$	\$

* None of these outstanding shares are held by or for the account of the Fund.
 ** As adjusted, paid-in surplus reflects a reduction for the sales load and estimated offering costs of MTP Shares issuance (\$ _____).

DESCRIPTION OF MTP SHARES

The following is a brief description of the terms of MTP Shares, including any specific terms of Series _____ MTP Shares and Series _____ MTP Shares. This is not a complete description and is subject to and entirely qualified by reference to the Fund's Articles of Incorporation and the Fund's Statement Establishing and Fixing the Rights and Preferences of Municipal Term Preferred Shares (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 Appendix A to the Fund's SAI. Copies may be obtained as described under Available Information. Many of the terms in this section have a special meaning. Any terms in this section not defined have the meaning assigned to them in the Statement.

General

MTP Shares are fully paid and non-assessable when issued 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 MuniPreferred shares, and with any other series of preferred stock of the Fund that might be issued in the future, as to payment of dividends and the distribution of the Fund's assets upon liquidation. MTP Shares and all other Preferred Stock of the Fund are senior as to dividends and distribution to the Fund's common shares.

Holders of MTP Shares will not receive certificates representing their ownership interest in such shares. The Depository Trust Company will initially act as Securities Depository for the holders of MTP Shares.

Dividends and Dividend Periods

General. The following is a general description of dividends and dividend periods. The holders of each Series of MTP Shares will be entitled to receive cumulative cash dividends and distributions, when, as and if declared by, or under authority granted by, the Board of Directors, out of funds legally available and in preference to dividends and distributions on common stock of the Fund for payment, calculated separately for each Dividend Period (as defined below) for such Series at a Dividend Rate (as defined below) for such Series during such Dividend Period. The Dividend Rate is computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends on each Series of MTP Shares will be declared daily to the holders of such Series as their names appear on the registration books of the Fund at the close of business on each such day. Dividends so declared and payable will be paid to the extent permitted under state law and the Articles of Incorporation, and to the extent available and 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 _____ % and _____ % for Series June _____ and Series June _____, respectively (the Fixed Dividend Rate). The Fixed Dividend Rate may be adjusted in certain circumstances, including a change in the credit rating of each Series of MTP Shares and/or upon the occurrence of certain events resulting in a Default Period (as defined below) (the Fixed Dividend Rate and any adjustment thereto is referred to as the Dividend Rate).

Payment of Dividends and Dividend Periods. Dividends are payable semi-annually on [June 1] and [December 1] in each year (each, a Dividend Payment Date) commencing on June 1, 2009 to the holders of MTP Shares. Dividends and distributions on MTP Shares accumulate from the Date of Original Issue. Each dividend period (Dividend Period) begins on (and includes) a Dividend Payment Date (or the Date of Original Issue, in the case of the first dividend period after the issuance of MTP Shares and ends on (but excludes) the next Dividend Payment Date. Dividends are payable on each Dividend Payment Date for such Series to the holders of such Series as their names appear on the registration books of the Fund at the close of business on the Business Day next preceding such Dividend Payment Date. If a holder of MTP Shares transfers his, her or its MTP Shares then any dividends that have been unpaid but declared for MTP Shares will be transferred to the transferee of MTP Shares in exchange for the transfer price paid by the transferee for MTP Shares.

Possible Adjustments to Fixed Dividend Rate.

Ratings. So long as a Series of MTP Shares is rated on any date _____ to _____ by S&P or _____ to _____ by Moody's, then the Dividend Rate will be equal to the Fixed Dividend Rate. If the highest credit rating assigned on any date to a Series' outstanding MTP Shares by either of Moody's or S&P (or a Rating Agency selected by the Board of Directors of the Fund) is equal to one of the ratings set forth in the table below, the Dividend Rate applicable to a Series' outstanding MTP Shares for such date will be 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 a Series MTP by either S&P or Moody's as set forth in the table below.

Dividend Rate Adjustment Schedule

S&P	Moody's	Applicable Percentage
-----	---------	-----------------------

to	to	[]%
to	to	[]%
to	to	[]%
and lower	and lower	[]%

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

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 (as defined below), Deposit Securities sufficient to pay the full amount of any dividend on MTP Shares payable on the applicable Dividend Payment Date (a Dividend Default) or (i) applicable redemption date, 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 day shall be equal to the applicable dividend rate in effect on such day plus five percent (5%) annually.

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 of such non-payment based on the actual number of 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 pay interest exempt from federal incomes taxes (Municipal Obligations) that have credit ratings from at least one nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Securities Exchange Act of 1934, as amended (the Exchange Act and such a nationally recognized statistical rating organization a NRSRO) that is the highest applicable rating generally ascribed by such NRSRO to Municipal Obligations; (iv) investments in money market funds registered under the 1940 Act that qualify under Rule 2a-7 under the 1940 Act or similar investments or U.S. Government Obligations or any combination thereof; (v) or 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 that are either a demand obligation payable to the holder 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 days preceding the payment date thereof, as may be fixed by the Board of Directors. Any payment of back dividends 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 Default Period.

[Subject to the foregoing, and any requirements of state law, to the extent that the Fund's investment company taxable income for any taxable year (determined without regard to the deduction for dividends paid by the Fund) exceeds any current or accumulated dividends on MTP Shares, the Fund intends to distribute such excess investment company taxable income to the holders of the common shares. The term "investment company taxable income," as it is defined in the Code, includes interest, dividends, net short-term capital gains and other income received or accrued less the advisory fee, bank custodian charges, and other expenses properly chargeable against income, but generally does not include net capital gain (defined as the excess of net long-term capital gains over net short-term capital losses and capital loss carryovers from prior periods), dividends paid in shares of stock or distributions designated as a return of capital. The Fund also intends to distribute any realized net capital gain annually to the holders of the common shares (subject to the prior rights of the holders of MTP Shares) subject to the foregoing and any requirements of state law. Each year, the Fund will allocate exempt interest dividends, ordinary income dividends, and capital gain distributions, between its common shares and 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."]

Upon failure to pay dividends for two years or more, 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 each Series of MTP Shares will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, additional distributions payable with respect to Taxable Allocations that are paid with respect to such Series as set forth below.

In general, the Fund intends to 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 Series 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 each share of the applicable Series for such Dividend Period that will be treated as a Taxable Allocation and the amount of any Additional Amount Payments to be paid in respect of such Taxable Allocation. If the Fund provides a Notice of Taxable Allocation with respect to dividends payable on a Series of MTP Shares for a Dividend Period, the Fund will increase the dividend payable in respect of each MTP Share of such Series for such Dividend Period by 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.

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 a Series of MTP Shares, the Fund will (other than in the circumstances described in the following paragraph) make a supplemental distribution on such Series equal to the amount of such Taxable Allocation. Any such supplemental distribution in respect of a Series may be declared and paid on any date, without reference to any regular Dividend Payment Date, to the holders of such Series as their names appear on the registration books of the Fund on such date, not exceeding 15 days preceding the payment date of such supplemental distribution, as may be fixed by the Board of Directors.

If in connection with a redemption of MTP Shares, the Fund makes a Taxable Allocation without having either given advance notice thereof or made a supplemental distribution 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 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 Series of 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 any Series, the allocation of any net capital gains or other income taxable for federal income tax purposes to a dividend paid in respect of such Series.

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 designated 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 a Series of 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 series of Preferred Stock (including all MTP Shares outstanding) 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 paid on MTP Shares will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends and distributions accumulated but unpaid on each such series of shares of preferred shares 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 Series of MTP 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 have Asset Coverage of at least **[225]**% after deducting the amount of such dividend or distribution or redemption or purchase price, or liquidation proceeds, (B) all cumulative dividends and distributions on all series of the Municipal 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 will have been declared and sufficient funds for the payment thereof deposited irrevocably with the Redemption and Paying Agent) and (C) the Fund will have deposited with the Redemption and Paying Agent Deposit Securities having an initial combined value sufficient to effect the redemption of the full number of outstanding MTP Shares of any Series to be redeemed mandatorily pursuant to any provision contained in the Statement for which a Notice of Redemption shall have been given or shall have been required to be given on or prior to the date of the applicable dividend, distribution, redemption, purchase or acquisition.

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 for the payment of such dividends and distributions shall have been or are contemporaneously deposited with the Redemption and Paying Agent, provided, however, that the foregoing shall not prevent the purchase or acquisition of outstanding MTP Shares pursuant to the 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 (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 of beneficial interest). Notwithstanding the 1940 Act's requirements, MTP Shares have a higher Asset Coverage 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 beneficial interest) 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 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

For so long as any MTP Shares of the Fund are outstanding, the Fund will have Asset Coverage of at least [225]% as of the close of business on the last Business Day of each calendar week. 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.

Effective Leverage Ratio

For so long as any MTP Shares of the Fund are outstanding, the Fund's Effective Leverage Ratio will not exceed 50% as of the close of business on the last Business Day of each calendar week. 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 trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund; divided by the sum of (A) the market value (determined in accordance with the Fund's valuation procedure) 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 trust certificates), and (B) the aggregate principal amount of floating rate trust certificates not owned by the Fund that correspond to the associated residual floating rate trust certificates owned by the Fund.

Redemption

Term Redemption. The Fund is required to provide for the mandatory redemption of (the Term Redemption) all of the Series MTP Shares on June 1, and all of the Series MTP Shares on June 1, (each a Term Redemption Date), each at a redemption price equal to \$1,000 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 applicable 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 on the close of business on a Business Day that is sixty days after the date of such failure (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 value per share of the applicable Preferred Stock plus accumulated but unpaid dividends thereon (whether or not earned or declared but excluding interest thereon) to (but excluding) the date fixed for redemption by the Board of Directors (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 Articles of Incorporation 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 of as much as [275]%. The Fund will effect a redemption on the date fixed by the Fund, which date will not be later than 45 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 45 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 of a Series are to be redeemed pursuant to the Asset Coverage mandatory redemption provisions above, the shares of such MTP Shares to be redeemed will be selected either (i) pro rata among such MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Directors 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 date that is sixty days following such Business Day (the Effective Leverage Ratio Cure Date), the Fund will within thirty 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 trust certificates not owned by the Fund and/or the residual floating rate

trust certificates owned by the Fund, including the purchase, sale or retirement thereof, (B) redeeming in accordance with the Fund's Articles of Incorporation a sufficient number of shares of Preferred Stock, which at the Fund's determination may include any number or proportion of MTP Shares, or (C) engaging in any combination of the actions contemplated by clauses (A) and (B).

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 Articles of Incorporation 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 of a Series are to be redeemed pursuant to the Effective Leverage Ratio mandatory redemption provisions above, the shares of such MTP Shares to be redeemed will be selected either (A) pro rata among such MTP Shares, (B) by lot or (C) in such other manner as the Board of Directors of the Fund may determine to be fair and equitable.

Optional Redemption. Commencing on the [first (1st)] anniversary date of the Date of Original Issue, on any 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 (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 occurs on or after the [first] anniversary date of the Date of Original Issue and on or before a date that is _____ months after the Date of Original Issue, _____ % of the Liquidation Preference;
- if the Optional Redemption Date occurs after the date that is _____ months after the Date of Original Issue and on or before the date that is _____ months after the Date of Original Issue, _____ % of the Liquidation Preference;
- if the Optional Redemption Date occurs after the date that is _____ months after the Date of Original Issue and on or before the date that is _____ months after the Date of Original Issue, _____ % of the Liquidation Preference;
- if the Optional Redemption Date occurs after the date that is _____ months after the Date of Original Issue and on or before the date that is _____ months after the Date of Original Issue, _____ % of the Liquidation Preference; or
- if the Optional Redemption Date occurs after the date that is _____ months after the Date of Original Issue, _____ % of the Liquidation Preference.

If fewer than all of the outstanding MTP Shares of a Series are to be redeemed pursuant to the optional redemption provisions above, the shares of such MTP Shares to be redeemed will be selected either (i) pro rata among such MTP Shares, (ii) by lot or (iii) in such other manner as the Board of Directors 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 Directors will have the full power and authority to prescribe the terms and conditions upon which MTP Shares will be redeemed pursuant to the manners set forth above from time to time.

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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 Redemption Date contemplated by such notice of redemption having a 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 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 day notice period contemplated by Rule 23c-2 under the 1940 Act, or for 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, 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, first class mail or by electronic means. A Notice of Redemption will be provided not more than 45 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) the place or places where the certificate(s) for such MTP Shares (properly endorsed or assigned for transfer, if the Board of Directors 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 initial combined value sufficient to effect the redemption of 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 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 the Fund shall deposit with the Redemption and Paying Agent Deposit Securities from the Sinking Fund or from other assets of the Fund having an initial combined value sufficient to effect the redemption of MTP Shares to the redeemed on the Term Redemption Date no later than 15 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 following referred to herein as the Redemption Price) and such MTP Shares shall no longer be deemed outstanding for any purpose whatsoever. The Fund will be entitled to receive, promptly after the Redemption Date, any cash in excess of the aggregate Redemption Price of MTP Shares called for redemption on the Redemption Date and any remaining Deposit Securities. Any Deposit Securities so deposited that are unclaimed at the end of 90 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 that are subject to redemption will surrender any 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, 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 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 Articles of Incorporation 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 the Fund may not have redeemed MTP Shares for which a Notice of Redemption has been provided, dividends may be declared and paid on MTP Shares and will include those MTP Shares for which a Notice of Redemption has been provided.

Sinking Fund and Liquidity Requirement

On or prior to _____, with respect to Series _____ MTP Shares and _____ with respect to Series _____ MTP Shares (each the Sinking Fund Initial Date _____), the Fund will cause its custodian to designate and segregate from the other assets of the Fund (the Sinking Fund) 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 Sinking Fund Investment and collectively the Sinking Fund 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 each Series of MTP Shares is equal to the Term Redemption Price to be paid on the Term Redemption Date for such Series, based on the number of shares of such Series then outstanding, assuming for this purpose that the Dividend Rate for such Series in effect at the Sinking Fund Initial Date will be the Dividend Rate in effect for such Series until the Term Redemption date for such Series. If the aggregate Market Value of the Sinking Fund Investments included in the Sinking Fund for a Series of MTP Shares as of the close of business on any Business Day is less than 110% of the Term Redemption Amount with respect to such Series, then the Fund will cause the custodian and NAM to take all such necessary actions, including designating and/or segregating assets of the Fund as Sinking Fund Investments, so that the aggregate Market Value of the Sinking Fund Investments included in the Sinking Fund for such Series is at least equal to 110% of the Term Redemption Amount with respect to such Series not later than the close of business on the next succeeding Business Day. With respect to assets of the Fund designated and segregated as Sinking Fund Investments with respect to the MTP Shares, NAM, on behalf of the Fund, will be entitled to instruct the custodian on any date to release any Sinking Fund Investments from such designation and segregation and to add, exchange or substitute for such designation and segregation other Sinking Fund Investments not so designated and segregated, so long as (i) the assets of the Fund designated and segregated as Sinking Fund 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 designated and 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). 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 Sinking Fund Investments included in the Sinking Fund for any Series of MTP Shares, 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.

The Fund will cause NAM to execute portfolio transactions and take any other necessary action so that the Market Value of the Deposit Securities held in the Sinking Fund 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, is not less than the percentage of the Term Redemption Amount for the MTP Shares set forth below opposite such number of days (the Liquidity Requirement), but in all cases subject to the cure provisions of described below:

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

If the aggregate market value of the Deposit Securities included in the Sinking Fund 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 its custodian and the adviser, NAM, to take all such necessary actions, including transferring Deposit Securities from the Fund to the Sinking Fund, so that the aggregate market value of the Deposit Securities included in the Sinking Fund 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 Sinking Fund for a Series of MTP Shares may be applied by the Fund, in its discretion, towards payment of the Term Redemption Price for such Series. 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 of a Series on the Term Redemption Date for such Series, the requirement of the Fund to maintain the Sinking Fund 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 MTP 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 \$1,000 per MTP 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 MTP Shares, and any other outstanding series of Preferred Stock shall be insufficient to permit the payment in full to such holders of MTP Shares of the Liquidation Preference plus accumulated and unpaid dividends and distributions and the amounts due upon liquidation with respect to such other series of Preferred Stock, then the available assets shall be distributed among the

holders of MTP 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 MTP Share plus accumulated and unpaid dividends and distributions has been paid in full to the holders of MTP 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 person, nor the merger, consolidation or reorganization of any person 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 indicated in the Fund's Articles of Incorporation, 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, will vote together with holders of shares of common stock of the Fund as a single class. Under applicable rules of the Exchange, the Fund is currently required to hold annual meetings of shareholders.

In connection with the election of the Board of Directors of the Fund, the holders of outstanding shares of Preferred Stock, including the MTP Shares, represented in person or by proxy at said meeting, will be entitled, as a class, to the exclusion of the holders of all other securities and classes of beneficial interest of the Fund, to elect two Directors of the Fund. The holders of outstanding shares of common stock and Preferred Stock, including each series of MTP Shares, voting together as a single class, will elect the balance of the Directors 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 MTP Share, accumulated dividends (whether or not earned or declared) on the shares of Preferred Stock, including the 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 for the payment of such accumulated dividends; or (ii) any time holders of any shares of Preferred Stock are entitled under the 1940 Act to elect a majority of the Directors of the Fund (a period when any of the conditions exists, a Voting Period), then the number of members constituting the Board of Directors of the Fund will automatically be increased by the smallest number that, when added to the two Directors elected exclusively by the holders of shares of Preferred Stock, including the 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, will be entitled as a class on a one-vote-per-share basis, to elect the smallest number of additional Directors that, together with the two Directors which such holders will be in any event entitled to elect, constitutes a majority of the total number of Directors of the Fund as so increased. The terms of office of the persons who are Directors at the time of that election will continue. 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, for all past dividend periods, or the Voting Period is otherwise terminated, (i) the voting rights stated in the above sentence 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 Directors elected by the holders of shares of Preferred Stock, including the MTP Shares (but not of the Directors with respect to whose election the holders of common shares were entitled to vote or the two Directors the holders of shares of Preferred Stock, including MTP Shares, have the right to elect in any event), will terminate automatically. Any MTP 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 MTP 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 directors as described above, the Fund will notify the Redemption and Paying Agent and/or such other

person as is specified in the terms of such Preferred Stock to receive notice and the Redemption and Paying Agent and/or such other person will call a special meeting of such holders, (i) by mailing 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 days after the date of the delivery by electronic means or mailing of such notice. If the Fund fails to send such notice to the Redemption and Paying Agent and/or other person entitled to receive same or if the Redemption and Paying Agent and/or such other person does not 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 5th Business Day preceding the 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 directors 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 directors prescribed above on a one-vote-per-share basis.

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 MTP Shares outstanding and other series of Municipal Term Preferred Shares of the Fund outstanding at the time, in person or by proxy, either in writing or at a meeting, voting as a separate class, amend, alter or repeal the provisions of the Articles of Incorporation, including the Statement, whether by merger, consolidation or otherwise, so as to adversely affect any preference, right or power of such MTP Shares and other series of Municipal Term Preferred Shares of the Fund or the holders thereof; provided, however, that (i) an increase in the number of authorized shares of Preferred Stock pursuant to the Articles of Incorporation or Bylaws of the Fund (the Articles of Incorporation and Bylaws of the Fund referred to herein as the Governing Documents) or the issuance of additional shares of any series of Preferred Stock pursuant to the Governing Documents will not be considered to adversely affect the rights and preferences of MTP Shares, and (ii) a division of a MTP Share or any other series of Municipal Term Preferred Share will be deemed to affect such preferences, rights or powers only if the terms of such division adversely affect the holders of MTP Shares or other series of Municipal Term Preferred Shares, respectively. So long as any MTP Shares or any other series of Municipal Term Preferred Shares of the Fund are outstanding, the Fund will not, without the affirmative vote or consent of at least 66²/₃% of the holders of MTP Shares and other series of Municipal Term Preferred Shares of the Fund outstanding at the time, in person or by proxy, either in writing or at a meeting, 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.

So long as any MTP Shares of a Series are outstanding, the Fund will not, without the affirmative vote or consent of the holders of at least a majority of the MTP Shares of such Series outstanding at the time, in person or by proxy, either in writing or at a meeting, voting together as a separate class, amend, alter or repeal the provisions of the appendix to the Statement relating to such Series, whether by merger, consolidation or otherwise, so as to adversely affect any preference, right or power set forth in such appendix of the MTP Shares of such Series or the holders thereof; provided, however, that (i) an increase in the number of authorized shares of Preferred Stock pursuant to the Articles of Incorporation or the issuance of additional shares of any series of Preferred Stock pursuant to the Articles of Incorporation will not be considered to adversely affect the rights and preferences of the MTP Shares of any series, and (ii) a division of a MTP Share will be deemed to affect such preferences, rights or powers only if the terms of such division adversely affect the holders of the MTP Shares of such Series; and provided, further, that no amendment, alteration or repeal of the obligations of the Fund to (x) pay the term Redemption Price on a Term Redemption Date for a Series or (y) accumulate dividends at the Dividend Rate for a Series will be effected without, in each case, the prior unanimous vote or consent of such Series.

Unless a higher percentage is provided for in the Articles of Incorporation of the Fund, (i) the affirmative vote of at least a majority of the holders of shares of Preferred Stock, including MTP 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 and (ii) the affirmative vote of the holders of a majority of the outstanding shares

of Preferred Stock, including MTP Shares, voting as a separate class, will be required 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. The affirmative vote of the holders of a majority of the outstanding shares of Preferred Stock, including MTP Shares, voting as a separate class, will be required to approve any 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 other provisions of the Articles of Incorporation, 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 shares deemed outstanding for quorum purposes, 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 Term 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 or an affiliate of the Fund (except for shares held by a broker-dealer that is an affiliate of the Fund for the account of its customers) 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 will be reflected in a written document and may be amended by the respective Rating Agency without the vote, consent or approval of the Fund, the Board of Directors of the Fund and any holder of shares of preferred shares, including any MTP Shares, or any other shareholder of the Fund.]

Unless otherwise required by law, 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 Directors 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 each Series of MTP Shares for so long as such Series is outstanding. Rating Agency means any of Moody's, S&P or Fitch, as designated by the Board of Directors from time to time to be a Rating Agency for purposes of the Statement. The Board of Directors has initially designated Moody's and S&P to be Rating Agencies. The Fund will use commercially reasonable efforts to comply with any 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 a Series of MTP Shares for so long as such Series is outstanding (which credit rating may consist of a credit rating on the MTP Shares generally or the Preferred Stock generally).] The Board of Directors may elect to remove any Rating Agency previously designated by the Board of Directors 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 Directors with any other Rating Agency, if such replacement Rating Agency has at the time of such replacement (i) issued a rating for the MTP Shares of such Series 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.]

Issuance of Additional Preferred Stock

So long as any MTP Shares are outstanding, the Fund may issue and sell Preferred Stock of one or more other series of a class of senior securities of the Fund representing stock under Section 18 of the 1940 Act, including additional MTP Shares, in addition to then outstanding Series of MTP Shares 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 for which a redemption notice has been mailed prior to such issuance, have Asset Coverage of at least [225]%

Actions 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, in each case, 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.

THE FUND'S INVESTMENTS

Investment Objective and Policies

The Fund's investment objective is a high level of current income exempt from regular federal income tax, consistent with preservation of capital. A portion of the dividends from MTP Shares may be subject to the federal alternative minimum tax.

The Fund seeks to achieve its investment objective by investing substantially all of its assets (more than 80%) in a diversified portfolio of tax-exempt municipal securities rated at the time of purchase within the four highest grades (Baa or BBB or better) by Moody's or S&P, except that the Fund may invest up to 20% of its assets in unrated municipal securities which, in NAM's opinion, have credit characteristics equivalent to, and are of comparable quality to, municipal securities rated Baa or BBB or better. The Fund will not invest in any rated municipal securities that are rated lower than Baa by Moody's or BBB by S&P at the time of purchase. Municipal securities rated Baa or BBB or better are considered investment grade securities. Municipal securities rated Baa are considered medium grade obligations that lack outstanding investment characteristics and in fact have speculative characteristics as well, while municipal securities rated BBB are regarded as having an adequate capacity to pay principal and interest. See Appendix B to the SAI for a description of securities ratings.

Underrated municipal securities are those municipal securities whose ratings do not, in NAM'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 NAM'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). NAM 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 NAM considers undervalued. NAM believes that the prices of these municipal securities should ultimately reflect their true value.

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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 possibility 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.

As noted above, except to the extent that the Fund buys temporary investments, the Fund will, as a fundamental policy, invest substantially all of its assets (more than 80%) in tax-exempt municipal securities that are rated at the time of purchase within the four highest grades (Baa or BBB or better) by Moody's or S&P, except that the Fund may invest up to 20% of its assets in unrated municipal securities which, in NAM's opinion, have credit characteristics equivalent to, and are of comparable quality to, municipal securities so rated. These policies and the Fund's investment objective are fundamental policies, which cannot be changed 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 total assets, the Fund may not invest more than 5% of its total assets in the securities of any single issuer.

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 objective(s) 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 NAM 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 objective 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. However, 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 and other securities issued to finance and refinance public projects, and other related securities that provide for the payment of income that is exempt from federal income taxes.

States, local governments and municipalities issue municipal securities to raise money for public purposes such as building public facilities, refinancing outstanding obligations, and financing internal operating expenses. Municipal securities are generally either general obligation bonds, which are backed by the full faith and credit of the issuer and may be repaid from any revenue source, or revenue bonds, which may be repaid only from the revenues of a specific facility or source. The Fund also may buy municipal securities that represent interests in lease obligations. These securities carry special risks because the issuer may not be required to appropriate money annually to make payments under the lease. To reduce this risk, the Fund will only buy these securities where the issuer has a strong incentive to continue making appropriations until the municipal security matures. The Fund does not have any limits on investing in lease obligations that do not contain a non-appropriation clause. The Fund may invest no more than 10% of its net assets in municipal securities issued by U.S. possessions or territories, which pay interest exempt from regular federal income tax.

The Fund may buy municipal securities that pay a variable or floating rate of interest that changes with changes in specified market rates or indices, such as a bank prime rate or a tax-exempt money market index.

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 and S&P'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 also 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 NAM 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 securities. The special purpose trust typically sells two classes of beneficial interests or securities: short-term floating rate municipal securities (sometimes referred to as short-term floaters or tender option bonds), which are sold to third party investors, and inverse floating rate municipal securities, which the Fund would purchase. 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 security 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 residual 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 securities 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 security 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 securities 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 outperform 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 securities deposited in a tender option bond trust.

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

Tender Option Bonds. The Fund may also invest in tender option bonds, as described above, issued by special purpose trusts. Tender option bonds 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