BLUE NILE INC
Form 10-Q
November 09, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended October 2, 2016
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 000-50763

BLUE NILE, INC.
(Exact name of registrant as specified in its charter)

Delaware	91-1963165
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
411 First Avenue South, Suite 700, Seattle, Washington	98104
(Address of principal executive offices)	(Zip code)

(206) 336-6700
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer ý
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

As of November 4, 2016, the registrant had 11,697,428 shares of common stock outstanding.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements that involve many risks and uncertainties. These statements, which relate to future events and our future performance, are based on current expectations, estimates, forecasts and projections about the industries in which we operate and the beliefs and assumptions of our management as of the date of this filing. In some cases, you can identify forward-looking statements by terms such as “would,” “could,” “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “estimate,” “might,” “predict,” “seek,” or “continue,” the negative of these terms or other variations of such terms. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business and other characterizations of future events or circumstances are forward-looking statements. These statements are only predictions based upon assumptions made that are believed to be reasonable at the time, and are subject to risk and uncertainties. Therefore, actual events or results may differ materially and adversely from those expressed in any forward-looking statement. In evaluating these statements, you should specifically consider the risks described under the caption “Item 1A — Risk Factors” and elsewhere in this Quarterly Report on Form 10-Q. These factors, and other factors, may cause our actual results to differ materially from any forward-looking statement. Except as required by law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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PART I. FINANCIAL INFORMATION
Item 1.Financial Statements
BLUE NILE, INC.
Condensed Consolidated Balance Sheets
(unaudited)
(in thousands, except par value)

	October 2, 2016	January 3, 2016	October 4, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	$40,558	$86,542	$33,609
Trade accounts receivable	2,094	3,339	4,006
Other accounts receivable, net	1,577	706	930
Note receivable	300	600	600
Inventories	44,126	46,376	41,946
Prepaids and other current assets	2,497	1,585	2,317
Total current assets	91,152	139,148	83,408
Property and equipment, net	11,669	10,530	10,795
Deferred income taxes	4,259	5,089	4,844
Other investments	2,280	2,280	2,280
Other assets, net	268	367	305
Total assets	$109,628	$157,414	$101,632
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	$77,882	$121,917	$76,328
Accrued liabilities	8,750	12,336	8,816
Current portion of long-term financing obligation	34	33	33
Current portion of deferred rent	352	290	291
Total current liabilities	87,018	134,576	85,468
Long-term financing obligation, less current portion	430	455	464
Deferred rent, less current portion	1,702	1,697	1,771
Unearned income	1,530	1,988	2,141
Other long-term liabilities	318	242	201
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, $0.001 par value; 5,000 shares authorized, none issued and outstanding	—	—	—
Common stock, $0.001 par value; 300,000 shares authorized; 21,849, 21,714 and 21,672 shares issued, respectively, 11,697, 11,575 and 11,533 shares outstanding, respectively	22	22	22
Additional paid-in capital	236,285	232,148	230,290
Accumulated other comprehensive loss	(227)	(239)	(211)
Retained earnings	110,366	114,023	108,984
Treasury stock, at cost; 10,152, 10,139 and 10,139 shares outstanding, respectively	(327,816)	(327,498)	(327,498)
Total stockholders' equity	18,630	18,456	11,587
Total liabilities and stockholders' equity	$109,628	$157,414	$101,632

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

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BLUE NILE, INC.
Condensed Consolidated Statements of Operations
(unaudited)
(in thousands, except per share data)

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net sales	$105,110	$109,943	$321,937	$330,083
Cost of sales	84,470	88,712	258,673	266,790
Gross profit	20,640	21,231	63,264	63,293
Selling, general and administrative expenses	18,843	18,192	56,950	54,905
Operating income	1,797	3,039	6,314	8,388
Other income (loss), net:				
Interest income, net	10	12	35	76
Other income (loss), net	90	(33)	571	—
Total other income (loss), net	100	(21)	606	76
Income before income taxes	1,897	3,018	6,920	8,464
Income tax expense	604	1,041	2,420	2,969
Net income	$1,293	$1,977	$4,500	$5,495
Basic net income per share	$0.11	$0.17	$0.39	$0.47
Diluted net income per share	$0.11	$0.17	$0.38	$0.47

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

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BLUE NILE, INC.
Condensed Consolidated Statements of Comprehensive Income
(unaudited)
(in thousands)

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net income	$1,293	$ 1,977	$4,500	$ 5,495
Other comprehensive income (loss):				
Foreign currency translation adjustments	5	(14)	12	25
Total comprehensive income	$1,298	$ 1,963	$4,512	$ 5,520

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

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BLUE NILE, INC.
Condensed Consolidated Statement of Changes in Stockholders' Equity
(unaudited)
(in thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock		Total Stockholders' Equity
	Shares	Amount				Shares	Amount	
Balance, January 4, 2016	21,714	$ 22	$ 232,148	$ 114,023	$ (239)	(10,139)	$ (327,498)	$ 18,456
Net income				4,500				4,500
Other comprehensive income					12			12
Dividends ($0.70 per share)	—		—	(8,123)				(8,123)
Tax deficiency from share-based awards			(437)					(437)
Exercise of common stock options	60	—	1,738					1,738
Issuance of common stock to directors	1	—	30					30
Vesting of restricted stock units and dividend equivalents	97	—	34	(34)				—
Shares withheld related to net share settlement of share-based awards	(23)	—	(630)					(630)
Stock-based compensation			3,402					3,402
Repurchase of common stock						(13)	(318)	(318)
Balance, October 2, 2016	21,849	$ 22	$ 236,285	$ 110,366	$ (227)	(10,152)	$ (327,816)	$ 18,630

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

BLUE NILE, INC.
Condensed Consolidated Statements of Cash Flows
(unaudited)
(in thousands)

	Year to date ended	
	October 2, 2016	October 4, 2015
Operating activities:		
Net income	$4,500	$5,495
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	3,732	2,771
Stock-based compensation	3,359	3,831
Deferred income taxes	830	(657)
Tax deficiency from share-based awards	(437)	(597)
Excess tax benefit from share-based awards	(25)	(29)
Changes in assets and liabilities:		
Receivables	374	(1,228)
Inventories	2,250	(278)
Prepaid expenses and other assets	(834)	(755)
Accounts payable	(44,336)	(52,344)
Accrued liabilities	(3,586)	(3,176)
Unearned income	(458)	2,141
Deferred rent and other	143	(180)
Net cash used in operating activities	(34,488)	(45,006)
Investing activities:		
Purchases of property and equipment	(4,476)	(2,940)
Payments received on note receivable	300	1,400
Net cash used in investing activities	(4,176)	(1,540)
Financing activities:		
Repurchase of common stock	(318)	(10,780)
Proceeds from stock option exercises	1,738	241
Taxes paid for net share settlement of share-based awards	(630)	(424)
Excess tax benefit from share-based awards	25	29
Cash dividends paid	(8,123)	—
Principal payments under long-term financing obligation	(24)	(24)
Net cash used in financing activities	(7,332)	(10,958)
Effect of exchange rate changes on cash and cash equivalents	12	(73)
Net decrease in cash and cash equivalents	(45,984)	(57,577)
Cash and cash equivalents, beginning of period	86,542	91,186
Cash and cash equivalents, end of period	$40,558	$33,609

Supplemental disclosure of cash flow information:

Cash paid for income taxes	$4,033	$4,825

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

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1. Description of Our Business and Summary of Significant Accounting Policies

The Company

Blue Nile, Inc. ("Blue Nile," the "Company," "we" or "our") is a leading retailer of high-quality diamonds and fine jewelry. In addition to sales of diamonds and fine jewelry, the Company provides education, guidance and support to enable customers to more effectively learn about and purchase diamonds and fine jewelry. The Company, a Delaware corporation based in Seattle, Washington, was formed in March 1999. The Company serves consumers in over 40 countries and territories all over the world through its website at www.bluenile.com. Information found on the Company's website is not incorporated by reference into this Quarterly Report on Form 10-Q or any of its other filings with the U.S. Securities and Exchange Commission (the "SEC").

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements should be read in conjunction with the Notes to Consolidated Financial Statements contained in the Company's Annual Report on Form 10-K for the year ended January 3, 2016, filed with the SEC on March 1, 2016 (the "Annual Report"). The same accounting policies are followed for preparing quarterly and annual financial statements. In the opinion of management, all adjustments necessary for the fair presentation of the financial position, results of operations, and cash flows for the interim periods have been included and are of a normal, recurring nature.

The financial information as of January 3, 2016 is derived from the Company's audited consolidated financial statements and notes thereto for the fiscal year ended January 3, 2016, included in Item 8 of the Annual Report.

Due to a number of factors, including the seasonal nature of the retail industry and other factors described in this Quarterly Report on Form 10-Q, quarterly results are not necessarily indicative of the results for the full fiscal year or any other subsequent interim period.

Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All transactions and balances between the Company and its wholly-owned subsidiaries are eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Some of the more significant estimates include the allowance for sales returns, accounting for taxes, and inventory valuation. Actual results could differ materially from those estimates.

Foreign Currency

The functional currency of most of the Company's subsidiaries is the applicable local currency. The assets and liabilities of our subsidiaries have been translated to U.S. dollars using the exchange rates effective on the balance sheet dates, while income and expense accounts are translated at the average rates in effect during the periods presented. The resulting translation adjustments are recorded as a component of other comprehensive income (loss) within stockholders' equity.

The Company offers customers the ability to transact in 23 currencies. Some of the Company's subsidiaries engage in transactions denominated in currencies other than the Company's functional currency. Gains or losses arising from these transactions are recorded in other income (loss), net in the condensed consolidated statements of operations.

Note Receivable and Other Investments

The Company holds a minority ownership of a privately-held company in the form of convertible preferred shares, purchased for an aggregate amount of $2.0 million, which we account for under the cost method of accounting.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

The Company holds a $2.0 million note receivable (the "Note") from the same privately-held company. As of October 2, 2016, the remaining balance of the Note was $0.3 million, due within the next year. The interest rate changes over the term of the Note to LIBOR plus a predetermined rate per annum. The Note is recorded at its face amount on the Company's condensed consolidated balance sheet.

The Company holds a minority ownership in another privately-held company in the form of common stock and warrants, purchased for $280,000, which we account for under the cost method of accounting.

The Company reviews its investments for impairment when events and circumstances indicate that the decline in fair value of the assets below the carrying value is other-than-temporary. No other-than-temporary impairment charges were recorded for the year to date ended October 2, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2014-09 ("ASU 2014-09"), "Revenue from Contracts with Customers (Topic 606)," which will amend the existing revenue recognition guidance. The core principle of this guidance is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This new guidance is effective for the Company beginning the first quarter of 2018, and may be applied on a retrospective basis or by the cumulative effect transition method. To improve and clarify the guidance set forth in ASU 2014-09, the FASB issued the following supplemental guidance relevant to the Company which have the same effective date as that of ASU 2014-09:

- in March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)";
- in April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing";
- in May 2016, the FASB issued ASU 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients."

The Company is currently evaluating the impact of ASU 2014-09 and the related supplemental guidance noted above will have on its consolidated financial statements and related disclosures.

In August 2014, the FASB issued Accounting Standards Update No. 2014-15 ("ASU 2014-15"), "Presentation of Financial Statements - Going Concern." The standard provides guidance around management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. The new standard is effective for periods beginning on January 1, 2017. The adoption of this standard is not expected to have a material impact on our financial statements and related disclosures.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, "Inventory (Topic 330): Simplifying the Measurement of Inventory," which changes the subsequent measurement of inventory from lower of cost or market to lower of cost and net realizable value. The guidance will require prospective application at the beginning of the Company's first quarter of fiscal year 2017, but permits adoption in an earlier period. The Company is currently evaluating the impact of this guidance; however, the Company does not expect the adoption of this standard to have a material impact on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 ("ASU 2015-17"), "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes," which simplifies the presentation of deferred income taxes by requiring deferred tax assets and liabilities to be classified as noncurrent on the balance sheet. ASU 2015-17 is effective for periods beginning on January 1, 2017 and may be applied prospectively or retrospectively. Early adoption is permitted. The Company retrospectively adopted this guidance effective January 3, 2016. The impact of adopting ASU 2015-17 resulted in a reclassification of our current deferred income tax asset to non-current deferred income tax asset in the amount of $1.0 million, in our previously presented consolidated balance sheet as of October 4, 2015.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (“ASU 2016-01”), “Financial Instruments - Overall, Recognition and Measurement of Financial Assets and Financial Liabilities,” which amends various aspects of recognition, measurement, presentation and disclosure of financial instruments. This update will require prospective application at the beginning of the Company’s first quarter of fiscal year 2018. For certain provisions, early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In February 2016, the FASB issued Accounting Standards Update No. 2016-02, “Leases (Topic 842),” which increases transparency and comparability among companies accounting for lease transactions. The most significant change of this update will require the recognition of lease assets and liabilities on the balance sheet for operating lease arrangements with lease terms greater than 12 months for lessees. This update will require a modified retrospective application which includes a number of optional practical expedients related to the identification and classification of leases commenced before the effective date. This update will become effective beginning the first quarter of the Company’s fiscal year 2019. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-04, “Liabilities - Extinguishments of Liabilities (Subtopic 405-20), Recognition of Breakage for Certain Prepaid Stored-Value Products,” which narrows the scope exception for liabilities related to the sale of prepaid stored-value products to account for breakage on those liabilities consistent with the breakage guidance in Topic 606, “Revenue from Contracts with Customers.” This update will become effective beginning the first quarter of the Company’s fiscal year 2018, and shall be applied using either a modified retrospective transition method, or a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective, or retrospectively. Early adoption is permitted. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures and the timing of adoption.

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, “Compensation - Stock Compensation (Topic 718), Improvements to Employee Share-Based Payment Accounting,” which simplifies the accounting for share-based payment transactions, including income taxes, classification of awards as equity or liabilities and classification of cash flows. This update will become effective beginning the first quarter of the Company’s fiscal year 2017. The Company is currently evaluating the impact this guidance will have on its consolidated financial statements and related disclosures. The Company expects the adoption of this standard will result in more volatility in the Company’s income tax expense and effective tax rate.

Note 2. Stock-based Compensation

As of October 2, 2016, the Company has four equity plans. Additional information regarding these plans is disclosed in the Annual Report.

Stock-based compensation expense, net of estimated forfeitures, is recognized on a straight-line basis over the vesting period for each stock option or restricted stock unit (“RSU”) grant that is expected to vest at some point in the future. Forfeitures are estimated at the date of grant based on the Company’s historical experience and future expectations.

The fair value of each stock option on the date of grant is estimated using the Black-Scholes-Merton option valuation model. The assumptions used to calculate the fair value of stock options granted are evaluated and revised, if necessary, to reflect market conditions and the Company’s experience. The fair value of each RSU is based on the Fair Market Value (as defined in the Company’s equity incentive plans) of the Company’s common stock on the date of the grant.

There were no stock options granted during the year to date ended October 2, 2016. As of October 2, 2016, the Company had 821,199 stock options outstanding.

The assumptions used to calculate the fair value of stock options granted are evaluated and revised, if necessary, to reflect market conditions and the Company's experience.

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BLUE NILE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

A summary of RSU activity for the year to date ended October 2, 2016 is as follows:

	RSUs (in thousands)	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Balance, January 4, 2016	301	$ 29.25		
Granted	188	25.11		
Special dividend adjustment	11	31.10		
Vested	(97)	27.07		
Canceled	(41)	26.70		
Balance, October 2, 2016	362	$ 27.50	1.46	$ 12,455
Vested and expected to vest at October 2, 2016	312	$ 31.89	1.36	$ 10,739

The aggregate intrinsic value in the table above is before applicable income taxes and represent the amount recipients would have received if all RSUs had been released on the last business day of the period indicated, based on the closing stock price of the Company's common stock on such date. The total intrinsic value of RSUs vested was approximately $3.3 million during the year to date ended October 2, 2016 and $1.9 million during the year to date ended October 4, 2015. During the year to date ended October 2, 2016 and October 4, 2015, the total fair value of RSUs vested was approximately $2.6 million and $1.9 million, respectively.

As of October 2, 2016, the Company had total unrecognized compensation costs related to unvested RSUs of $7.4 million, before income taxes. The Company expects to recognize this cost over a weighted average period of 2.7 years.

Note 3. Inventories

Inventories are stated at cost and consist of the following (in thousands):

	October 2, 2016	January 3, 2016	October 4, 2015
Loose diamonds	$ 13,544	$ 12,420	$ 12,516
Fine jewelry and other	30,582	33,956	29,430
Total	$ 44,126	$ 46,376	$ 41,946

Note 4. Net Income Per Share

Basic net income per share is based on the weighted average number of common shares outstanding. Diluted net income per share is based on the weighted average number of common shares and common share equivalents outstanding. Common share equivalents included in the computation represent shares issuable upon assumed exercise of outstanding stock options and conversion of unvested RSUs, except when the effect of their inclusion would be antidilutive.

The following tables set forth the computation of basic and diluted net income per share (in thousands, except per share data):

	Quarter ended		Year to date ended	
	October 2, 2016	October 4, 2015	October 2, 2016	October 4, 2015
Net income	$1,293	$ 1,977	$4,500	$ 5,495
Weighted average common shares outstanding	11,654	11,523	11,622	11,706
Basic net income per share	$0.11	$ 0.17	$0.39	$ 0.47
Dilutive effect of stock options and RSUs	106	89	89	73
Common stock and common stock equivalents	11,760	11,612	11,711	11,779

Diluted net income per share	$0.11	$ 0.17	$0.38	$ 0.47

For the quarter and year to date ended October 2, 2016, the Company excluded 643,798 and 800,533 stock option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect. For the quarter and year to date ended October 4, 2015, the Company excluded 744,920 and 859,546 option and award shares, respectively, from the computation of diluted net income per share due to their antidilutive effect.

Note 5. Commitments and Contingencies

In the ordinary course of business, the Company may be subject from time to time to various proceedings, lawsuits, disputes or claims. In addition, the Company is regularly audited by various tax authorities. Although the Company cannot predict with assurance the outcome of any litigation or audit, it does not believe there are currently any such actions that, if resolved unfavorably, would have a material impact on the Company’s financial condition, results of operations, or cash flows.

Note 6. Subsequent Event

On November 6, 2016, the Company entered into a definitive agreement (the “Merger Agreement”) to be acquired by BC Cyan Parent Inc., a Delaware corporation (“Parent”) and BC Cyan Acquisition Inc., a Delaware corporation and wholly-owned subsidiary of Parent (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. Parent and Merger Sub were formed by affiliates of Bain Capital Fund XI, a Delaware limited partnership (“Bain Fund XI”) and Bow Street LLC (“Bow Street”). The Parent will acquire 100 percent of the Company's common stock for $40.75 per share (the “Per Share Price”) in cash, for a total value of approximately $500 million. Capitalized terms used within this Form 10-Q related to the Merger but not otherwise defined have the meaning set forth in the Merger Agreement which was filed as Exhibit 2.1 to the Company's Current Report on Form 8-K as filed with the SEC on November 7, 2016 and as incorporated by reference within this document.

At the Effective Time, each:

(i) share of common stock, par value $0.001 per share, of the Company (“Company Common Stock”) outstanding as of immediately prior to the Effective Time (other than Owned Company Shares or Dissenting Company Shares) will be cancelled and extinguished and automatically converted into the right to receive cash in an amount equal to the Per Share Price, without interest thereon;

(ii) Company Restricted Stock Unit outstanding as of immediately prior to the Effective Time, whether vested or unvested, will, unless otherwise agreed to in writing by the Parent and the Company, be cancelled and converted into the right to receive an amount in cash equal to (a) the amount of the Per Share Price, multiplied by, (b) (i) in the case of Company Restricted Stock Units that are only subject to time-vesting requirements, the total number of shares of Company Common Stock that are subject to such Company Restricted Stock Unit and, (ii) in the case of a Company Restricted Stock Units that are subject to time- and performance-vesting requirements, the total number of shares of Company Common Stock determined to be performance vested with the performance goals deemed achieved at maximum levels, and with the remaining time-vesting requirements deemed satisfied; and

(iii) Company Option that is an In-the-Money Company Option outstanding as of immediately prior to the Effective Time, whether vested or unvested, will, unless otherwise agreed to in writing by the Parent and

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the Company, be cancelled and converted into the right to receive an amount in cash equal to (a) the amount of the Per Share Price (less the exercise price per share attributable to such Company Option), multiplied by (b) the total number of shares of Company Common Stock that are issuable upon the full exercise of such Company Option. All Company Options that are not In-the-Money Company Options will be cancelled on the Effective Time without any cash payment being made in respect thereof.

Parent and Merger Sub have obtained equity and debt financing commitments for the transactions contemplated by the Merger Agreement. Pursuant to the Equity Commitment Letter, Bain Fund XI has committed to invest in Parent for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses, subject to the terms and conditions set forth therein. The Company is a third party beneficiary of the Equity Commitment Letter. In addition, pursuant to the Limited Guaranty, Bain Fund XI has also provided the Company with a limited guaranty in favor of the Company, which guarantees the payment of certain monetary obligations that may be owed by Parent pursuant to the Merger Agreement, including any reverse termination fee that may become payable by Parent (described further below).

In addition, pursuant to the Debt Commitment Letter, Goldman Sachs Bank USA (the “Lead Arranger”) has committed to provide a senior secured asset based revolving credit facility for the purpose of financing the transactions contemplated by the Merger Agreement and paying related fees and expenses, subject to the terms and conditions set forth therein. The obligation of the Lead Arranger to provide debt financing under the Debt Commitment Letter is subject to a number of customary conditions.

Consummation of the Merger is subject to certain conditions, including, but not limited to, the: (i) Requisite Stockholder Approval; (ii) expiration or termination of any waiting periods applicable to the consummation of the Merger under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 and any other applicable foreign Antitrust Laws; and (iii) absence of any law or order restraining, enjoining or otherwise prohibiting the Merger.

During the period from the date of the Merger Agreement until December 6, 2016 (the “Go-Shop Period”), the Company may solicit alternative acquisition proposals from third parties and provide information to, and participate in discussions and engage in negotiations with, third parties regarding any alternative acquisition proposals. After the expiration of the Go-Shop Period, the Company will become subject to customary restrictions on its ability to solicit alternative acquisition proposals from third parties and to provide information to, and participate in discussions and engage in negotiations with, third parties regarding any alternative acquisition proposals.

The Merger Agreement contains certain termination rights for the Company and Parent. Upon termination of the Merger Agreement under specified circumstances, the Company will be required to pay Parent a termination fee. If the termination fee becomes payable by the Company due to (x) the Company’s termination of the merger agreement on or prior to the Cut-Off Date with respect to the Company entering into an alternative acquisition agreement with an Excluded Party, the amount of the termination fee will be $7.4 million, and (y) if the termination fee becomes payable under any other circumstance, the amount of the termination fee will be $17.4 million. The Merger Agreement also provides that Parent will be required to pay the Company a reverse termination fee of $32.2 million if (i) the Closing does not occur within five business days of the first date Parent is required to close; (ii) all mutual and Parent closing conditions are satisfied (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iii) the Company has irrevocably notified Parent in writing that it is ready, willing and able to close and that all Company closing conditions are satisfied or waived (other than those conditions that their terms are satisfied at the Closing, each of which are capable of being satisfied at Closing); (iv) the Company has given Parent written notice five business days prior to termination stating the Company’s intent to terminate the Merger Agreement if Parent and Merger Sub fail to consummate the Merger; and (v) Parent and Merger Sub fail to close on the later of five business days of the notice and the date Parent is otherwise required to close.

In addition to the foregoing termination rights, and subject to certain limitations, the Company or Parent may terminate the Merger Agreement if the Merger is not consummated by May 6, 2017.

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

The following discussion should be read in conjunction with our consolidated financial statements and the related notes contained elsewhere in this Quarterly Report on Form 10-Q and our Annual Report. The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this Quarterly Report on Form 10-Q, particularly in "Risk Factors."

Management Overview

Blue Nile is a leading retailer of high-quality diamonds and fine jewelry. We offer our products for sale through the Blue Nile website in over 40 countries and territories throughout the world. Our long-term objective is to maximize our revenue,

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profitability and cash flow by offering exceptional value, quality, and service to our customers. Our business model leverages our ability to source the world’s largest supply of GIA certified diamonds for sale to our customers typically without purchasing inventory until a customer selects the product. This low inventory model, coupled with a lean and efficient operating framework enables us to operate at scale with a relatively small physical footprint and employee base. This lean expense structure avoids many of the costs that are typically incurred by traditional physical retail stores. As a result, we are able to realize lower gross profit margins while remaining profitable and providing value to our customers through lower retail prices.

The foundation of our strategic initiatives is to provide a compelling experience that illuminates the advantages of buying from us. The products we sell are typically high in value and involve significant research from the customers before they purchase. As such, it is important that the customers trust that the products they receive are fairly priced, of exceptional quality, and delivered on time. We are building higher levels of trust with our consumers by providing information, transparency, product selection and service via an exceptional user experience. We are continually enhancing this experience through features on our website, ongoing improvement of our customer service call center, accessibility to our products and diamond and jewelry consultants in our webrooms, offering free domestic and international shipping, and diamond visualization.

Recent Developments

On November 6, 2016, the Company entered into a definitive agreement to be acquired by BC Cyan Parent Inc., a Delaware corporation (“Parent”) and BC Cyan Acquisition Inc., a Delaware corporation and wholly-owned subsidiary of Parent (“Merger Sub”), providing for the merger of Merger Sub with and into the Company (the “Merger”), with the Company surviving the Merger as a wholly-owned subsidiary of Parent. Parent and Merger Sub were formed by Bain Fund XI and Bow Street. The Parent will acquire 100 percent of the Company's common stock for $40.75 per share in cash, for a total value of approximately $500 million. The Company’s Restricted Stock Units (RSUs) and In-the-Money Options outstanding as of the effective date, whether vested or unvested, will be canceled and converted into the right to receive an amount in cash, unless otherwise agreed to in writing by the Parent and the Company. See Note 6, Subsequent Event in our Notes to the Consolidated Financial Statements for more information.

We anticipate that the transaction will be consummated in the first half of 2017. We did not incur significant costs related to the Merger during the third quarter of 2016 while we anticipate to incur significant costs, expenses, and fees for professional services and other transaction costs in connection with the Merger in future periods.

Third Quarter of 2016 Summary of Results of Operations

Net sales of $105.1 million for the third quarter of 2016, decreased from $109.9 million for the third quarter of 2015. U.S. engagement net sales decreased 8.5%, U.S. non-engagement net sales increased 1.2%, and international net sales increased 1.8% from the third quarter of 2015. International net sales comprised 19.3% of our total net sales for the third quarter of 2016, as compared to 18.2% of our total net sales for the third quarter of 2015. Our gross profit decreased $0.6 million for the third quarter of 2016, a 2.8% decrease compared to the third quarter of 2015. Net income per diluted share was $0.11 for the third quarter of 2016, compared to $0.17 for the third quarter of 2015.

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Results of Operations

Comparison of the Quarter Ended October 2, 2016 to the Quarter Ended October 4, 2015

The following table presents our operating results for the quarters ended October 2, 2016 and October 4, 2015, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Quarter ended October 2, 2016	October 4, 2015	$ Change	% Change
Net sales	$105,110	$109,943	$(4,833)	(4.4)%
Cost of sales	84,470	88,712	(4,242)	(4.8)%
Gross profit	20,640	21,231	(591)	(2.8)%
Selling, general and administrative expenses	18,843	18,192	651	3.6%
Operating income	1,797	3,039	(1,242)	(40.9)%
Other income (loss), net:				
Interest income, net	10	12	(2)	(16.7)%
Other income (loss), net	90	(33)	123	372.7%
Total other income (loss), net	100	(21)	121	576.2%
Income before income taxes	1,897	3,018	(1,121)	(37.1)%
Income tax expense	604	1,041	(437)	(42.0)%
Net income	$1,293	$1,977	$(684)	(34.6)%
Basic net income per share	$0.11	$0.17	$(0.06)	
Diluted net income per share	$0.11	$0.17	$(0.06)	

Net Sales

Net sales decreased to $105.1 million for the third quarter of 2016 compared to $109.9 million for the third quarter of 2015. The total net sales decrease was due to a decrease in the average order value partially offset by an increase in orders.

Net sales in the U.S. decreased 5.8% to $84.8 million for the third quarter of 2016, compared to $90.0 million for the third quarter of 2015. U.S. engagement net sales for the third quarter of 2016 decreased 8.5% to $59.5 million, compared to $65.0 million for the third quarter of 2015. The decrease in U.S. engagement net sales was due to both decreased orders and average order value in engagement rings and loose diamonds, primarily at our core price points. U.S. non-engagement net sales for the third quarter of 2016 increased by 1.2% to $25.3 million compared to $25.0 million for the third quarter of 2015.

International net sales increased 1.8% to $20.3 million for the third quarter of 2016 from $19.9 million for the third quarter of 2015. International net sales increased due to an overall increase in orders partially offset by a decrease in the average order value. Growth was particularly strong in Asia, Greater China and the Pacific offset by weakness in Europe most notably in the UK due to the fall of the British pound after Brexit. International net sales during the third quarter of 2016 continued to be negatively impacted by foreign currency exchange rates but to a lesser extent than prior quarters. Internally, we monitor our international sales performance on a non-GAAP basis which eliminates the positive or negative effects that result from translating currency from international sales into U.S. dollars (“constant exchange rate basis”). Changes in foreign exchange rates during the third quarter of 2016, compared to the rates in effect during the third quarter of 2015, continues to have a negative impact of approximately 2.4% on international net sales. Excluding the impact of changes in foreign exchange rates, international net sales increased 4.2% for the third quarter of 2016 compared to the third quarter of 2015. For a reconciliation of this non-GAAP financial measure to its corresponding GAAP financial measure, refer to the “Non-GAAP Financial Measures” section below.

Gross Profit

Gross profit for the third quarter of 2016 decreased 2.8% to $20.6 million from $21.2 million for the third quarter of 2015. The decrease in gross profit resulted primarily from the decrease in net sales. Gross margin rate for the third quarter of 2016 was 19.6% and 19.3% for the third quarter of 2015. The gross margin rate increased due to continued sales mix shift from our engagement category to our non-engagement category as well as continued weakness in sales of our higher price point

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engagement products. Our non-engagement products and lower price point products generally generate greater margins than our engagement and higher-price point products.

Costs for our products are impacted by prices for diamonds and precious metals including gold, platinum and silver, which rise and fall based upon global supply and demand dynamics. In making retail pricing decisions, we take into account fluctuations in the pricing of diamonds and precious metals, which in turn, affect the gross margin that we realize from such products. We expect that gross profit will continue to fluctuate in the future based on the mix of products we sell and our pricing decisions.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 3.6% to $18.8 million in the third quarter of 2016 compared to $18.2 million in the third quarter of 2015. Compensation and benefits expense increased by $0.5 million, general and administrative expenses such as depreciation, legal, taxes and licenses increased $0.8 million to support our growth initiatives. These increases were partially offset by a decrease of $0.5 million in marketing and advertising costs and a decrease of $0.2 million in stock compensation expense. Selling, general and administrative expenses as a percentage of sales increased to 17.9% in the third quarter of 2016 compared to 16.5% in the third quarter of 2015 as sales decreased and selling, general and administrative expenses increased from the third quarter of 2015.

Operating Income

Operating income decreased to $1.8 million for the third quarter of 2016 compared to $3.0 million for the third quarter of 2015. The decrease in operating income was primarily due to a decrease in net sales and an increase in selling, general and administrative expenses.

Income Taxes

Our effective tax rate decreased to 31.8% for the third quarter of 2016 from 34.5% for the third quarter of 2015. The decrease in the effective rate was primarily due to increased research tax credits and lower taxable income resulting in a lower corporate tax bracket.

Comparison of the Year to Date Ended October 2, 2016 to the Year to Date Ended October 4, 2015
The following table presents our operating results for the years to date ended October 2, 2016 and October 4, 2015, including a comparison of the financial results for these periods (dollars in thousands, except per share data):

	Year to date ended			
	October 2, 2016	October 4, 2015	$ Change	% Change
Net sales	$321,937	$330,083	$(8,146)	(2.5)%
Cost of sales	258,673	266,790	(8,117)	(3.0)%
Gross profit	63,264	63,293	(29)	—%
Selling, general and administrative expenses	56,950	54,905	2,045	3.7%
Operating income	6,314	8,388	(2,074)	(24.7)%
Other income, net:				
Interest income, net	35	76	(41)	(53.9)%
Other income, net	571	—	571	100.0%
Total other income, net	606	76	530	697.4%
Income before income taxes	6,920	8,464	(1,544)	(18.2)%
Income tax expense	2,420	2,969	(549)	(18.5)%
Net income	$4,500	$5,495	$(995)	(18.1)%
Basic net income per share	$0.39	$0.47	$(0.08)	
Diluted net income per share	$0.38	$0.47	$(0.09)	

Net Sales
Net sales decreased by 2.5%574,645 359,000 Qwest Communications International, Inc.µ
7.750%, 02/15/31 353,615 Windstream Corp. 441,000 7.750%, 10/15/20 463,050 154,000 7.500%, 04/01/23µ 157,080

2,397,068

Utilities (0.1%) Calpine Corp.* 269,000 7.875%, 07/31/20µ 289,848 141,000 7.875%, 01/15/23 149,460 NRG Energy, Inc.* 308,000 7.875%, 05/15/21µ 312,620 51,000 7.625%, 05/15/19~ 51,255

803,183

TOTAL CORPORATE BONDS 42,311,180

U.S. Government and Agency Securities (0.0%) United States Treasury Note~ 218,000 1.000%, 03/31/12 218,860 192,000 0.875%, 01/31/12 192,428

TOTAL U.S. GOVERNMENT AND AGENCY SECURITIES 411,288

Sovereign Bonds (0.1%) Federal Republic of Brazil 95,000 BRL 10.000%, 01/01/12 570,050 33,000 BRL 10.000%, 01/01/13 197,592

TOTAL SOVEREIGN BONDS 767,642

NUMBER OF CONTRACTS **VALUE** **Purchased Options (0.9%) #** **Consumer Discretionary (0.3%)** 485 Amazon.com, Inc. Call, 01/19/13, Strike $240.00 1,367,700

NUMBER OF CONTRACTS		VALUE
130	Priceline.com, Inc. Call, 01/19/13, Strike $520.00	$ 1,194,050
		2,561,750
	Information Technology (0.6%)	
315	Apple, Inc. Call, 01/19/13, Strike $395.00	2,145,150
3,150	EMC Corp. Call, 01/19/13, Strike $25.00	1,000,125
2,000	Oracle Corp. Call, 01/19/13, Strike $30.00	1,250,000
1,500	QUALCOMM, Inc. Call, 01/19/13, Strike $55.00	810,000
		5,205,275
	TOTAL PURCHASED OPTIONS	7,767,025
	TOTAL SYNTHETIC CONVERTIBLE SECURITIES	51,257,135

(Cost $51,325,046)

NUMBER OF SHARES		VALUE
CONVERTIBLE PREFERRED STOCKS (13.1%)		
	Consumer Staples (1.3%)	
90,600	Bunge, Ltd.µ 4.875%	8,776,875
260,000	Dole Food Automatic Exchangeµ* 7.000%	2,652,806
		11,429,681
	Energy (2.9%)	
325,000	Apache Corp.µ 6.000%	18,297,500
7,500	Chesapeake Energy Corp.* 5.750%	8,718,750
		27,016,250
	Financials (5.7%)	
310,000	Affiliated Managers Group, Inc.µ 5.150%	12,438,750
19,301	Bank of America Corp.µ 7.250%	16,521,656
168,000	MetLife, Inc.µ 5.000%	11,408,880
11,600	Wells Fargo & Companyµ 7.500%	12,251,340
		52,620,626
	Industrials (0.6%)	
46,760	Stanley Black & Decker, Inc.µ 4.750%	5,352,617

See accompanying Notes to Schedule of Investments

Schedule of Investments October 31, 2011

NUMBER OF SHARES			VALUE
	Materials (1.3%)		
158,810	Vale, SAµ 6.750%	$	12,133,084
	Utilities (1.3%)		
229,650	NextEra Energy, Inc.µ 7.000%		11,804,010
	TOTAL CONVERTIBLE PREFERRED STOCKS (Cost $125,720,640)		120,356,268

NUMBER OF UNITS		VALUE
STRUCTURED EQUITY-LINKED SECURITIES (3.2%) +*		
	Energy (1.3%)	
89,200	Credit Suisse Group (Baker Hughes, Inc.) 8.000%, 01/31/12	5,494,720
196,000	Deutsche Bank, AG (Chesapeake Energy Corp.) 8.000%, 01/24/12	5,836,880
		11,331,600
	Health Care (0.7%)	
66,200	Deutsche Bank, AG (Biogen) 8.000%, 12/13/11	6,522,686
	Information Technology (1.2%)	
223,100	Barclays Capital, Inc. (EMC Corp.) 8.000%, 12/23/11	5,586,424
148,300	Credit Suisse Group (Autodesk, Inc.) 8.000%, 01/31/12	5,451,508
		11,037,932
	TOTAL STRUCTURED EQUITY-LINKED SECURITIES (Cost $31,552,755)	28,892,218

NUMBER OF SHARES		VALUE
COMMON STOCKS (1.2%)		
	Financials (0.0%)	

NUMBER OF SHARES			VALUE
17,300	American International Group, Inc.#		427,137
	Health Care (1.2%)		
311,671	Merck & Company, Inc.µ		10,752,650
	TOTAL COMMON STOCKS (Cost $12,914,250)		11,179,787
SHORT TERM INVESTMENT (4.9%)			
44,780,155	Fidelity Prime Money Market Fund - Institutional Class (Cost $44,780,155)	$	44,780,155
TOTAL INVESTMENTS (132.7%) (Cost $1,194,295,385)			1,217,117,311
LIABILITIES, LESS OTHER ASSETS (-32.7%)			(299,578,463)
NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS (100.0%)		$	917,538,848

NOTES TO SCHEDULE OF INVESTMENTS

µ Security, or portion of security, is held in a segregated account as collateral for note payable aggregating a total value of $841,428,150. $302,270,564 of the collateral has been re-registered by the counterparty.

Variable rate or step bond security. The rate shown is the rate in effect at October 31, 2011.

* Securities issued and sold pursuant to a Rule 144A transaction are excepted from the registration requirement of the Securities Act of 1933, as amended. These securities may only be sold to qualified institutional buyers (QIBs), such as the Fund. Any resale of these securities must generally be effected through a sale that is registered under the Act or otherwise exempted from such registration requirements. At October 31, 2011, the value of 144A securities that could not be exchanged to the registered form is $172,589,824 or 18.8% of net assets applicable to common shareholders.

~ Security, or portion of security, is segregated as collateral (or potential collateral for future transactions) for written options and swaps. The aggregate value of such securities is $8,656,886.

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

Non-income producing security.

+ Structured equity-linked securities are designed to simulate the characteristics of the equity security in the parenthetical.

FOREIGN CURRENCY ABBREVIATIONS

BRL	Brazilian Real
GBP	British Pound Sterling

NOK Norwegian Krone

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

INTEREST RATE SWAPS

COUNTERPARTY	FIXED RATE (FUND PAYS)	FLOATING RATE (FUND RECEIVES)	TERMINATION DATE	NOTIONAL AMOUNT	UNREALIZED APPRECIATION/ (DEPRECIATION)
BNP Paribas, SA	2.4300% quarterly	3 month LIBOR	04/14/14	$ 115,000,000	$ (5,300,125)
BNP Paribas, SA	1.8650% quarterly	3 month LIBOR	04/14/12	75,000,000	(541,773)
BNP Paribas, SA	1.8525% quarterly	3 month LIBOR	09/14/12	53,000,000	(735,011)
					$ (6,576,909)

Statement of Assets and Liabilities October 31, 2011

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

 See accompanying Notes to Financial Statements

Statement of Operations Year Ended October 31, 2011

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

See accompanying Notes to Financial Statements

Statements of Changes in Net Assets

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

See accompanying Notes to Financial Statements

Statement of Cash Flows Year Ended October 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Net increase/(decrease) in net assets from operations	$ 50,224,778
Adjustments to reconcile net increase/(decrease) in net assets from operations to net cash used for operating activities:	
Purchase of investment securities	(590,835,386)
Net proceeds from disposition of short term investments	(1,938,212)
Proceeds from disposition of investment securities	544,912,340
Amortization and accretion of fixed-income securities	(1,035,875)
Net realized gains/losses from investments, excluding purchased options	15,555,078
Net realized gains/losses from purchased options	(1,625,553)
Change in unrealized appreciation or depreciation on investments, excluding purchased options	(2,374,984)
Change in unrealized appreciation or depreciation on purchased options	1,571,245
Change in unrealized appreciation or depreciation on interest rate swaps	(2,994,878)
Net change in assets and liabilities:	
(Increase)/decrease in assets:	
Accrued interest and dividends receivable	(1,592,102)
Prepaid expenses	267,517
Other assets	(15,738)
Increase/(decrease) in liabilities:	
Payables to affiliates	53,116
Other accounts payable and accrued liabilities	(270,680)
Net cash provided by/(used in) operating activities	$ 9,900,666
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from common shares sold	17,136,848
Offering costs related to common shares sold	(273,639)
Distributions to common shareholders	(70,763,875)
Proceeds from note payable	44,000,000
Net cash provided by/(used in) financing activities	$ (9,900,666)
Cash at beginning of year	$
Cash at end of year	$
Supplemental disclosure	
Cash paid for interest and related fees	$ 3,890,015
Non-cash financing activities not included herein consists of reinvestment of dividends and distributions of:	$ 2,279,690

See accompanying Notes to Financial Statements

Notes to Financial Statements

Note 1 Organization and Significant Accounting Policies

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

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

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

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

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

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

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

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

Notes to Financial Statements

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

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

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

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

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

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

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

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

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

Dividends and distributions paid to shareholders are recorded on the ex-dividend date. The amount of dividends and distributions from net investment income and net realized capital gains is determined in accordance with federal income tax regulations, which may differ from U.S. generally accepted accounting principles. To the extent these book/tax differences are permanent in nature, such amounts are reclassified within the capital accounts based on their federal tax-basis treatment. These differences are primarily due to differing treatments for foreign currency transactions, contingent payment debt instruments and methods of amortizing and accreting for fixed income securities. The financial statements are not adjusted for temporary differences.

The Fund recognized no liability for uncertain tax positions. A reconciliation is not provided as the beginning and ending amounts of unrecognized benefits are zero, with no interim additions, reductions or settlements. Tax years 2007 2010 remain subject to examination by the U.S. and the State of Illinois tax jurisdictions.

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

Notes to Financial Statements

Note 2 Investment Adviser and Transactions with Affiliates or Certain Other Parties

Pursuant to an investment advisory agreement with Calamos Advisors LLC (Calamos Advisors), the Fund pays an annual fee, payable monthly, equal to 0.80% based on the average weekly managed assets. Calamos Advisors has contractually agreed to waive a portion of its management fee at the annual rate of 0.03% of the average managed assets of the Fund through the period ending May 31, 2011. For the year ended October 31, 2011, the total advisory fee waived pursuant to such agreement was $211,906 and is included in the Statement of Operations under the caption Less expense reductions .

Pursuant to a financial accounting services agreement, during the year the Fund paid Calamos Advisors a fee for financial accounting services payable monthly at the annual rate of 0.0175% on the first $1 billion of combined assets, 0.0150% on the next $1 billion of combined assets and 0.0110% on combined assets above $2 billion (for purposes of this calculation combined assets means the sum of the total average daily net assets of Calamos Investment Trust, Calamos Advisors Trust, and the total average weekly managed assets of Calamos Convertible and High Income Fund, Calamos Strategic Total Return Fund, Calamos Convertible Opportunities and Income Fund, Calamos Global Total Return Fund and Calamos Global Dynamic Income Fund). Financial accounting services include, but are not limited to, the following: managing expenses and expense payment processing; monitoring the calculation of expense accrual amounts; calculating, tracking and reporting tax adjustments on all assets; and monitoring trustee deferred compensation plan accruals and valuations. The Fund pays its pro rata share of the financial accounting services fee payable to Calamos Advisors based on its relative portion of combined assets used in calculating the fee.

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

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

The Fund has adopted a deferred compensation plan (the Plan). Under the Plan, a trustee who is not an interested person (as defined in the 1940 Act) and has elected to participate in the Plan (a participating trustee) may defer receipt of all or a portion of his compensation from the Fund. The deferred compensation payable to the participating trustee is credited to the trustee s deferral account as of the business day such compensation would have been paid to the participating trustee. The value of amounts deferred for a participating trustee is determined by reference to the change in value of Class I shares of one or more funds of Calamos Investment Trust designated by the participant. The value of the account increases with contributions to the account or with increases in the value of the measuring shares, and the value of the account decreases with withdrawals from the account or with declines in the value of the measuring shares. Deferred compensation of $153,022 is included in Other assets on the Statement of Assets and Liabilities at October 31, 2011. The Fund s obligation to make payments under the Plan is a general obligation of the Fund and is included in Payable for deferred compensation to trustees on the Statement of Assets and Liabilities at October 31, 2011.

Note 3 Investments

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

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

The following information is presented on a federal income tax basis as of October 31, 2011. Differences between the cost basis under U.S. generally accepted accounting principles and federal income tax purposes are primarily due to temporary differences.

The cost basis of investments for federal income tax purposes at October 31, 2011 was as follows:

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

Note 4 Income Taxes

For the year ended October 31, 2011, the Fund recorded the following permanent reclassifications to reflect tax character. The results of operations and net assets were not affected by these reclassifications.

Paid-in capital	$ (11,859,448)
Undistributed net investment income/(loss)	8,823,466
Accumulated net realized gain/(loss) on investments	3,035,982

The Fund intends to make monthly distributions from its income available for distribution, which consists of the Fund s dividends and interest income after payment of Fund expenses, and net realized gains on stock investments. At least annually, the Fund intends to distribute all or substantially all of its net realized capital gains, if any. Distributions are recorded on the ex-dividend date. The Fund distinguishes between distributions on a tax basis and a financial reporting basis. Accounting principles generally accepted in the United States of America require that only distributions in excess of tax basis earnings and profits be reported in the financial statements as a return of capital. Permanent differences between book and tax accounting relating to distributions are reclassified to paid-in-capital. For tax purposes, distributions from short-term capital gains are considered to be from ordinary income. Distributions in any year may include a return of capital component.

Distributions were characterized for federal income tax purposes as follows:

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

As of October 31, 2011, the components of accumulated earnings/(loss) on a tax basis were as follows:

Undistributed ordinary income	$
Undistributed capital gains	
Total undistributed earnings	
Accumulated capital and other losses	(71,719,917)
Net unrealized gains/(losses)	(19,664,710)
Total accumulated earnings/(losses)	(91,384,627)
Other	(129,539)
Paid-in capital	1,009,053,014
Net assets applicable to common shareholders	$ 917,538,848

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

2017	$ (65,477,489)

2018	(4,324,027)
2019	(1,918,401)

Note 5 Common Shares

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

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

Notes to Financial Statements

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

The Fund also may offer and sell common shares from time to time at an offering price equal to or in excess of the net asset value per share of the Fund s common shares at the time such common shares are initially sold. Transactions for the fiscal year had net proceeds received in excess of net value of $170,488.

Note 6 Derivative Instruments

Foreign Currency Risk. The Fund may engage in portfolio hedging with respect to changes in currency exchange rates by entering into forward foreign currency contracts to purchase or sell currencies. A forward foreign currency contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include, among other things, movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The net unrealized gain, if any, represents the credit risk to the Fund on a forward foreign currency contract. The contracts are valued daily at forward foreign exchange rates. There were no open forward foreign currency contracts at October 31, 2011.

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

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

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

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

Interest Rate Risk. The Fund engages in interest rate swaps primarily to hedge the interest rate risk on the Fund s borrowings (see Note 7 Borrowings). An interest rate swap is a contract that involves the exchange of one type of interest rate for another type of interest rate. If interest rates rise, resulting in a diminution in the value of the Fund s portfolio, the Fund would receive payments under the swap that would offset, in whole or in part, such diminution in value; if interest rates fall, the Fund would likely lose money on the swap transaction. Unrealized gains are reported as an asset, and unrealized losses are reported as a liability on the Statement of Assets and Liabilities. The change in value of swaps, including accruals of periodic amounts of interest to be paid or received on swaps, is reported as change in net unrealized appreciation/depreciation on interest rate swaps in the Statement of Operations. A realized gain or loss is recorded in net realized gain (loss) on interest rate swaps in the Statement of Operations upon payment or receipt of a periodic payment or termination of the swap agreements. Swap agreements are stated at fair value. Notional principal amounts are used to express the extent of involvement in these transactions, but the amounts potentially subject to credit risk are much smaller. In connection with these contracts, securities may be identified as collateral in accordance with the terms of the respective swap contracts in the event of default or bankruptcy of the Fund.

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

As of October 31, 2011, the Fund had outstanding interest rate swap agreements as listed on the Schedule of Investments.

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

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

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

Equity:	
Purchased Options	7,890

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

Note 7 Borrowings

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

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

Under the terms of the Lending Agreement, the Lent Securities are marked to market daily, and if the value of the Lent Securities exceeds the value of the then-outstanding borrowings owed by the Fund to BNP under the Agreement (the Current Borrowings), BNP must, on that day, either (1) return Lent Securities to the Fund s custodian in an amount sufficient to cause the value of the outstanding Lent Securities to equal the Current Borrowings; or (2) post cash collateral with the Fund s custodian equal to the difference between the value of the Lent Securities and the value of the Current Borrowings. If BNP fails to perform either of these actions as required, the Fund will recall securities, as discussed below, in an amount sufficient to cause the value of the outstanding Lent Securities to equal the Current Borrowings. The Fund can recall any of the Lent Securities and BNP shall, to the extent commercially possible, return such security or equivalent security to the Fund s custodian no later than three business days after such request. If the Fund recalls a Lent Security pursuant to the Lending Agreement, and BNP fails to return the Lent Securities or equivalent securities in a timely fashion, BNP shall remain liable to the Fund s custodian for the ultimate delivery of such Lent Securities, or

Notes to Financial Statements

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

Note 8 Synthetic Convertible Securities

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

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

Note 9 Structured Equity-Linked Securities

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

Note 10 Fair Value Measurements

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

Level 1 Prices are determined using inputs from unadjusted quoted prices from active markets (including securities actively traded on a securities exchange) for identical assets.

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

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

Debt securities are valued based upon evaluated prices received from an independent pricing service or from a dealer or broker who makes markets in such securities. Pricing services utilize various observable market data and as such, debt securities are generally categorized as Level 2. The levels are not necessarily an indication of the risk or liquidity of the Funds investments. Transfers between the levels for investment securities or other financial instruments are measured at the end of the reporting period and no significant transfers between levels occurred during the period.

Notes to Financial Statements

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

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Assets:				
Corporate Bonds	$	$ 792,704,771	$	$ 792,704,771
Convertible Bonds		146,107,835		146,107,835
U.S. Government and Agency Securities		7,613,838		7,613,838
Sovereign Bonds		14,225,304		14,225,304
Synthetic Convertible Securities (Corporate Bonds)		42,311,180		42,311,180
Synthetic Convertible Securities (U.S. Government and Agency Securities)		411,288		411,288
Synthetic Convertible Securities (Sovereign Bonds)		767,642		767,642
Synthetic Convertible Securities (Purchased Options)	7,767,025			7,767,025
Convertible Preferred Stocks	75,965,077	44,391,191		120,356,268
Structured Equity-Linked Securities		28,892,218		28,892,218
Common Stocks	11,179,787			11,179,787
Short Term Investment	44,780,155			44,780,155
Total	$ 139,692,044	$ 1,077,425,267	$	$ 1,217,117,311
Liabilities:				
Interest Rate Swaps	$	$ 6,576,909	$	$ 6,576,909
Total	$	$ 6,576,909	$	$ 6,576,909

Note 11 Legal Proceedings

The Fund, the Fund s Board of Trustees, Calamos Advisors LLC, (the Adviser), and the corporate parent of the Adviser, Calamos Asset Management, Inc., among other persons, have been named as defendants in a putative class action complaint captioned Rutgers Casualty Ins. Co. v. Calamos, et al., currently pending in the United States District Court for the Northern District of Illinois related to the Fund s redemption of its Auction Rate Cumulative Preferred Shares (the ARPS) at their liquidation preference. The complaint generally alleges that the Fund s Board of Trustees breached certain fiduciary duties owed to the common shareholders of the Fund by approving the redemption of the Fund s ARPS at their liquidation preference, and by recapitalizing the Fund with debt-based borrowings that were allegedly less advantageous to the Fund s common shareholders. The complaint also alleges that the Adviser, the corporate parent of the Adviser, and the Fund itself aided and abetted the Trustees alleged breaches of fiduciary duty and were unjustly enriched as a result. The suit seeks indeterminate monetary and punitive damages from the named defendants, as well as injunctive relief. The defendants believe that the complaint is without merit, intend to defend themselves vigorously against the allegations, and have moved to dismiss the case. That motion is pending before the district court.

The Calamos Convertible Opportunities and Income Fund (CHI), CHI s Board of Trustees, the Adviser, and the corporate parent of the Adviser, Calamos Asset Management, Inc. have been named as defendants in putative class action complaints filed by plaintiffs in the Circuit Court of Cook County, Illinois and removed by the defendants to the United States District Court for the Northern District of Illinois related to the Fund s redemption of its previously outstanding Auction Rate Cumulative Preferred Shares (the ARPS) at their liquidation preference. The complaints, captioned Brown v. Calamos, et al. and Bourrienne v. Calamos, et al., generally allege that the Fund s Board of Trustees breached certain fiduciary duties owed to the common shareholders of CHI by approving the redemption of the CHI s ARPS at their liquidation preference, and by recapitalizing CHI with debt-based borrowings that were allegedly less advantageous to CHI s common shareholders. The complaints also allege that the Adviser and the corporate parent of the Adviser aided and abetted the Trustees alleged breaches of fiduciary duty and were unjustly enriched as a result, while the Brown complaint also alleges that the CHI itself aided and abetted these actions and was similarly unjustly enriched as a result. Both complaints allege identical causes of action and encompass materially identical putative classes and class periods. The suits seek indeterminate monetary and punitive damages from the named defendants, as well as injunctive relief. On March 14, 2011, the judge assigned to the Brown case dismissed it, and the plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Seventh Circuit. The Seventh Circuit issued a decision on November 10, 2011 affirming the dismissal of the case entered by the lower court. On August 4, 2011, the judge assigned to the Bourrienne case dismissed it, and the plaintiff filed a Notice of Appeal in the United States Court of Appeals for the Seventh Circuit. The Seventh Circuit issued an order on December 7, 2011 dismissing the appeal pursuant to the parties stipulation of dismissal.

Notes to Financial Statements

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

Financial Highlights

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

	Year Ended October 31,				
	2011	2010	2009	2008	2007
Net asset value, beginning of period	$13.03	$11.92	$8.30	$15.64	$15.44
Income from investment operations:					
Net investment income (loss)**	0.91	0.96	0.82	1.05	1.27
Net realized and unrealized gain (loss)	(0.20)	1.17	3.82	(6.63)	0.75
Distributions to preferred shareholders from:					
Net investment income (common share equivalent basis)			(a)	(0.12)	(0.30)
Net realized gains (common share equivalent basis)				(0.07)	(0.03)
Total from investment operations	0.71	2.13	4.64	(5.77)	1.69
Less distributions to common shareholders from:					
Net investment income	(0.86)	(1.02)	(1.00)	(1.34)	(1.22)
Net realized gains			(0.02)	(0.23)	(0.27)
Return of capital	(0.16)				
Total distributions	(1.02)	(1.02)	(1.02)	(1.57)	(1.49)
Capital charge resulting from issuance of common and preferred shares and related offering costs	(a)	(a)	(a)	(a)	
Premiums from shares sold in at the market offerings	(a)	(a)			
Net asset value, end of period	$12.72	$13.03	$11.92	$8.30	$15.64
Market value, end of period	$11.96	$13.19	$11.01	$8.74	$14.67
Total investment return based on:(b)					
Net asset value	5.80%	18.88%	60.83%	(39.96%)	11.31%
Market value	(1.73%)	30.29%	41.07%	(32.59%)	(5.06%)
Net assets, end of period (000)	$917,539	$921,278	$832,769	$563,187	$1,054,614
Preferred shares, at redemption value ($25,000 per share liquidation preference) (000 s omitted)	$	$	$	$80,000	$430,000
Ratios to average net assets applicable to common shareholders:					

Net expenses(c)	1.61%	1.73%	3.01%	1.91%	1.18%
Gross expenses prior to expense reductions and earnings credits(c)	1.64%	1.79%	3.10%	2.04%	1.33%
Net expenses, excluding interest expense	1.20%	1.20%	2.37%	1.29%	1.18%
Net investment income (loss)(c)	6.99%	7.75%	8.56%	7.77%	8.20%
Preferred share distributions	%	%	0.04%	0.87%	1.95%
Net investment income (loss), net of preferred share distributions from net investment income	6.99%	7.75%	8.52%	6.90%	6.25%
Portfolio turnover rate	42%	39%	29%	55%	57%
Average commission rate paid	$0.0211	$	$	$	$
Asset coverage per preferred share, at end of period(d)	$	$	$	$201,006	$86,333
Asset coverage per $1,000 of loan outstanding(e)	$3,922	$4,412	$4,084	$3,438	$

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

(a) Amount equated to less than $0.005 per common share.

(b) Total investment return is calculated assuming a purchase of common stock on the opening of the first day and a sale on the closing of the last day of the period reported. Dividends and distributions are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund s dividend reinvestment plan. Total return is not annualized for periods less than one year. Brokerage commissions are not reflected. NAV per share is determined by dividing the value of the Fund s portfolio securities, cash and other assets, less all liabilities, by the total number of common shares outstanding. The common share market price is the price the market is willing to pay for shares of the Fund at a given time. Common share market price is influenced by a range of factors, including supply and demand and market conditions.

(c) Does not reflect the effect of dividend payments to Preferred Shareholders.

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

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying statement of assets and liabilities, including the schedule of investments, of Calamos Convertible and High Income Fund (the Fund) as of October 31, 2011, the related statements of operations and cash flows for the year then ended, the statements of changes in net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended. These financial statements and financial highlights are the responsibility of the Fund s management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. The Fund is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2011, by correspondence with the Fund s custodian and brokers; where replies were not received from brokers, we performed other auditing procedures. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of the Fund as of October 31, 2011, the results of its operations and cash flows for the year then ended, the changes in its net assets for each of the two years in the period then ended, and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

Chicago, Illinois

December 16, 2011

Trustee Approval of Management Agreement (Unaudited)

The Board of Trustees of the Fund oversees the management of the Fund, and, as required by law, determines annually whether to continue the Fund s management agreement with Calamos Advisors under which Calamos Advisors serves as the investment manager and administrator for the Fund. The Independent Trustees, who comprise more than 80% of the Board, have never been affiliated with Calamos Advisors.

In connection with their most recent consideration regarding the continuation of the management agreement, the Trustees received and reviewed a substantial amount of information provided by Calamos Advisors in response to detailed requests of the Independent Trustees and their independent legal counsel. In the course of their consideration of the agreement, the Independent Trustees were advised by their counsel and, in addition to meeting with management of Calamos Advisors, they met separately in executive session with their counsel.

At a meeting held on June 30, 2011, based on their evaluation of the information referred to above and other information, the Trustees determined that the overall arrangements between the Fund and Calamos Advisors were fair and reasonable in light of the nature, extent and quality of the services provided by Calamos Advisors and its affiliates, the fees charged for those services and other matters that the Trustees considered relevant in the exercise of their business judgment. At that meeting, the Trustees, including all of the Independent Trustees, approved the continuation of the management agreement through July 31, 2012, subject to possible earlier termination as provided in the agreement.

In connection with its consideration of the management agreement, the Board considered, among other things: (i) the nature, quality and extent of the Adviser s services, (ii) the investment performance of the Fund as well as performance information for comparable funds and other comparable clients of the advisor, (iii) the fees and other expenses paid by the Fund as well as expense information for comparable funds and for other comparable clients of the Adviser, (iv) the profitability of the Adviser and its affiliates from their relationship with the Fund, (v) the extent to which economies of scale may apply, and (vi) other benefits to the Adviser from its relationship with the Fund. In the Board s deliberations, no single factor was responsible for the Board s decision to approve continuation of the management agreements.

Nature, Extent and Quality of Services. The Board s consideration of the nature, extent and quality of the Adviser s services to the Fund took into account the knowledge gained from the Board s meetings with the Adviser throughout the prior year. In addition, the Board considered: the Adviser s long-term history of managing the Fund; the consistency of investment approach; the background and experience of the Adviser s investment personnel responsible for managing the Fund; the Adviser s performance as administrator of the Fund, including, among other things, in the areas of brokerage selection, trade execution, compliance and shareholder communications; and frequent favorable recognition of the Adviser in the media and in industry publications. The Board also reviewed the Adviser s resources and key personnel involved in providing investment management services to the Fund, including the time that investment personnel devote to the Fund and the investment results produced by the Adviser s in-house research. The Board noted the personal investments that the Adviser s key investment personnel have made in the Fund, which further aligns the interests of the Adviser and its personnel with those of the Fund s shareholders. In addition, the Board considered compliance reports about the Adviser from the Fund s Chief Compliance Officer. The Board concluded that the nature, extent and quality of the services provided by the Adviser to the Fund were appropriate and consistent with the management agreements and that the Fund was likely to continue to benefit from services provided under its management agreement with the Adviser.

Investment Performance of the Fund. The Board considered the Fund s investment performance over various time periods, including how the Fund performed compared to the median performance of a group of comparable funds (the Fund s Universe Median) selected by Lipper, Inc., an independent data service provider. The performance periods considered by the Board ended on March 31, 2011. Where available, the Board considered one-, three-, five- and ten-year performance.

The Board considered the Fund s net asset value performance, noting that the Fund outperformed its Universe Median during the three- and five-year periods, although it underperformed its Universe Median during the one-year period.

For the reasons noted above, the Board concluded that continuation of the management agreement for the Fund was in the best interest of the Fund and its shareholders.

Costs of Services Provided and Profits Realized by the Adviser. Using information provided by Lipper, the Board evaluated the Fund s actual management fee rate compared to the median management fee rate for other mutual funds similar in size, character and

Trustee Approval of Management Agreement (Unaudited)

investment strategy (the Fund s Expense Group), and the Fund s total expense ratio compared to the median total expense ratio of the Fund s Expense Group.

The Board considered that the Fund s management fee rate is lower than the median of the Fund s Expense Group. The Board also noted that the Fund s total expense ratio, which reflects the total fees paid by an investor, is higher than median of the Fund s Expense Group. The Board, in its consideration of expenses, also took into account its review of the Fund s performance.

The Board also reviewed the Adviser s management fee rates for its institutional separate accounts and for its sub-advised funds (for which the Adviser provides portfolio management services only). The Board took into account the Adviser s assertion that although, generally, the rates of fees paid by institutional clients were lower than the rates of fees paid by the Fund, the differences reflected the Adviser s greater level of responsibilities and significantly broader scope of services regarding the Fund, and the more extensive regulatory obligations and risks associated with managing the Fund.

The Board also considered the Adviser s costs in serving as the Fund s investment adviser and manager, including costs associated with technology, infrastructure and compliance necessary to manage the Fund. The Board reviewed the Adviser s methodology for allocating costs among the Adviser s lines of business. The Board also considered information regarding the structure of the Adviser s compensation program for portfolio managers, analysts and certain other employees and the relationship of such compensation to the attraction and retention of quality personnel. Finally, the Board reviewed information on the profitability of the Adviser in serving as the Fund s investment manager and of the Adviser and its affiliates in all of their relationships with the Fund, as well as an explanation of the methodology utilized in allocating various expenses among the Fund and the Adviser s other business units. Data was provided to the Board with respect to profitability, both on a pre- and post-marketing cost basis. The Board also reviewed the annual report of the Adviser s parent company and discussed its corporate structure.

After its review of all the matters addressed, including those outlined above, the Board concluded that the rate of management fee paid by the Fund to the Adviser, in light of the nature and quality of the services provided, was reasonable and in the best interests of the Fund s shareholders.

Economies of Scale and Fee Levels Reflecting Those Economies. In reviewing the Fund s fees and expenses, the Trustees examined the potential benefits of economies of scale and whether any economies of scale should be reflected in the Fund s fee structure. They noted that the Fund is a closed-end fund, and has therefore had a relatively stable asset base since commencement of operations and that there do not appear to have been any significant economies of scale realized since that time.

Other Benefits Derived from the Relationship with the Fund. The Board also considered other benefits that accrue to the Adviser and its affiliates from their relationship with the Fund. The Board concluded that, other than the services to be provided by the Adviser and its affiliates pursuant to their agreements with the Fund and the fees payable by the Fund therefore, the Fund and the Adviser may potentially benefit from their relationship with each other in other ways. The Board also considered the Adviser s use of a portion of the commissions paid by the Fund on their portfolio brokerage transactions to obtain research products and services benefiting the Fund and/or other clients of the Adviser and concluded, based on reports from the Fund s Chief Compliance Officer, that the Adviser s use of soft commission dollars to obtain research products and services was consistent with regulatory requirements.

After full consideration of the above factors as well as other factors that were instructive in their consideration, the Trustees, including all of the Independent Trustees, concluded that the continuation of the management agreement with the Adviser was in the best interest of the Fund and its shareholders.

Tax Information (Unaudited)

We are providing this information as required by the Internal Revenue Code (Code). The amounts shown may differ from those elsewhere in this report due to differences between tax and financial reporting requirements. In January 2012, shareholders will receive Form 1099-DIV which will include their share of qualified dividends and capital gains distributed during the calendar year 2011. Shareholders are advised to check with their tax advisors for information on the treatment of these amounts on their individual income tax returns.

Under Section 854(b)(2) of the Code, the Fund hereby designates $6,983,963 or the maximum amount allowable under the Code, as qualified dividends for the fiscal year ended October 31, 2011.

Under Section 854(b)(2) of the Code, the Fund hereby designates 10.31% of the ordinary income dividends as income qualifying for the corporate dividends received deduction for the fiscal year ended October 31, 2011.

Trustees & Officers (Unaudited)

The management of the Fund, including general supervision of the duties performed for the Fund under the investment management agreement between the Fund and Calamos Advisors, is the responsibility of its board of trustees. Each trustee elected will hold office for the terms noted below or until such trustee s earlier resignation, death or removal; however, each trustee who is not an interested person of the Fund shall retire as a trustee at the end of the calendar year in which the trustee attains the age of 72 years.

The following table sets forth each trustee s name, age at October 31, 2011, position(s) with the Fund, number of portfolios in the Calamos Fund Complex overseen, principal occupation(s) during the past five years and other directorships held, and date first elected or appointed.

NAME AND AGE	POSITIONS(S) WITH FUND	PORTFOLIOS IN FUND COMPLEX^ OVERSEEN	PRINCIPAL OCCUPATION(S) AND OTHER DIRECTORSHIPS
Trustees who are interested persons of the Fund:			
John P. Calamos, Sr., 71*	Trustee and President (since 1988) Term Expires 2014	19	Chairman, CEO, and Co-Chief Investment Officer, Calamos Asset Management, Inc. (CAM), Calamos Holdings LLC (CHLLC) and Calamos Advisors LLC and its predecessor (Calamos Advisors), and President and Co-Chief Investment Officer, Calamos Financial Services LLC and its predecessor (CFS); Director, CAM
Trustees who are not interested persons of the Fund:			
Weston W. Marsh, 61	Trustee (since 2002) Term Expires 2013	19	Of Counsel and, until December 31, 2005, Partner, Freeborn & Peters LLP (law firm)
John E. Neal, 61	Trustee (since 2001) Term Expires 2012	19	Private investor; Director, Equity Residential (publicly-owned REIT) and Creation Investments (private international microfinance company); Partner, Linden LLC (health care private equity)
William R. Rybak, 60	Trustee (since 2002) Term Expires 2014	19	Private investor; Director, Christian Brothers Investment Services, Inc. (since February 2010); formerly, Executive Vice President and Chief Financial Officer, Van Kampen Investments, Inc. and subsidiaries (investment manager); Trustee, JNL Series Trust, JNL Investors Series Trust and JNL Variable Fund LLC**
Stephen B. Timbers, 67	Trustee (since 2004) and Lead Independent Trustee (since 2005) Term Expires 2013	19	Private investor
David D. Tripple, 67	Trustee (since 2006) Term Expires 2012	19	Private investor; Trustee, Century Growth Opportunities Fund (since 2010), Century Shares Trust and Century Small Cap Select Fund (since

January 2004)***

* Mr. Calamos is an interested person of the Fund as defined in the 1940 Act because he is an officer of the Fund and an affiliate of Calamos Advisors and CFS. Mr. Calamos is the uncle of Nick P. Calamos, Vice President of the Fund.

** Overseeing 104 portfolios in fund complex.

*** Overseeing three portfolios in fund complex.

^ The Fund Complex consists of CALAMOS Investment Trust, CALAMOS Advisors Trust, CALAMOS Convertible Opportunities and Income Fund, CALAMOS Convertible and High Income Fund, CALAMOS Strategic Total Return Fund, CALAMOS Global Total Return Fund and CALAMOS Global Dynamic Income Fund.

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

Officers. The preceding table gives information about John P. Calamos, Sr., who is president of the Fund. The following table sets forth each other officer s name, age at October 31, 2011, position with the Fund and date first appointed to that position, and principal occupation(s) during the past five years. Each officer serves until his or her successor is chosen and qualified or until his or her resignation or removal by the board of trustees.

NAME AND AGE	POSITION(S) WITH FUND	PRINCIPAL OCCUPATION(S) DURING PAST 5 YEARS
Nimish S. Bhatt, 48	Vice President and Chief Financial Officer (since 2007)	Senior Vice President (since 2004), Chief Financial Officer (since May 2011), Director of Operations, CAM, CHLLC, Calamos Advisors and CFS (since 2004)
James J. Boyne, 45	Vice President (since 2008) and Assistant Secretary (since 2010)	President of Distribution and Operations, CAM, Calamos Advisors and CFS (since 2009); prior thereto, Senior Vice President, General Counsel and Secretary, Calamos Advisors (since 2008); Chief Operating Officer Distribution, CFS (since 2008); prior thereto, Chief Operating Officer, General Counsel and Executive Managing Director of McDonnell Investment Management, LLC (2001-2008)
Nick P. Calamos, 50	Vice President (since 1992)	President of Investments and Co-Chief Investment Officer, CAM, CHLLC, Calamos Advisors and CFS
J. Christopher Jackson, 60	Vice President and Secretary (since 2010)	Senior Vice President, General Counsel and Secretary, CAM, CHLLC, Calamos Advisors and CFS (since 2010); Director, U.S. Head of Retail Legal and Co-Global Head of Retail Legal of Deutsche Bank AG (2006-2010); prior thereto, Director, Senior Vice President, General Counsel and Assistant Secretary of Hansberger Global Investors, Inc. (1996-2006)
Mark J. Mickey, 60	Chief Compliance Officer (since 2005)	Chief Compliance Officer, Calamos Funds (since 2005) and Chief Compliance Officer, Calamos Advisors (2005-2006)

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

Results of Annual Meeting

The Fund held its annual meeting of shareholders on June 30, 2011. The purpose of the annual meeting was to elect two Trustees to the Fund s board of trustees for a three year term, or until the trustee s successor is duly elected and qualified, and to conduct any other lawful business of the Fund. Mr. John P. Calamos, Sr. and Mr. William R. Rybak were nominated for reelection as Trustees, and were elected as such by a plurality vote as follows:

TRUSTEE NOMINEE	VOTES FOR	VOTES WITHHELD	BROKER NON-VOTES AND ABSTENTIONS
John P. Calamos, Sr.	64,692,058	1,345,430	0
William R. Rybak	64,831,660	1,205,828	0

Messrs. Marsh, Neal, Timbers and Tripples terms of office as Trustees continued after the meeting.

About Closed-End Funds

What is a Closed-End Fund?

A closed-end fund is a publicly traded investment company that raises its initial investment capital through the issuance of a fixed number of shares to investors in a public offering. Shares of a closed-end fund are listed on a stock exchange or traded in the over-the-counter market. Like all investment companies, a closed-end fund is professionally managed and offers investors a unique investment solution based on its investment objective approved by the fund s Board of Directors.

Potential Advantages of Closed-End Fund Investing

Defined Asset Pool Allows Efficient Portfolio Management Although closed-end fund shares trade actively on a securities exchange, this doesn t affect the closed-end fund manager because there are no new investors buying into or selling out of the fund s portfolio.

More Flexibility in the Timing and Price of Trades Investors can purchase and sell shares of closed-end funds throughout the trading day, just like the shares of other publicly traded securities.

Lower Expense Ratios The expense ratios of closed-end funds are oftentimes less than those of mutual funds. Over time, a lower expense ratio could enhance investment performance.

Closed-End Structure Makes Sense for Less-Liquid Asset Classes A closed-end structure makes sense for investors considering less-liquid asset classes, such as high-yield bonds or micro-cap stocks.

Ability to Put Leverage to Work Closed-end funds may issue senior securities (such as preferred shares or debentures) or borrow money to leverage their investment positions.

No Minimum Investment Requirements

OPEN-END MUTUAL FUNDS VERSUS CLOSED-END FUNDS

OPEN-END FUND	CLOSED-END FUND
Issues new shares on an ongoing basis	Generally issues a fixed number of shares
Issues common equity shares	Can issue common equity shares and senior securities such as preferred shares and bonds
Sold at NAV plus any sales charge	Price determined by the marketplace
Sold through the fund s distributor	Traded in the secondary market
Fund redeems shares at NAV calculated at the close of business day	Fund does not redeem shares

Level Rate Distribution Policy

Using a Level Rate Distribution Policy to Promote Dependable Income and Total Return

The goal of the level rate distribution policy is to provide investors a predictable, though not assured, level of cash flow, which can either serve as a stable income stream or, through reinvestment, contribute significantly to long-term total return.

We understand the importance that investors place on the stability of dividends and their ability to contribute to long-term total return, which is why we have instituted a level rate distribution policy for the Fund. Under the policy, monthly distributions paid may include net investment income, net realized short-term capital gains and, if necessary, return of capital. In addition, a limited number of distributions per calendar year may include net realized long-term capital gains. There is no guarantee that the Fund will realize capital gains in any given year. Distributions are subject to re-characterization for tax purposes after the end of the fiscal year. All shareholders with taxable accounts will receive written notification regarding the components and tax treatment for distributions via Form 1099-DIV.

Distributions from the Fund are generally subject to Federal income taxes. For purposes of maintaining the level rate distribution policy, the Fund may realize short-term capital gains on securities that, if sold at a later date, would have resulted in long-term capital gains. Maintenance of a level rate distribution policy may increase transaction and tax costs associated with the Fund.

Automatic Dividend Reinvestment Plan

Maximizing Investment with an Automatic Dividend Reinvestment Plan

The Automatic Dividend Reinvestment Plan offers a simple, cost-efficient and convenient way to reinvest your dividends and capital gains distributions in additional shares of the Fund, allowing you to increase your investment in the Fund.

Potential Benefits

Compounded Growth: By automatically reinvesting with the Plan, you gain the potential to allow your dividends and capital gains to compound over time.

Potential for Lower Commission Costs: Additional shares are purchased in large blocks, with brokerage commissions shared among all plan participants. There is no cost to enroll in the Plan.

Convenience: After enrollment, the Plan is automatic and includes detailed statements for participants. Participants can terminate their enrollment at any time.

Pursuant to the Plan, unless a shareholder is ineligible or elects otherwise, all dividend and capital gains on common shares distributions are automatically reinvested by BNY Mellon Asset Servicing, as agent for shareholders in administering the Plan (Plan Agent), in additional common shares of the Fund. Shareholders who elect not to participate in the Plan will receive all dividends and distributions payable in cash paid by check mailed directly to the shareholder of record (or, if the shares are held in street or other nominee name, then to such nominee) by Plan Agent, as dividend paying agent. Shareholders may elect not to participate in the Plan and to receive all dividends and distributions in cash by sending written instructions to Plan Agent, as dividend paying agent, at: Dividend Reinvestment Department, P.O. Box 1958, Newark, New Jersey 07101-9774. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by giving notice in writing to the Plan Agent; such termination will be effective with respect to a particular dividend or distribution if notice is received prior to the record date for the applicable distribution.

Automatic Dividend Reinvestment Plan

The shares are acquired by the Plan Agent for the participant s account either (i) through receipt of additional common shares from the Fund (newly issued shares) or (ii) by purchase of outstanding common shares on the open market (open-market purchases) on the NYSE or elsewhere. If, on the payment date, the net asset value per share of the common shares is equal to or less than the market price per common share plus estimated brokerage commissions (a market premium), the Plan Agent will receive newly issued shares from the Fund for each participant s account. The number of newly issued common shares to be credited to the participant s account will be determined by dividing the dollar amount of the dividend or distribution by the greater of (i) the net asset value per common share on the payment date, or (ii) 95% of the market price per common share on the payment date.

If, on the payment date, the net asset value per common share exceeds the market price plus estimated brokerage commissions (a market discount), the Plan Agent has a limited period of time to invest the dividend or distribution amount in shares acquired in open-market purchases. The weighted average price (including brokerage commissions) of all common shares purchased by the Plan Agent as Plan Agent will be the price per common share allocable to each participant. If, the Plan Agent is unable to invest the full dividend amount in open-market purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Agent will cease making open-market purchases and will invest the uninvested portion of the dividend or distribution amount in newly issued shares at the close of business on the last purchase date.

The automatic reinvestment of dividends and distributions will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such dividends even though no cash is received by participants.

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

A participant may request the sale of all of the common shares held by the Plan Agent in his or her Plan account in order to terminate participation in the Plan. If such participant elects in advance of such termination to have the Plan Agent sell part or all of his shares, the Plan Agent is authorized to deduct from the proceeds a $15.00 fee plus the brokerage commissions incurred for the transaction. A participant may re-enroll in the Plan in limited circumstances.

The terms and conditions of the Plan may be amended by the Plan Agent or the Fund at any time upon notice are required by the Plan.

This discussion of the Plan is only summary, and is qualified in its entirety to the Terms and Conditions of the Dividend Reinvestment Plan filed as part of the Fund s registration statement.

For additional information about the Plan, please contact the Plan Agent, The Bank of New York Mellon, at 800.432.8224. If you wish to participate in the Plan and your shares are held in your own name, simply call the Plan Agent. If your shares are not held in your name, please contact your brokerage firm, bank, or other nominee to request that they participate in the Plan on your behalf. If your brokerage firm, bank, or other nominee is unable to participate on your behalf, you may request that your shares be re-registered in your own name.

We re pleased to provide our shareholders with the additional benefit of the Fund s Dividend Reinvestment Plan and hope that it may serve your financial plan.

MANAGING YOUR CALAMOS FUNDS INVESTMENTS

Calamos Investments offers several convenient means to monitor, manage and feel confident about your Calamos investment choice.

PERSONAL ASSISTANCE: 800.582.6959

Dial this toll-free number to speak with a knowledgeable Client Services Representative who can help answer questions or address issues concerning your Calamos Fund.

YOUR FINANCIAL ADVISOR

We encourage you to talk to your financial advisor to determine how the Calamos Funds can benefit your investment portfolio based on your financial goals, risk tolerance, time horizon and income needs.

STAY CONNECTED

www.calamos.com

Visit our website for timely fund performance, detailed fund profiles, fund news and insightful market commentary.

A description of the Calamos Proxy Voting Policies and Procedures and the Fund s proxy voting record for the 12 month period ended June 30, 2011, are available free of charge upon request by calling 800.582.6959, by visiting the Calamos website at www.calamos.com, by writing Calamos at: Calamos Investments, Attn: Client Services, 2020 Calamos Court, Naperville, IL 60563. The Fund s proxy voting record is also available free of charge by visiting the SEC website at http://www.sec.gov.

The Fund files its complete list of portfolio holdings with the SEC for the first and third quarters each fiscal year on Form N-Q . The Forms N-Q are available free of charge, upon request, by calling or writing Calamos Investments at the phone number or address provided above or by visiting the SEC website at http://www.sec.gov. You may also review or, for a fee, copy the forms at the SEC s Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling 800.732.0330.

On June 22, 2011, the Fund submitted a CEO annual certification to the NYSE on which the Fund s chief executive officer certified that he was not aware, as of that date, of any violation by the Fund of the NYSE s corporate governance listing standards. In addition, the Fund s report to the SEC on Form N-CSR contains certifications by the fund s principal executive officer and principal financial officer as required by Rule 30a-2(a) under the 1940 Act, relating to, among other things, the quality of the Fund s disclosure controls and procedures and internal control over financial reporting.

FOR 24 HOUR AUTOMATED SHAREHOLDER ASSISTANCE: 800.432.8224

TO OBTAIN INFORMATION ABOUT YOUR INVESTMENTS: 800.582.6959

VISIT OUR WEBSITE: www.calamos.com

INVESTMENT ADVISER:

Calamos Advisors LLC

2020 Calamos Court

Naperville, IL 60563-2787

CUSTODIAN AND FUND ACCOUNTING AGENT:

State Street Bank and Trust Company

225 Franklin Street

Boston, MA 02111

TRANSFER AGENT:

The Bank of New York Mellon

P.O. Box 11258

Church Street Station

New York, NY 10286

800.524.4458

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:

Deloitte & Touche LLP

Chicago, IL

LEGAL COUNSEL:

K&L Gates LLP

Chicago, IL

2020 Calamos Court

Naperville, IL 60563-2787

800.582.6959

www.calamos.com

CHYANR 1791 2011

ITEM 2. CODE OF ETHICS.

(a) As of the end of the period covered by this report, the registrant has adopted a code of ethics (the Code of Ethics) that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or person performing similar functions.

(b) No response required.

(c) The registrant has not amended its Code of Ethics as it relates to any element of the code of ethics definition enumerated in paragraph (b) of this Item 2 during the period covered by this report.

(d) The registrant has not granted a waiver or an implicit waiver from its Code of Ethics during the period covered by this report.

(e) Not applicable.

(f) (1) The registrant s Code of Ethics is attached as an Exhibit hereto.

ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT.

The registrant s Board of Trustees has determined that, for the period covered by the shareholder report presented in Item 1 hereto, it has four audit committee financial experts serving on its audit committee, each of whom is an independent Trustee for purpose of this N-CSR item: John E. Neal, William R. Rybak, Stephen B. Timbers and David D. Tripple. Under applicable securities laws, a person who is determined to be an audit committee financial expert will not be deemed an expert for any purpose, including without limitation for the purposes of Section 11 of the Securities Act of 1933, as a result of being designated or identified as an audit committee financial expert pursuant to this Item. The designation or identification of a person as an audit committee financial expert does not impose on such person any duties, obligations, or liabilities that are greater than the duties, obligations and liabilities imposed on such person as a member of audit committee and board of directors in the absence of such designation or identification. The designation or identification of a person as an audit committee financial expert pursuant to this Item does not affect the duties, obligations, or liabilities of any other member of the audit committee or board of directors.

ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Fiscal Years Ended	**10/31/2010**	**10/31/2011**
Audit Fees(a)	$ 54,397	$ 57,534
Audit-Related Fees(b)	$ 30,143	$ 29,658
Tax Fees(c)	$ 5,420	$
All Other Fees(d)	$	$
Total	$ 89,960	$ 87,192

(a) Audit Fees are the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant to the registrant for the audit of the registrant s annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years.

(b) Audit-Related Fees are the aggregate fees billed in each of the last two fiscal years for assurance and related services rendered by the principal accountant to the registrant that are reasonably related to the performance of the audit of the registrant s financial statements and are not reported under paragraph (a) of this Item 4.

(c) Tax Fees are the aggregate fees billed in each of the last two fiscal years for professional services rendered by the principal accountant to the registrant for tax compliance, tax advice and tax planning.

(d) All Other Fees are the aggregate fees billed in each of the last two fiscal years for products and services provided by the principal accountant to the registrant, other than the services reported in paragraph (a)-(c) of this Item 4.

(e) (1) Registrant s audit committee meets with the principal accountants and management to review and pre-approve all audit services to be provided by the principal accountants.

The audit committee shall pre-approve all non-audit services to be provided by the principal accountants to the registrant, including the fees and other compensation to be paid to the principal accountants; provided that the pre-approval of non-audit services is waived if (i) the services were not recognized by management at the time of the engagement as non-audit services,(ii) the aggregate fees for all non-audit services provided to the registrant are less than 5% of the total fees paid by the registrant to its principal accountants during the fiscal year in which the non-audit services are provided, and (iii) such services are promptly brought to the attention of the audit committee by management and the audit committee approves them prior to the completion of the audit.

The audit committee shall pre-approve all non-audit services to be provided by the principal accountants to the investment adviser or any entity controlling, controlled by or under common control with the adviser that provides ongoing services to the registrant if the engagement relates directly to the operations or financial reporting of the registrant, including the fees and other compensation to be paid to the principal accountants; provided that pre-approval of non-audit services to the adviser or an affiliate of the adviser is not required if (i) the services were not recognized by management at the time of the engagement as non-audit services, (ii) the aggregate fees for all non-audit services provided to the adviser and all entities controlling, controlled by or under common control with the adviser are less than 5% of the total fees for non-audit services requiring pre-approval under paragraph (e)(1)of this Item 4 paid by the registrant, the adviser or its affiliates to the registrant s principal accountants during the fiscal year in which the non-audit services are provided, and (iii) such services are promptly brought to the attention of the audit committee by management and the audit committee approves them prior to the completion of the audit.

(e)(2) No percentage of the principal accountant s fees or services described in each of paragraphs (b) (d) of this Item were approved pursuant to the waiver provision paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.

(f) No disclosures are required by this Item 4(f).

(g) The following table presents the aggregate non-audit fees billed in each of the last two fiscal years for services rendered by the principal accountant to the registrant and the aggregate non-audit fees billed in each of the last two fiscal years for services rendered by the principal accountant to the investment adviser or any entity controlling, controlled by or under common control of the adviser.

Fiscal Years Ended	**10/31/2010**	**10/31/2011**
Registrant	$ 5,420	$
Investment Adviser	$	$

(h) No disclosures are required by this Item 4(h).

ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS.

The registrant has a separately-designated standing audit committee. The members of the registrant s audit committee are Weston W. Marsh, John E. Neal, William R. Rybak, Stephen B. Timbers, and David D. Tripple.

ITEM 6. SCHEDULE OF INVESTMENTS

Included in the Report to Shareholders in Item 1.

ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

The registrant has delegated authority to vote all proxies relating to the Fund s portfolio securities to the Fund s investment advisor, Calamos Advisors LLC (Calamos Advisors). The Calamos Advisors Proxy Voting Policies and Procedures are included as an Exhibit hereto.

ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES.

(a)(1) As of the date of this filing, the registrant is lead by a team of investment professionals. The Co-Chief Investment Officers and senior strategy analysts are responsible for the day-to-day management of the registrant s portfolio:

During the past five years, John P. Calamos, Sr. has been President and Trustee of the Fund and chairman, CEO and Co-CIO of the Fund s investment adviser, Calamos Advisors LLC and its predecessor company (Calamos Advisors). Nick P. Calamos has been Vice President and Trustee of the Fund (through June 2006) and President of Investments and Co-CIO of Calamos Advisors and its predecessor company. John P. Calamos, Jr., Executive Vice President of Calamos Advisors, joined the firm in 1985 and has held various senior investment positions since that time. Dino Dussias joined Calamos Advisors in October 1995 and has been a senior strategy analyst since April 2007. Christopher Hartman joined Calamos Advisors in February 1997 and has been a senior strategy analyst since May 2007. John Hillenbrand joined Calamos Advisors in 2002 and has been a senior strategy analyst since August 2002. Steve Klouda joined Calamos Advisors in 1994 and has been a senior strategy analyst since July 2002. Bryan Lloyd joined Calamos Advisors in October 2003 and has been a senior strategy analyst since June 2006. Jeff Scudieri joined Calamos Advisors in 1997 and has been a senior strategy analyst since September 2002. Jon Vacko joined Calamos Advisors in 2000 and has been a senior strategy analyst since July 2002. Joe Wysocki joined Calamos Advisors in October 2003 and has been a senior strategy analyst since February 2007.

(a)(2) The portfolio managers also have responsibility for the day-to-day management of accounts other than the registrant. Information regarding these other accounts is set forth below.

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

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

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

	Registered Investment Companies		Other Pooled Investment Vehicles		Other Accounts	
	Accounts	**Assets**	**Accounts**	**Assets**	**Accounts**	**Assets**
John P. Calamos Sr.	3	697,181,821	0		0	
Nick P. Calamos	3	697,181,821	0		0	
John P. Calamos, Jr.	3	697,181,821	0		0	
Jeff Scudieri	3	697,181,821	0		0	
Jon Vacko	3	697,181,821	0		0	
John Hillenbrand	3	697,181,821	0		0	
Steve Klouda	3	697,181,821	0		0	
Christopher Hartman	3	697,181,821	0		0	
Joe Wysocki	3	697,181,821	0		0	

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

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

(a)(3) Calamos Advisors has developed and implemented a number of incentives that reward the professional staff to ensure that key employees are retained. Calamos Advisors senior management has established salary, short and long term incentive programs and benefit programs that we believe are competitive. Calamos Advisors incentive programs are based on investment performance, professional performance and an individual s overall contribution. These goals and measures are established and reviewed on an annual basis during performance reviews. As of October 31, 2011, each portfolio manager receives compensation in the form of an annual base salary and a discretionary target bonus, each payable in cash. Their discretionary target bonus is set at a percentage of the respective base salary. The amounts paid to the portfolio managers and the criteria utilized to determine the amounts are benchmarked against industry specific data provided by a third party analytical agency. The compensation structure does not differentiate between the Funds and other accounts managed by the portfolio managers, and is determined on an overall basis, taking into consideration the performance of the various strategies managed by the portfolio managers. Portfolio performance, as measured by risk-adjusted portfolio performance, is utilized to determine the discretionary target bonus, as well as overall performance of Calamos Advisors. Portfolio managers are eligible to receive annual non-equity awards under a long term incentive compensation program, set at a percentage of the respective base salary.

(a)(4) As of October 31, 2011, the end of the registrant s most recently completed fiscal year, the dollar range of securities beneficially owned by each portfolio manager in the registrant is shown below:

Portfolio Manager	Registrant
John P. Calamos Sr.	Over $1,000,000
Nick P. Calamos	None
John P. Calamos, Jr.	None
Dino Dussias	None
Christopher Hartman	None
John Hillenbrand	None
Steve Klouda	None
Bryan Lloyd	None
Jeff Scudieri	None
Jon Vacko	None
Joe Wysocki	None

(b) Not applicable.

ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS.

Not applicable

ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

No material changes.

ITEM 11. CONTROLS AND PROCEDURES.

a) The registrant s principal executive officer and principal financial officer have evaluated the registrant s disclosure controls and procedures within 90 days of this filing and have concluded that the registrant s disclosure controls and procedures were effective, as of that date, in ensuring that information required to be disclosed by the registrant in this Form N-CSR was recorded, processed, summarized, and timely reported.

b) There were no changes in the registrant s internal controls over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) that occurred during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

ITEM 12. EXHIBITS.

(a)(1) Code of Ethics

(a)(2)(i) Certification of Principal Executive Officer.

(a)(2)(ii) Certification of Principal Financial Officer.

(a)(2)(iii) Proxy Voting Policies and Procedures.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Calamos Convertible and High Income Fund

By: /s/ John P. Calamos, Sr.
Name: John P. Calamos, Sr.
Title: Principal Executive Officer
Date: December 29, 2011

By: /s/ Nimish S. Bhatt
Name: Nimish S. Bhatt
Title: Principal Financial Officer
Date: December 29, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ John P. Calamos, Sr.
Name: John P. Calamos, Sr.
Title: Principal Executive Officer
Date: December 29, 2011

By: /s/ Nimish S. Bhatt
Name: Nimish S. Bhatt
Title: Principal Financial Officer
Date: December 29, 2011