Media Exchange Group, Inc.
Form 10-K
March 25, 2011

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

FORM 10-K

(Mark one)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2010

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-33813

MEMSIC, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	04-3457049 (I.R.S. Employer Identification Number)

One Tech Drive, Suite 325
Andover, MA 01810
Telephone: (978)738-0900
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $0.00001 par value	The Nasdaq Stock Market, LLC (Nasdaq Global Market)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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 x No ¨

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 o No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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 ¨ Accelerated filer ¨ Non-accelerated filer x Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
As of June 30, 2010 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of voting stock held by non-affiliates of the registrant was approximately $27,902,292.

On March 23, 2011, 23,813,613 shares of our common stock were outstanding.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for our 2011 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission on or before April 30, 2011 are incorporated by reference in Part III of this Annual Report on Form 10-K.

MEMSIC, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010

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PART I

Item 1. Business

We provide advanced semiconductor sensor and system solutions based on integrated micro electro-mechanical systems, or MEMS, technology and mixed signal circuit design. Historically, our revenues have derived primarily from the sale of sensor products, principally accelerometers. During 2010, we continued to make progress in our business plan to transform ourselves into a multiple-product company serving diverse markets.

Sensor products.

Our sensors are used for motion, direction and pressure sensing applications. We combine proprietary thermal-based MEMS technology and advanced analog mixed signal processing circuitry design into a single chip using a standard complementary metal-oxide semiconductor, or CMOS, process. We believe that this approach allows us to provide sensor solutions at a lower cost, with higher performance and greater functionality than our competitors. In addition, our technology platform allows us to easily integrate additional functions or create new sensors to expand into magnetic, touch and flow sensors and related applications. We expect that as MEMS technology advances, it will enable electronic systems to become smaller, faster, more energy-efficient and less expensive, and that the market for MEMS sensors will continue to expand as functions and products enabled by MEMS sensor solutions achieve broader penetration in the mobile phone, consumer, automotive, aerospace, medical and industrial markets.

Our accelerometer products are used to measure tilt, shock, vibration and acceleration, and have a wide range of applications such as mobile phones, automotive safety systems and video projectors. Any product that requires the control or measurement of motion is a potential application for accelerometers. For example, in mobile phones, accelerometers enable a variety of value-added functions such as image orientation, gaming control and text scrolling.

In automotive applications, accelerometers are being deployed in airbag, electronic stability control, rollover protection, and navigation systems. Our largest customer is Autoliv, Inc., a leading European automotive safety systems supplier, which uses our accelerometers in its rollover protection and vehicle stability control systems. In consumer applications, accelerometers are used in global positioning systems, video gaming systems and interactive toys. Industrial and medical applications include inclination sensing, earthquake detection and cardiac pacemakers.

We were a pioneer in providing accelerometers to China's fast-growing mobile phone market. We are also among the leading providers of accelerometers for image projectors, supplying to several Japanese original equipment manufacturers ("OEMs"). Our continuous development of lower-cost sensor products is helping us penetrate cost-sensitive applications such as toys and games.

We are also capitalizing on our proprietary MEMS technology to develop new types of sensors that will broaden our market opportunities. For example, in 2008 we introduced a new line of MEMS-based magnetic sensors that provide enhanced digital compass capabilities for mobile applications such as cell phones and personal navigation devices. The adoption of GPS-enabled mobile phones is accelerating worldwide, and we have benefited from this trend through increased sales to a major manufacturer of GPS-enabled mobile phones. Similarly, in 2010, we introduced our new MEMS-based gas-flow meter for use in industrial applications, primarily in the China market.

System solution products.

In January 2010 we acquired from Crossbow Technology, Inc., a leading supplier of wireless sensor technology and inertial MEMS sensors for navigation and control, the non-military portion of Crossbow's inertial navigation systems business and its wireless sensor network Mote and eKo environmental monitoring business, along with related intellectual property and fixed assets. In addition, 21 Crossbow employees, including engineering, sales and marketing personnel, joined our new operations in San Jose, California. With this acquisition, we significantly strengthened our capability to develop integrated sensing systems that incorporate sensors with on-board computing, wireless communications and systems and application software solutions. We also broadened our customer base to include industrial and aerospace markets that we believe may offer higher margins and more stability than the mobile and consumer markets. We also believe that our strong presence in China provides us with an opportunity to introduce these newly acquired wireless sensor network and inertial systems products in the fast-growing Chinese market.

Our system solution products consist of wireless sensors that connect the physical environment with enterprise management and information systems to provide advanced monitoring, automation and control solutions for a range of industries, as well as inertial systems that provide end-users and systems integrators with MEMS-based solutions for measurement of static and dynamic motion in a wide variety of challenging environments, including avionics, remotely operated vehicles, agricultural and construction vehicles, automotive test and wind power turbines.

We have also continued to invest in the development of next-generation, multi-sensor and MCU integrated system products at both the integrated circuit level for the consumer and mobile market and at the module level for the high-end industrial, automotive, and general aviation markets. Our next-generation product lines will combine our core competency in cost competitive MEMS sensor IC design and manufacturing with the core competency in multi-sensor system integration that we acquired from Crossbow. In August 2010, we introduced our first next-generation family of high-performance MEMS inertial systems, which offer the superior reliability of our advanced MEMS technology for use in integrated navigation systems and in stabilization and control applications.

Our operations.

We conduct research and development at our headquarters in Andover, Massachusetts and at facilities in San Jose, California, Chicago, Illinois and Wuxi, Jiangsu Province, China. Our research and development teams work closely with each other in our product and technology research and development activities. This enables us to access experienced and creative design talent in the United States, while benefiting from competitive engineering and manufacturing costs in China. In addition, our presence in China places us in close proximity to the supply chain for the large Chinese markets for mobile phones and consumer electronics.

Our two subsidiaries in Wuxi, Jiangsu Province, China, are primarily responsible for our manufacturing operations, including product development, manufacturing and quality assurance engineering, as well as application engineering, and sales and marketing to support the Asia market.

We manufacture our sensor products utilizing a “semi-fabless” model by outsourcing the production of CMOS wafers and completing the post-CMOS MEMS process in-house. By outsourcing the standard CMOS manufacturing process, we are able to leverage mature semiconductor infrastructure and standard wafer fabrication processes and, in turn, more efficiently manage our capital expenditures. Moreover, we believe that retaining the key MEMS manufacturing process in-house enables us to protect and retain control over our key proprietary technology more effectively and to create a higher barrier to entry.

The system solution products that we acquired from Crossbow Technology were initially manufactured for us by Crossbow under a manufacturing agreement that we entered into in connection with the acquisition. We are in the process of migrating the manufacture of these products to China, with the objective of outsourcing most of the assembly process to third-party contract assembly vendors and performing final testing and programming functions in-house at our facility in Wuxi.

We maintain sales offices in Andover, Massachusetts and San Jose, California, in Shenzhen and Shanghai, China, in Taipei, Taiwan, and in Yokohama, Japan. We sell our products using our direct sales force, as well as through systems integrators, resellers, distributors and sales representatives worldwide.

Our Competitive Strengths

Our key competitive strengths include the following:

Proprietary technology enabling superior reliability, functionality and pricing. We have proprietary rights to produce MEMS accelerometers based on a unique thermal technology which has higher shock tolerance, lower failure rate and lower cost relative to alternative mechanical solutions. Our accelerometers can be manufactured on a standard CMOS process with on-chip mixed signal processing, which enables us to enhance reliability and reduces our production cost. This standardized process enables us to easily integrate additional functions or create new sensors for MEMS applications beyond accelerometers and expand into the magnetic, touch and flow sensor markets.

Comprehensive system solutions offering. Our solutions involve the development of a fully-integrated sensor system on a chip, together with the reference designs, algorithms, source code and, in some cases, the application content to facilitate rapid commercial introduction. For example, our line of magnetic sensors incorporates our Intelligent Heading Correction algorithms, which automatically calibrate the device and, compensate for the extraneous magnetic interference, providing high accuracy and promoting ease of use. Our Crossbow acquisition has enhanced our capabilities in designing and developing integrated “smart sensing” solutions. Integrated solutions such as this enable our customers to shorten their product development cycle and allow for rapid adoption of our products in new applications.

Leading market position and established customer relationships. We were a pioneer in providing accelerometers to China's large mobile phone market. We are also among the leading sensor providers in a diverse range of other applications such as keystone screen adjustment sensors for image projectors, supplying to several Japanese OEMs. In addition, our accelerometers are incorporated in vehicle stability control systems for the automotive market, where Autoliv, Inc. is a major customer. We have developed close working relationships with our customers and regularly work together with them on new applications development.

Efficient semi-fabless manufacturing model creating higher entry barrier. Our semi-fabless model reduces capital expenditures while retaining manufacturing control over key MEMS-based process steps. We outsource the production of standard CMOS wafers, which we consider to be a commodity, to our foundry service provider, and perform in-house the proprietary post-CMOS MEMS process of building MEMS on top of the standard CMOS wafer. We believe that by performing proprietary manufacturing processes in-house, we create a higher barrier to entry.

Strong technology-driven management team. Our management team has extensive experience in the MEMS and integrated circuit design industry. Our founder and CEO, Dr. Yang Zhao, has been dedicated to the research and development of MEMS sensors since the early 1990's while he was a doctoral student at Princeton University, and is named as an inventor on ten patents we own and five of our pending patent applications in the United States. Furthermore, our management team has successfully guided us through our rapid business expansion while maintaining focus on the development and expansion of our core technological capabilities.

Our Strategy

Key elements of our strategy for growth include the following:

Increase penetration of existing markets and customers. We are actively seeking design wins by building on our strong existing relationships with major OEM customers in the automotive and industrial markets in China, Taiwan, Japan, Europe and the United States. Our major OEM accounts have in the past generally focused on a particular OEM system or application, and we intend to take advantage of our strong relationships in these accounts to seek new design-in opportunities in a wider range of OEM systems and applications that capitalize on the more diverse range of technologies and sensor solutions that we can now offer.

Diversify into new sensor and integrated"smart sensing"system products. We have a strong foundation and the capabilities to diversify into new sensor products, including magnetic, temperature, pressure, flow sensors and gyroscopes. Emerging applications for sensors frequently lack incumbent competitors, providing an opportunity for a first-mover to define the dominant application technology. We also believe that there is an opportunity in integrated sensor products, which combine multiple sensing devices onto one chip and "smart sensing" systems that integrate sensors with on-board processors, and other elements such as wireless communications and software to provide a complete sensing solution.

Maintain cost leadership. We intend to maintain our cost advantage by developing new innovative proprietary technologies, focusing on designing products on readily available foundry processes, and leveraging our low-cost manufacturing capabilities in China. For example, an important goal in integrating the businesses we acquired from Crossbow has been to drive down the manufacturing cost of the acquired products by transitioning manufacturing to our facility in China.

Leverage cross-continental research and development model to strengthen technology platform. We have research and development teams in Andover, Chicago, San Jose and Wuxi that work closely with each other in our product and technology research and development activities. Our U.S. team is responsible for original research and development activities while our China team focuses on implementing the technology developed by our U.S. team. We believe that this cross-continental research and development model keeps us at the forefront of MEMS sensor research while maintaining a competitive cost base.

Engage in selective acquisitions to build new MEMS capabilities. We intend to continue to evaluate and potentially make acquisitions of technologies and businesses that are complementary to our product portfolio, such as our January 2010 acquisition of business lines from Crossbow and our 2008 acquisition of industrial gas-flow meter technology from MEMStron. We believe that there is a large market potential for integrated system-on-chip sensor products which incorporate multiple types of sensors. While we develop our technologies in-house, we are also actively seeking opportunities to acquire or license key technologies from third parties as well. We believe our strong core technology platform and our newly enhanced smart sensing systems design capabilities will also provide us an advantage in integrating the acquired technologies to create a broader range of sensor solutions products in the market.

Corporate Information

We are a Delaware corporation incorporated in February 1999. Our principal executive offices are located at One Tech Drive, Suite 325, Andover, Massachusetts 01810. Our telephone number is (978) 738-0900 and our website is www.memsic.com. Information contained on our website is not part of this Annual Report on Form 10-K.

Conventions that Apply in this Annual Report on Form 10-K

Unless otherwise indicated, references in this Annual Report on Form 10-K to:

- "U.S. dollars," "$," and "dollars" are to the legal currency of the United States;
- "China" or the "PRC" are to the People's Republic of China, excluding, for the purpose of this Annual Report on Form 10-K only, Hong Kong, Macau and Taiwan; and
- "RMB" and "Renminbi" are to the legal currency of the People's Republic of China.
- "Yen" and "Japanese Jen" are to the legal currency of Japan

Unless the context indicates otherwise, "we," "us," "our company," "the Company," "our," and "MEMSIC" refer to MEMSIC, and its subsidiary.

This Annual Report on Form 10-K contains translations of certain RMB and Yen amounts into U.S. dollar amounts at specified rates. Unless otherwise stated, the translations from RMB and Yen to U.S. dollars were made at the buying rates in effect on December 31, 2010 in The City of New York for cable transfers of RMB and Yen as certified for customs purposes by the Federal Reserve Bank of New York, which was RMB6.60 to $1.00 and Yen81.67 to $1.00, respectively. We make no representation that the RMB, Yen or U.S. dollar amounts referred to in this Annual Report on Form 10-K could have been or could be converted into U.S. dollars or RMB or Yen, as the case may be, at any particular rate or at all. See "Risk Factors—Risks Related to Doing Business in China—Fluctuations in the value of RMB could negatively impact our result of operations" and "—Restrictions on currency exchange may limit our ability to receive and use our revenue effectively" for discussions of the effects of fluctuating exchange rates and currency control on the value of our common stock. On December 31, 2010, the buying rate of RMB was RMB6.60 to $1.00 and the buying rate of Yen was Yen81.67 to $1.00.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the sections entitled "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," contains forward-looking statements. These statements may relate to, but are not limited to, expectations of future operating results or financial performance, capital expenditures, introduction of new products, regulatory compliance, plans for growth and future operations, as well as assumptions relating to the foregoing. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. These risks and other factors include, but are not limited to, those listed under "Risk Factors." In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "could," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential," "continue" or the negative of these terms or other comparable terminology. These statements are only predictions. Actual events or results may differ materially.

We believe that it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to accurately predict or control and that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the SEC, we do not plan to publicly update or revise any forward-looking statements contained in this Annual Report on Form 10-K after we file this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise. Before you invest in our common stock, you should be aware that the occurrence of any of the events described in the "Risk Factors" section and elsewhere in this Annual Report on Form 10-K could harm our business, prospects, operating results and financial condition. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Item 1A. Risk Factors

Risks Relating to Our Business and Industry

Uncertain prospects for the global economy could adversely affect our business, results of operations and financial condition

Global economies recently experienced a recession that affected all sectors of the economy. There is no certainty that recent improvements in economic conditions will continue, or that economic conditions will not deteriorate again in the future. These uncertainties affect businesses such as ours in a number of ways, making it difficult to accurately forecast and plan our future business activities. Weak economic conditions may lead consumers and businesses to postpone spending, which may cause our customers to cancel, decrease or delay their existing and future orders with us. Financial difficulties experienced by our suppliers or distributors could result in product delays, increased accounts receivable defaults and inventory challenges. If uncertain economic conditions continue or further deteriorate, our business and results of operations could be materially and adversely affected, as a result of, among other things:

- reduced demand for our products, particularly in industries such as the automotive industry that have been severely affected by the global recession;
- increased risk of order cancellations or delays;
- increased pressure on the prices for our products, such as we recently experienced in the handset market in China;
- greater difficulty in collecting accounts receivable; and
- risks to our liquidity, including the possibility that we might not have access to our cash and investments when needed.

We are unable to predict the prospects for recovery from the recent global downturn and the longer the duration of these uncertainties, the greater the risks we face in operating our business.

Our quarterly and annual operating results have fluctuated and may continue to fluctuate and are difficult to predict and if we do not meet financial expectations of securities analysts or investors, the price of our common stock will likely decline.

Our quarterly and annual operating results have fluctuated and may continue to fluctuate as a result of a number of factors, many of which are beyond our control. Comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Additionally, factors such as the acquisition of our new sensor solutions business from Crossbow in January 2010, which has a different operating model than our historical sensor business, and the continued intense competitive pressure on prices for our sensor products used in mobile phone applications, make predicting our future performance based on the results of prior periods particularly difficult. For example, after a period of low growth from 2007 to 2009, our net sales in 2010 grew by 36.2%, from $28.4 million in 2009 to $38.7 million, but our profitability suffered and we incurred a loss from operations of $8.6 million and a net loss of $7.4 million in 2010, compared with break-even net income of $24,000 in 2009. Our quarterly and annual net sales and profit margin may be significantly different from our historical amounts, and in future periods may fall below expectations. Our gross margins have declined significantly since 2007, and could continue to decline. These and other risks described in this "Risk Factors" section, including the following factors, could cause our quarterly and annual operating results to fluctuate from period to period:

- the loss of one or more of our key customers;
- the cancellation or deferral of customer orders in anticipation of our new products or product enhancements, or due to a reduction in our customers' end demand;
- changes in the price we charge for our products or our pricing strategies, which may be impacted by economic conditions or the pricing strategies of our competitors;
- the cyclicality of the semiconductor industry and seasonality in sales of products into which our products are incorporated;
- seasonal fluctuations of some of our product application markets as well as geographical markets; and
- the length of the product development cycle for our new products.

In addition, we plan our operating expenses, including research and development expenses, hiring of additional personnel and investments in inventory, in part on our expectations of future revenue, and our expenses are relatively fixed in the short term. We have recently implemented cost reduction measures to reduce our operating expenses. However, if revenue for a particular quarter is lower than we expect, we may be unable to proportionately reduce our operating expenses for that quarter, which would harm our operating results for that quarter. If our operating results in future quarters fall below the expectations of securities analysts or investors, the market price of our common stock will likely decline.

The average selling prices of products in some of our markets have historically decreased rapidly and will likely continue to do so in the future, which could harm our revenue and gross margins.

In the semiconductor industry, the average selling price of a product typically declines significantly over the life of the product. In the past, we have reduced the average selling prices of our products in anticipation of future competitive pricing pressures, new product introductions by us or our competitors and other factors. We expect that we will have to similarly reduce our products' average selling prices over the life of any particular product in the future. Reductions in our average selling prices to one customer could also impact our average selling prices to other customers. A decline in average selling prices can harm our gross margins. For example, our gross margins continued to decline from 47.9% in 2008 and 45.6% in 2009 to 39.6% in 2010, primarily as a result of decreasing unit prices in response to competitive pressures in the mobile handset market. Our financial results will suffer if we are unable to offset reductions in our average selling prices by increasing our sales volumes, reducing our costs, adding new features to our existing products that enable us to increase the selling price, increasing our revenues from higher-margin products such as our new sensor solution products or developing new or enhanced products on a timely basis with higher selling prices or gross margins.

Acquisitions or investments that we make to expand our business may expose us to new risks and we may not realize the anticipated benefits of these acquisitions or investments.

As part of our growth strategy, we will continue to evaluate opportunities to acquire or invest in other businesses, intellectual property or technologies that would complement our current business, expand the breadth of markets we can address or enhance our technical capabilities. Acquisitions or investments that we may potentially make in the future entail a number of risks that could materially and adversely affect our business, operating and financial results, including:

- problems integrating the acquired operations, technologies or products into our existing business and products;
- diversion of management’s time and attention from our core business;
- adverse effects on existing business relationships with customers;
- need for financial resources above our planned investment levels;
- failures in realizing anticipated synergies;

- difficulties in retaining business relationships with suppliers and customers of the acquired company;
- risks associated with entering markets in which we lack experience;
- potential loss of key employees of the acquired company;
- potential write-offs of acquired assets; and
- potential expenses related to the amortization of intangible assets.

Our failure to address these risks may have a material adverse effect on our financial condition and results of operations. Any such acquisition or investment may require a significant amount of capital investment, which would decrease the amount of cash available for working capital or capital expenditures. In addition, if we issue new equity securities to pay for acquisitions, our stockholders may experience dilution. If we borrow funds to finance acquisitions, such debt instruments may contain restrictive covenants that can, among other things, restrict us from distributing dividends.

Our Crossbow acquisition in particular exposes us to new risks that we have not previously faced.

The product lines we acquired from Crossbow are more highly integrated than our existing products, involve different technologies, more complex manufacturing, assembly and test processes and require more technical support than those required by our current product lines. The sales process and customer base for the Crossbow products also differs substantially from those of our current products. Our manufacture and sale of the inertial navigation systems for use in general aviation that we acquired from Crossbow are subject to extensive regulatory requirements, including requirements that we obtain and maintain certifications from the United States Federal Aviation Administration, or FAA. Malfunctions in these inertial navigation systems could expose users to the risk of injury or death, and a product liability claim brought against us, even if unsuccessful, would likely be time consuming and costly to defend. Prior to 2010, we had no previous experience in designing, manufacturing, selling and supporting products of this type, and there can be no assurance that we will be successful in these endeavors. We are substantially reliant for the operation of this business on former Crossbow management, engineering, sales and marketing personnel who have become our employees. Until we are able to transition to our own manufacturing processes in China, a process that we started in 2010 and expect to complete in 2011, we will be dependent on Crossbow to manufacture these products for us under a contract we entered into with Crossbow as part of the acquisition. If we are unable to obtain necessary FAA certification of our manufacturing facility and processes in China, or experience other unforeseen difficulties in transitioning the manufacture of the acquired products to our own facility in China, we may be unable to achieve the product cost improvements that we anticipate for these acquired businesses. The integration of the lines of business, technologies, personnel and operations we acquired from Crossbow could result in significant diversion of our management's attention and could also require the incurrence of substantial costs, which could adversely affect our profitability in the near term. Our failure to effectively address these risks, or to successfully integrate the businesses we acquired from Crossbow, or other businesses we may acquire, could have a material adverse effect on our business, our reputation and our results of operations. Additionally, we recorded goodwill of $4.9 million in connection with the Crossbow acquisition. If the cash flows generated by the businesses we acquired from Crossbow fall significantly short of our expectations, or other events occur that require us to reassess the fair value of this goodwill, we could be required to record an impairment charge, which could have a material adverse effect on our results of operations.

We may not be able to compete effectively and increase or maintain revenue and market share.

We may not be able to compete successfully against current or future competitors. If we do not compete successfully, our market share and revenue may decline. We and our distributors currently sell substantially all of our accelerometer products to original equipment manufacturers, or OEMs, and original design manufacturers, or ODMs. We face competition primarily from traditional capacitive/piezoresistive-based accelerometer manufacturers, and, more recently, from manufacturers of low cost components such as mechanical switches that can be used as alternatives to our accelerometers in certain applications, such as orientation detection for mobile phones. Our Crossbow acquisition exposes us to competition from additional sources that we historically did not experience. Most of our current competitors have longer operating histories, significantly greater resources, brand recognition and a larger base of customers than we do. In addition, these competitors may have greater credibility with our existing or potential customers. Moreover, many of our competitors have been doing business with customers for a longer period of time and have established relationships, which may provide them with information regarding future market trends and requirements that may not be available to us. Additionally, some of our larger competitors may be able to provide greater incentives to customers through rebates and similar programs. Some of our competitors with multiple product lines may bundle their products to offer a broader product portfolio or integrate accelerometer functionality into other products that we do not sell. These factors may make it difficult for us to gain or maintain market share.

Our ability to grow depends on our ability to secure and maintain relationships with OEM and ODM customers. If we cannot continue to achieve design wins, if our design wins do not result in large volume orders, or if we fail to meet an OEM’s development and service demands, our ability to grow will be limited.

Our ability to grow depends on our ability to continue to achieve design wins with OEMs and ODMs to whom we sell either directly or through our distributors. In order to achieve a design win, where our product is incorporated into an OEM’s or ODM’s product design, we may often need to make modifications to our products or develop new products that involve significant technological challenges. We may also incur significant product development costs by participating in lengthy field trials and extensive qualification programs. We cannot assure you that these efforts would result in a design win.

Furthermore, a design win is not a binding commitment to purchase our products and may not result in large volume orders of our products. Rather, it is a decision by an OEM or ODM to use our products in the design process of that OEM’s or ODM’s products. OEMs and ODMs can choose at any time to stop using our products in their designs or product development efforts. Moreover, even if our products were chosen to be incorporated into an OEM’s or ODM’s products, our ability to generate significant revenues from that OEM or ODM will depend on the commercial success of their products. Thus, a design win may not necessarily generate significant revenues if our customers’ products are not commercially successful.

In addition, OEMs and ODMs place considerable pressure on us to meet their tight development schedules. These customers also often require extensive and localized customer support. As a result, we may be required to significantly expand our customer support organization. Devoting a substantial amount of our limited resources to one or more of these customer relationships could result in opportunity costs which detract or delay us from completing other important product development projects for our other existing customers, which could in turn impair our relationships with existing customers and negatively impact sales of the products under development.

We do not have long-term purchase commitments from our customers, including OEMs and ODMs, and our ability to accurately forecast demand for and sales of our products is limited, which may result in excess or insufficient inventory and significant uncertainty and volatility with respect to our revenue from period to period.

We do not have long-term purchase commitments from our customers, including OEMs and ODMs. Our customers may cancel or reschedule purchase orders. Our customers’ purchase orders may vary significantly from period to period, and it is difficult to forecast future order quantities. The lead time required by our foundry providers for wafer production is typically longer than the lead time that our customers provide to us for delivery of our products to them. Therefore, to ensure availability of our products for our customers, we typically ask our foundry providers to start wafer production based on forecasts provided by our customers in advance of receiving purchase orders. However, these forecasts are not binding purchase commitments, and we do not recognize revenue until our products are shipped to customers. Accordingly, we incur inventory and manufacturing costs in advance of anticipated sales. We cannot assure you that any of our customers will continue to place purchase orders with us in the future at the same level as in prior periods or that the volume of our customers’ purchase orders will be consistent with our expectations when we plan our expenditures in advance of receiving purchase orders. Our anticipated demand for our products may not materialize. In addition, manufacturing based on customer forecasts exposes us to risks of high inventory carrying costs and increased product obsolescence, which may increase our costs. If we overestimate demand for our products, or if purchase orders are cancelled or shipments are delayed, we may be left with excess inventory that we cannot sell. Conversely, if we underestimate demand, we may not have sufficient inventory and may lose market share and damag 2,784 NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS: Beginning of year 83,070 80,286 End of year $ 80,652 $ 83,070 Undistributed net investment income (loss) at end of year $ 342 $ 245 See Notes to Financial Statements 27 NOTES TO FINANCIAL STATEMENTS INTERMEDIATE MUNICIPAL CLOSED-END FUNDS NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: 1 GENERAL: Neuberger Berman California Intermediate Municipal Fund Inc. ("California"), Neuberger Berman Intermediate Municipal Fund Inc.

("Intermediate"), and Neuberger Berman New York Intermediate Municipal Fund Inc. ("New York") (individually a "Fund" and, collectively, the "Funds") were organized as Maryland corporations on July 29, 2002. California and New York are registered as non-diversified, closed-end management investment companies and Intermediate is registered as a diversified, closed-end management investment company under the Investment Company Act of 1940, as amended. Each Fund's Board of Directors may classify or re-classify any unissued shares of capital stock into one or more classes of preferred stock without the approval of shareholders. The assets of each Fund belong only to that Fund, and the liabilities of each Fund are borne solely by that Fund and no other. The preparation of financial statements in accordance with U.S. generally accepted accounting principles requires Neuberger Berman Management Inc. ("Management") to make estimates and assumptions at the date of the financial statements. Actual results could differ from those estimates. 2 PORTFOLIO VALUATION: Investment securities are valued as indicated in the notes following the Funds' Schedule of Investments. 3 SECURITIES TRANSACTIONS AND INVESTMENT INCOME: Securities transactions are recorded on a trade date basis. Interest income, including accretion of discount (adjusted for original issue discount, where applicable) and amortization of premium, where applicable, is recorded on the accrual basis. Realized gains and losses from securities transactions are recorded on the basis of identified cost and stated in the Statements of Operations. 4 INCOME TAX INFORMATION: Each Fund is treated as a separate entity for U.S. Federal income tax purposes. It is the policy of each Fund to continue to qualify as a regulated investment company by complying with the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute substantially all of its earnings to its shareholders. Therefore, no Federal income or excise tax provision is required. Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities held by each Fund, timing differences and differing characterization of distributions made by each Fund as a whole. As determined on October 31, 2005, there were no permanent differences resulting from different book and tax accounting reclassified at year end. 28 The tax character of distributions paid during the years ended October 31, 2005 and October 31, 2004 was as follows: DISTRIBUTIONS PAID FROM: TAX-EXEMPT INCOME ORDINARY INCOME TOTAL 2005 2004 2005 2004 2005 2004 CALIFORNIA $ 6,020,445 $ 5,945,965 $ 2,558 $ 6,705 $ 6,023,003 $ 5,952,670 INTERMEDIATE 19,596,581 19,015,689 37,644 35,236 19,634,225 19,050,925 NEW YORK 5,108,368 5,050,381 2,708 2,299 5,111,076 5,052,680 As of October 31, 2005, the components of distributable earnings (accumulated losses) on a U.S. Federal income tax basis were as follows: UNDISTRIBUTED UNDISTRIBUTED UNDISTRIBUTED UNREALIZED LOSS TAX-EXEMPT ORDINARY LONG-TERM APPRECIATION CARRYFORWARDS INCOME INCOME GAIN (DEPRECIATION) AND DEFERRALS TOTAL CALIFORNIA $ 1,118,323 $ -- $ -- $ 3,071,222 $ (347,798) $ 3,841,747 INTERMEDIATE 2,510,716 -- -- 10,184,508 (1,144,403) 11,550,821 NEW YORK 752,100 -- -- 1,843,607 (595,949) 1,999,758 The difference between book basis and tax basis distributable earnings is attributable primarily to timing differences of distribution payments. To the extent each Fund's net realized capital gains, if any, can be offset by capital loss carryforwards, it is the policy of each Fund not to distribute such gains. As determined at October 31, 2005, the Funds had unused capital loss carryforwards available for Federal income tax purposes to offset net realized capital gains, if any, as follows: EXPIRING IN: EXPIRING IN: EXPIRING IN: 2011 2012 2013 CALIFORNIA $ 69,587 $ 273,734 $ 4,477 INTERMEDIATE 757,224 328,363 58,816 NEW YORK 420,475 156,636 18,838 5 DISTRIBUTIONS TO SHAREHOLDERS: Each Fund earns income, net of expenses, daily on its investments. It is the policy of each Fund to declare and pay distributions to common shareholders from net investment income on a monthly basis. Distributions from net realized capital gains, if any, are normally distributed in December. Income distributions and capital gain distributions to common shareholders are recorded on the ex-date. Distributions to preferred shareholders are accrued and determined as described in Note A-7. Subsequent to October 31, 2005, each Fund declared two monthly distributions to common shareholders payable December 15, 2005 and January 17, 2006, to shareholders of record on November 25, 2005 and December 27, 2005, respectively, with ex-dates of November 22, 2005 and December 22, 2005, respectively, as follows: DIVIDEND PER SHARE CALIFORNIA $ 0.06250 INTERMEDIATE 0.06625 NEW YORK 0.06500 29 6 EXPENSE ALLOCATION: Certain expenses are applicable to multiple funds. Expenses directly attributable to a Fund are charged to that Fund. Expenses borne by the complex of related investment companies, which includes open-end and closed-end investment companies for which Management serves as investment manager, that are not directly attributed to a Fund are allocated among the Funds and the other investment companies in the complex or series thereof on the basis of relative net assets, except where a more appropriate allocation of expenses to each investment company in the complex or series thereof can otherwise be made fairly. 7 REDEEMABLE PREFERRED SHARES: On October 21, 2002, the Funds re-classified unissued shares of capital stock into several series of Auction Market Preferred Shares ("AMPS"), as follows: SERIES A SHARES SERIES B SHARES CALIFORNIA 1,500 1,500 INTERMEDIATE 4,000 4,000 NEW YORK 1,500 1,500 On December 13, 2002, the Funds issued several series of AMPS, as follows: SERIES A SHARES SERIES B SHARES CALIFORNIA 1,180 1,180 INTERMEDIATE 3,588 3,588 NEW YORK 965 965 All shares of each series of AMPS have a liquidation preference of $25,000 per share plus any accumulated unpaid distributions, whether or not earned or declared by the Fund, but excluding interest thereon ("Liquidation Value"). Distributions to AMPS shareholders, which are cumulative, are accrued daily. It is the policy of each Fund to pay distributions every 7 days for each Fund's AMPS Series A and every 28 days for each Fund's AMPS Series B, unless in a special rate period. In the absence of a special rate period, distribution rates are reset every 7 days for each Fund's AMPS Series A, based on the results of an auction. Each Fund has approved a special rate period for its AMPS Series A of 728 days for California and New York and 546 days for Intermediate. The effective dates and distribution rates for each Fund are as follows: EFFECTIVE DATE DIVIDEND RATE CALIFORNIA October 23, 2003 1.70%(1) INTERMEDIATE October 24, 2003 1.65%(2) NEW YORK October 22, 2003 1.70%(3) (1) Special rate in effect through October 19, 2005. For the period October 20, 2005 through October 31, 2005 distribution rates ranged from 2.60% to 2.70%. (2) Special rate in effect through April 21, 2005. For the period April 22, 2005 through October 31, 2005 distribution rates ranged from 2.25% to 2.90%. (3) Special rate in effect through October 18, 2005. For the period October 19, 2005 through October 31, 2005 distribution rates ranged from 2.45% to 2.70%. 30 In the absence of a special rate period, distribution rates are reset every 28 days for each Fund's AMPS Series B, based on the results of an auction. Each Fund has approved a special rate period for its AMPS Series B of 546 days for California and Intermediate and 553 days for New York. The effective dates and distribution rates for each Fund are as follows: EFFECTIVE DATE DIVIDEND RATE CALIFORNIA March 11, 2004 1.170%(1) INTERMEDIATE March 15, 2004 1.185%(2) NEW YORK March 9, 2004 1.198%(3) (1) Special rate in effect through September 8, 2005. For the period September 9, 2005 through October 31, 2005 distribution rates ranged from 2.50% to 2.68%. (2) Special rate in effect through September 12, 2005. For the period September 13, 2005 through October 31, 2005 distribution rates ranged from 2.65% to 2.85%. (3) Special rate in effect through September 12, 2005. For the period September 13, 2005 through October 31, 2005 distribution rates ranged from 1.70% to 2.70%. The Funds declared distributions to AMPS shareholders for the period November 1, 2005 to November 30, 2005, for each series of the AMPS as follows: SERIES A SHARES SERIES B SHARES CALIFORNIA $ 64,620 $ 64,300 INTERMEDIATE 197,607 203,919 NEW YORK 52,861 51,195 The Funds may redeem shares of each series of AMPS, in whole or in part, on the second business day preceding any distribution payment date at Liquidation Value. The Funds are also subject to certain restrictions relating to the AMPS. Failure to comply with these restrictions could preclude the Funds from declaring any distributions to common shareholders or repurchasing common shares and/or could trigger the mandatory redemption of AMPS at Liquidation Value. The holders of AMPS are entitled to one vote per share and will vote with holders of common stock as a single class, except that the AMPS will vote separately as a class on certain matters, as required by law or the Funds' charter. The holders of a Fund's AMPS, voting as a separate class, are entitled at all times to elect two Directors of the Fund, and to elect a majority of the Directors of a Fund if the Fund failed to pay distributions on AMPS for two consecutive years. 8 CONCENTRATION OF RISK: The ability of the issuers of the debt securities held by the Funds to meet their obligations may be affected by economic developments, including those particular to a specific industry or region. The investment policies of California and New York involve investing substantially all of their assets in municipal bonds of issuers located in the state of California and the state of New York, respectively. This policy makes those Funds more susceptible to adverse economic, political, regulatory or other factors affecting the issuers of such municipal bonds than a fund that does not limit its investments to such issuers. 31 9 INDEMNIFICATIONS: Like many other companies, the Funds' organizational documents provide that their officers and directors are indemnified against certain liabilities arising out of the performance of their duties to the Funds. In addition, both in some of their principal service contracts and in the normal course of their business, the Funds enter into contracts that provide indemnifications to other parties for certain types of losses or liabilities. Each Fund's maximum exposure under these arrangements is unknown as this could involve future claims against each Fund. NOTE B--MANAGEMENT FEES, ADMINISTRATION FEES, AND OTHER TRANSACTIONS WITH AFFILIATES: Each Fund retains Management as its investment manager under a Management Agreement. For such investment management services, each Fund pays Management a fee at the annual rate of 0.25% of its average daily Managed Assets. Managed Assets equal the total assets of the Fund, less liabilities other than the aggregate indebtedness entered into for purposes of leverage. For purposes of calculating Managed Assets, the Liquidation Value of any AMPS outstanding is not considered a liability. Management has contractually agreed to waive a portion of the management fees it is entitled to receive from each Fund at the following annual rates: YEAR ENDED % OF AVERAGE OCTOBER 31, DAILY MANAGED ASSETS -- 2005 - 2007 0.25% 2008 0.20 2009 0.15 2010 0.10 2011 0.05 Management has not agreed to waive any portion of its fees beyond October 31, 2011. For the year ended October 31, 2005, such waived fees amounted to $402,264, $1,226,157, and $327,198 for California, Intermediate, and New York, respectively. Each Fund retains Management as its administrator under an Administration Agreement. Each Fund pays Management an administration fee at the annual rate of 0.30% of its average daily Managed Assets under this agreement. Additionally, Management retains State Street Bank and Trust Company ("State Street") as its sub-administrator under a Sub-Administration Agreement. Management pays State Street a fee for all services received under the agreement. Management and Neuberger Berman, LLC ("Neuberger"), a member firm of the New York Stock Exchange and sub-adviser to each Fund, are wholly-owned subsidiaries of Lehman Brothers Holdings Inc., a publicly-owned holding company. Neuberger is retained by Management to furnish it with investment recommendations and research information without added cost to each Fund. Several individuals who are officers and/or Directors of each Fund are also employees of Neuberger and/or Management. Each Fund has an expense offset arrangement in connection with its custodian contract. For the year ended October 31, 2005, the impact of this arrangement was a reduction of expenses of $1,238, $1,142, and $1,205 for California, Intermediate, and New York, respectively. 32 In connection with the settlement of each AMPS auction, each Fund pays, through the auction agent, a service fee to each participating broker-dealer based upon the aggregate liquidation preference of the AMPS held by the broker-dealer's customers. For any auction preceding a rate period of less than one year, the service fee is paid at the annual rate of 1/4 of 1%; for any auction preceding a rate period of one year or more, the service fee is paid at a rate agreed to by each Fund and the broker-dealer. Each Fund has paid Merrill Lynch a fee equal to 1/8 of 1% in connection with entering the special rate periods in return for which Merrill Lynch had agreed to pay dividends on the AMPS that, as a result of the auction, exceed a specified rate. In order to satisfy rating agencies' requirements, each Fund is required to provide each rating agency a report on a monthly basis verifying that each Fund is maintaining eligible assets having a discounted value equal to or greater than the Preferred Shares Basic Maintenance Amount, which is a minimum level set by each rating agency as one of the conditions to maintain the AAA/Aaa rating on the AMPS. "Discounted value" refers to the fact that the rating agencies require the Fund, in performing this calculation, to discount portfolio securities below their face value, at rates determined by the rating agencies. Each Fund pays a fee to State Street for the preparation of this report which is included in the "Basic Maintenance Expense" on the Statement of Operations. NOTE C--SECURITIES TRANSACTIONS: During the year ended October 31, 2005, there were purchase and sale transactions (excluding short-term securities) as follows: (000'S OMITTED) PURCHASES SALES CALIFORNIA $ 7,130 $ 5,105 INTERMEDIATE 11,480 8,061 NEW YORK 3,260 3,189 NOTE D--CAPITAL: At October 31, 2005, the common shares outstanding and the common shares of each Fund owned by Neuberger were as follows: COMMON SHARES COMMON SHARES OUTSTANDING OWNED BY NEUBERGER CALIFORNIA 6,791,981 6,981 INTERMEDIATE 20,705,124 6,981 NEW YORK 5,574,550 6,981 Transactions in common shares for the years ended October 31, 2005 and October 31, 2004, were as follows: REINVESTMENT OF DIVIDENDS AND NET INCREASE IN COMMON DISTRIBUTIONS SHARES OUTSTANDING 2005 2004 2005 2004 CALIFORNIA -- -- -- -- INTERMEDIATE -- -- -- -- NEW YORK -- -- -- -- 33 FINANCIAL HIGHLIGHTS CALIFORNIA INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM SEPTEMBER 27, 2002^ YEAR ENDED OCTOBER 31, TO OCTOBER 31, ----------------------------------- -------------------- 2005 2004 2003 2002 COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD $ 15.06 $ 14.36 $ 14.31 $ 14.32 ---------- ---------- ---------- -------------------- INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS)## .91 .91 .85 .02 NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED) (.40) .67 .14 -- COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM: NET INVESTMENT INCOME (.14) (.13) (.08) -- ---------- ---------- ----------

-------------------- TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS .37 1.45 .91 .02 ---------- ---------- ---------- -------------------- LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM: NET INVESTMENT INCOME (.75) (.75) (.75) -- ---------- ---------- ---------- -------------------- LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES -- -- -- (.03) ISSUANCE OF PREFERRED SHARES -- -- (.11) -- ---------- ---------- ---------- -------------------- TOTAL CAPITAL CHARGES -- -- (.11) (.03) ---------- ---------- ---------- -------------------- COMMON SHARE NET ASSET VALUE, END OF PERIOD $ 14.68 $ 15.06 $ 14.36 $ 14.31 ---------- ---------- ---------- -------------------- COMMON SHARE MARKET VALUE, END OF PERIOD $ 13.75 $ 13.47 $ 13.00 $ 15.00 ---------- ---------- ---------- -------------------- TOTAL RETURN, COMMON SHARE NET ASSET VALUE+ +2.96% +10.97% +6.02% -0.10%** TOTAL RETURN, COMMON SHARE MARKET VALUE+ +7.82% +9.63% -8.44% +0.00%** RATIOS/SUPPLEMENTAL DATA++ NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS) $ 99.7 $ 102.3 $ 97.5 $ 94.5 PREFERRED SHARES, AT LIQUIDATION VALUE ($25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS) $ 59.0 $ 59.0 $ 59.0 $ -- RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS# .96% .96% .88% .84%* RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS@@ .96% .96% .88% .83%* RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 6.08% 6.24% 5.88% 1.10%* RATIO OF PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS .91% .86% .56% --% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.17% 5.38% 5.32% 1.10%* PORTFOLIO TURNOVER RATE 3% 3% 9% 0%** ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@ $ 67,273 $ 68,383 $ 66,332 $ -- See Notes to Financial Highlights 34 FINANCIAL HIGHLIGHTS INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM SEPTEMBER 27, 2002^ YEAR ENDED OCTOBER 31, TO OCTOBER 31, ---------------------------------- -------------------- 2005 2004 2003 2002 COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD $ 15.11 $ 14.44 $ 14.30 $ 14.32 ---------- ---------- ---------- -------------------- INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS)## .95 .94 .88 .01 NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED) (.43) .65 .25 -- COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM: NET INVESTMENT INCOME (.15) (.12) (.09) -- ---------- ---------- ---------- -------------------- TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS .37 1.47 1.04 .01 ---------- ---------- ---------- -------------------- LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM: NET INVESTMENT INCOME (.80) (.80) (.80) -- ---------- ---------- ---------- -------------------- LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES -- -- -- (.03) ISSUANCE OF PREFERRED SHARES -- -- (.10) -- ---------- ---------- ---------- -------------------- TOTAL CAPITAL CHARGES -- -- (.10) (.03) ---------- ---------- ---------- -------------------- COMMON SHARE NET ASSET VALUE, END OF PERIOD $ 14.68 $ 15.11 $ 14.44 $ 14.30 ---------- ---------- ---------- -------------------- COMMON SHARE MARKET VALUE, END OF PERIOD $ 13.62 $ 13.70 $ 13.33 $ 15.00 ---------- ---------- ---------- -------------------- TOTAL RETURN, COMMON SHARE NET ASSET VALUE+ +2.93% +10.91% +6.88% -0.17%** TOTAL RETURN, COMMON SHARE MARKET VALUE+ +5.32% +8.94% -5.94% +0.00%** RATIOS/SUPPLEMENTAL DATA++ NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS) $ 303.9 $ 312.8 $ 299.1 $ 293.3 PREFERRED SHARES, AT LIQUIDATION VALUE ($25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS) $ 179.4 $ 179.4 $ 179.4 $ -- RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS# .80% .82% .74% .51%* RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS@@ .80% .82% .74% .51%* RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 6.33% 6.40% 6.08% 1.62%* RATIO OF PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 1.02% .85% .59% --% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET

ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.31% 5.55% 5.49% 1.62%* PORTFOLIO TURNOVER RATE 2% 3% 10% 0%** ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@ $ 67,368 $ 68,622 $ 66,694 $ -- See Notes to Financial Highlights 35 FINANCIAL HIGHLIGHTS NEW YORK INTERMEDIATE MUNICIPAL FUND The following table includes selected data for a share outstanding throughout each period and other performance information derived from the Financial Statements. PERIOD FROM SEPTEMBER 27, 2002^ YEAR ENDED OCTOBER 31, TO OCTOBER 31, ------------------------------------ -------------------- 2005 2004 2003 2002 COMMON SHARE NET ASSET VALUE, BEGINNING OF PERIOD $ 14.90 $ 14.40 $ 14.32 $ 14.32 ---------- ---------- ---------- -------------------- INCOME FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS: NET INVESTMENT INCOME (LOSS)## .93 .93 .86 .03 NET GAINS OR LOSSES ON SECURITIES (BOTH REALIZED AND UNREALIZED) (.44) .48 .19 -- COMMON SHARE EQUIVALENT OF DISTRIBUTIONS TO PREFERRED SHAREHOLDERS FROM: NET INVESTMENT INCOME (.14) (.13) (.08) -- ---------- ---------- ---------- -------------------- TOTAL FROM INVESTMENT OPERATIONS APPLICABLE TO COMMON SHAREHOLDERS .35 1.28 .97 .03 ---------- ---------- ---------- -------------------- LESS DISTRIBUTIONS TO COMMON SHAREHOLDERS FROM: NET INVESTMENT INCOME (.78) (.78) (.78) -- ---------- ---------- ---------- -------------------- LESS CAPITAL CHARGES: ISSUANCE OF COMMON SHARES -- -- -- (.03) ISSUANCE OF PREFERRED SHARES -- -- (.11) -- ---------- ---------- ---------- -------------------- TOTAL CAPITAL CHARGES -- -- (.11) (.03) ---------- ---------- ---------- -------------------- COMMON SHARE NET ASSET VALUE, END OF PERIOD $ 14.47 $ 14.90 $ 14.40 $ 14.32 ---------- ---------- ---------- -------------------- COMMON SHARE MARKET VALUE, END OF PERIOD $ 13.54 $ 13.32 $ 13.27 $ 15.00 ---------- ---------- ---------- -------------------- TOTAL RETURN, COMMON SHARE NET ASSET VALUE+ +2.87% +9.67% +6.36% -0.03%** TOTAL RETURN, COMMON SHARE MARKET VALUE+ +7.68% +6.39% -6.43% +0.00%** RATIOS/SUPPLEMENTAL DATA++ NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS, END OF PERIOD (IN MILLIONS) $ 80.7 $ 83.1 $ 80.3 $ 76.7 PREFERRED SHARES, AT LIQUIDATION VALUE ($25,000 PER SHARE LIQUIDATION PREFERENCE) (IN MILLIONS) $ 48.3 $ 48.3 $ 48.3 $ -- RATIO OF GROSS EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS# 1.02% 1.00% .92% .94%* RATIO OF NET EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS@@ 1.01% .99% .92% .93%* RATIO OF NET INVESTMENT INCOME (LOSS) EXCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 6.30% 6.37% 6.02% 1.22%* RATIO OF PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS .92% .86% .57% --% RATIO OF NET INVESTMENT INCOME (LOSS) INCLUDING PREFERRED SHARES DIVIDENDS TO AVERAGE NET ASSETS APPLICABLE TO COMMON SHAREHOLDERS 5.38% 5.51% 5.45% 1.22%* PORTFOLIO TURNOVER RATE 2% 5% 11% 0%** ASSET COVERAGE PER SHARE OF PREFERRED STOCK, END OF PERIOD@ $ 66,813 $ 68,073 $ 66,617 $ -- See Notes to Financial Highlights 36 NOTES TO FINANCIAL HIGHLIGHTS INTERMEDIATE MUNICIPAL CLOSED-END FUNDS + Total return based on per share net asset value reflects the effects of changes in net asset value on the performance of each Fund during each fiscal period. Total return based on per share market value assumes the purchase of common shares at the market price on the first day and sales of common shares at the market price on the last day of the period indicated. Dividends and distributions, if any, are assumed to be reinvested at prices obtained under each Fund's dividend reinvestment plan. Results represent past performance and do not guarantee future results. Current returns may be lower or higher than the performance data quoted. For each Fund, total return would have been lower if Management had not waived the investment management fee. Performance data current to the most recent month-end are available at www.nb.com. # The Fund is required to calculate an expense ratio without taking into consideration any expense reductions related to expense offset arrangements. @@ After waiver of investment management fee. Had Management not undertaken such action, the annualized ratios of net expenses to average daily net assets applicable to common shareholders would have been: PERIOD FROM YEAR ENDED OCTOBER 31, SEPTEMBER 27 TO 2005 2004 2003 OCTOBER 31, 2002 CALIFORNIA 1.36% 1.35% 1.26% 1.08% INTERMEDIATE 1.20% 1.22% 1.13% .76% NEW YORK 1.41% 1.39% 1.31% 1.18% ^ The date investment operations commenced. * Annualized. ** Not annualized. @ Calculated by subtracting the Fund's total liabilities (excluding accumulated unpaid dividends on AMPS) from the Fund's total assets and dividing by the number of AMPS outstanding. ++ Expense ratios do not include the effect of distribution payments to holders of AMPS. Income ratios include income earned on assets attributable to AMPS outstanding. ## Calculated based on the average number of shares outstanding during the fiscal period. 37 REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM To the Board of Directors and Shareholders of Neuberger Berman California Intermediate Municipal Fund Inc. Neuberger Berman Intermediate Municipal Fund Inc. Neuberger Berman New York Intermediate Municipal Fund Inc. We have audited the accompanying statements of assets and liabilities of Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman Intermediate Municipal Fund Inc., and Neuberger Berman New York Intermediate Municipal Fund Inc. (the "Funds"), including the schedules of investments, as of October 31, 2005, and the related statements of operations 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 periods indicated therein. These financial statements and financial highlights are the responsibility of the Funds' 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 audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. We were not engaged to perform an audit of the Funds' 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 Funds' 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 and financial highlights, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included confirmation of securities owned as of October 31, 2005, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. 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 Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman Intermediate Municipal Fund Inc., and Neuberger Berman New York Intermediate Municipal Fund Inc., at October 31, 2005, the results of their operations for the year then ended, the changes in their net assets for each of the two years in the period then ended, and their financial highlights for each of the periods indicated therein, in conformity with U.S. generally accepted accounting principles. /s/ Ernest & Young LLP Boston, Massachusetts December 9, 2005 38 DIVIDEND REINVESTMENT PLAN The Bank of New York ("Plan Agent") will act as Plan Agent for shareholders who have not elected in writing to receive dividends and distributions in cash (each a "Participant"), will open an account for each Participant under the Dividend Reinvestment Plan ("Plan") in the same name as their then current Shares are registered, and will put the Plan into effect for each Participant as of the first record date for a dividend or capital gains distribution. Whenever the Fund declares a dividend or distribution with respect to the common stock of the Fund ("Shares"), each Participant will receive such dividends and distributions in additional Shares, including fractional Shares acquired by the Plan Agent and credited to each Participant's account. If on the payment date for a cash dividend or distribution, the net asset value is equal to or less than the market price per Share plus estimated brokerage commissions, the Plan Agent shall automatically receive such Shares, including fractions, for each Participant's account. Except in the circumstances described in the next paragraph, the number of additional Shares to be credited to each Participant's account shall be determined by dividing the dollar amount of the dividend or distribution payable on their Shares by the greater of the net asset value per Share determined as of the date of purchase or 95% of the then current market price per Share on the payment date. Should the net asset value per Share exceed the market price per Share plus estimated brokerage commissions on the payment date for a cash dividend or distribution, the Plan Agent or a broker-dealer selected by the Plan Agent shall endeavor, for a purchase period lasting until the last business day before the next date on which the Shares trade on an "ex-dividend" basis, but in no event, except as provided below, more than 30 days after the dividend payment date, to apply the amount of such dividend or distribution on each Participant's Shares (less their PRO RATA share of brokerage commissions incurred with respect to the Plan Agent's open-market purchases in connection with the reinvestment of such dividend or distribution) to purchase Shares on the open market for each Participant's account. No such purchases may be made more than 30 days after the payment date for such dividend except where temporary curtailment or suspension of purchase is necessary to comply with applicable provisions of federal securities laws. If, at the close of business on any day during the purchase period the net asset value per Share equals or is less than the market price per Share plus estimated brokerage commissions, the Plan Agent will not make any further open-market purchases in connection with the reinvestment of such dividend or distribution. If the Plan Agent is unable to invest the full dividend or distribution amount through open-market purchases during the purchase period, the Plan Agent shall request that, with respect to the uninvested portion of such dividend or distribution amount, the Fund issue new Shares at the close of business on the earlier of the last day of the purchase period or the first day during the purchase period on which the net asset value per Share equals or is less than the market price per Share, plus estimated brokerage commissions, such Shares to be issued in accordance with the terms specified in the third paragraph hereof. These newly issued Shares will be valued at the then-current market price per Share at the time such Shares are to be issued. For purposes of making the dividend reinvestment purchase comparison under the Plan, (a) the market price of the Shares on a particular date shall be the last sales price on the New York Stock Exchange (or if the Shares are not listed on the New York Stock Exchange, such other exchange on which the Shares are principally traded) on that date, or, if there is no sale on such Exchange (or if not so listed, in the over-the-counter market) on that date, then the mean between the closing bid and asked quotations for such Shares on such Exchange on such date and (b) the net asset value per Share on a particular date shall be the net asset value per Share most recently calculated by or on behalf of the Fund. All dividends, distributions and other payments (whether made in cash or Shares) shall be made net of any applicable withholding tax. Open-market purchases provided for above may be made on any securities exchange where the Fund's Shares are traded, in the over-the-counter market or in negotiated transactions and may be on such terms as to price, delivery and otherwise as the Plan Agent shall determine. Each Participant's uninvested funds held by the Plan Agent will not bear interest, and it is understood that, in any event, the Plan Agent shall have no liability in connection with any inability to purchase Shares within 30 days after the initial date of such purchase as herein provided, or with the timing of any purchases effected. The Plan Agent shall have no responsibility as to the value of the Shares acquired for each Participant's account. For the purpose of cash investments, the Plan Agent may commingle each Participant's funds with those of other shareholders of the Fund for whom the Plan Agent similarly acts as agent, and the average price (including brokerage commissions) of all Shares purchased by the Plan Agent as Plan Agent shall be the price per Share allocable to each Participant in connection therewith. 39 The Plan Agent may hold each Participant's Shares acquired pursuant to the Plan together with the Shares of other shareholders of the Fund acquired pursuant to the Plan in noncertificated form in the Plan Agent's name or that of the Plan Agent's nominee. The Plan Agent will forward to each Participant any proxy solicitation material and will vote any Shares so held for each Participant only in accordance with the instructions set forth on proxies returned by the participant to the Fund. The Plan Agent will confirm to each Participant each acquisition made for their account as soon as practicable but not later than 60 days after the date thereof. Although each Participant may from time to time have an undivided fractional interest (computed to three decimal places) in a Share, no certificates for a fractional Share will be issued. However, dividends and distributions on fractional Shares will be credited to each Participant's account. In the event of termination of a Participant's account under the Plan, the Plan Agent will adjust for any such undivided fractional interest in cash at the market value of the Shares at the time of termination, less the PRO RATA expense of any sale required to make such an adjustment. Any Share dividends or split Shares distributed by the Fund on Shares held by the Plan Agent for Participants will be credited to their accounts. In the event that the Fund makes available to its shareholders rights to purchase additional Shares or other securities, the Shares held for each Participant under the Plan will be added to other Shares held by the Participant in calculating the number of rights to be issued to each Participant. The Plan Agent's service fee for handling capital gains distributions or income dividends will be paid by the Fund. Participants will be charged their PRO RATA share of brokerage commissions on all open-market purchases. Each Participant may terminate their account under the Plan by notifying the Plan Agent in writing. Such termination will be effective immediately if the Participant's notice is received by the Plan Agent not less than ten days prior to any dividend or distribution record date, otherwise such termination will be effective the first trading day after the payment date for such dividend or distribution with respect to any subsequent dividend or distribution. The Plan may be terminated by the Plan Agent or the Fund upon notice in writing mailed to each Participant at least 30 days prior to any record date for the payment of any dividend or distribution by the Fund. These terms and conditions may be amended or supplemented by the Plan Agent or the Fund at any time or times but, except when necessary or appropriate to comply with applicable law or the rules or policies of the Securities and Exchange Commission or any other regulatory authority, only by mailing to each Participant appropriate written notice at least 30 days prior to the effective date thereof. The amendment or supplement shall be deemed to be accepted by each Participant unless, prior

to the effective date thereof, the Plan Agent receives written notice of the termination of their account under the Plan. Any such amendment may include an appointment by the Plan Agent in its place and stead of a successor Plan Agent under these terms and conditions, with full power and authority to perform all or any of the acts to be performed by the Plan Agent under these terms and conditions. Upon any such appointment of any Plan Agent for the purpose of receiving dividends and distributions, the Fund will be authorized to pay to such successor Plan Agent, for each Participant's account, all dividends and distributions payable on Shares held in their name or under the Plan for retention or application by such successor Plan Agent as provided in these terms and conditions. The Plan Agent shall at all times act in good faith and agrees to use its best efforts within reasonable limits to ensure the accuracy of all services performed under this Agreement and to comply with applicable law, but assumes no responsibility and shall not be liable for loss or damage due to errors unless such error is caused by the Plan Agent's negligence, bad faith, or willful misconduct or that of its employees. These terms and conditions shall be governed by the laws of the State of Maryland. 40 DIRECTORY INVESTMENT MANAGER AND ADMINISTRATOR Neuberger Berman Management Inc. 605 Third Avenue, 2nd Floor New York, NY 10158-0180 877.461.1899 or 212.476.8800 SUB-ADVISER Neuberger Berman, LLC 605 Third Avenue New York, NY 10158-3698 CUSTODIAN State Street Bank and Trust Company 225 Franklin Street Boston, MA 02110 STOCK TRANSFER AGENT Bank of New York 101 Barclay Street, 11-E New York, NY 10286 LEGAL COUNSEL Kirkpatrick & Lockhart Nicholson Graham LLP 1800 Massachusetts Avenue, NW 2nd Floor Washington, DC 20036 INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM Ernst & Young LLP 200 Clarendon Street Boston, MA 02116 41 DIRECTORS AND OFFICERS The following tables set forth information concerning the directors and officers of the Fund. All persons named as directors and officers also serve in similar capacities for other funds administered or managed by Management and Neuberger. The Statement of Additional Information for the Fund includes additional information about Fund directors and is available upon request, without charge, by calling (877) 461-1899. INFORMATION ABOUT THE BOARD OF DIRECTORS NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS(1) AND LENGTH OF TIME OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE POSITION(2) WITH FUND SERVED PRINCIPAL OCCUPATION(S)(4) DIRECTOR(5) FUND COMPLEX BY DIRECTOR
--- CLASS I INDEPENDENT FUND DIRECTORS Faith Colish (70) Since the Counsel, Carter Ledyard & 45 Director, American Bar Retirement Director inception of the Milburn LLP (law firm) since Association (ABRA) since 1997 Fund(3) October 2002; formerly, (not-for-profit membership Attorney-at-Law and President, association). Faith Colish, A Professional Corporation, 1980 to 2002. C. Anne Harvey (68) Since the Consultant, C.A. Harvey 45 President, Board of Associates to Director inception of the Associates since June 2001; The National Rehabilitation Fund(3) formerly, Director, AARP, 1978 Hospital's Board of Directors to December 2001. since 2002; formerly, Member, Individual Investors Advisory Committee to the New York Stock Exchange Board of Directors, 1998 to June 2002; formerly, Member, American Savings Education Council's Policy Board (ASEC), 1998 to 2000; formerly, Member, Executive Committee, Crime Prevention Coalition of America, 1997 to 2000. Cornelius T. Ryan (74) Since the Founding General Partner, 45 Director, Capital Cash Management Director inception of the Oxford Partners and Oxford Trust (money market fund), Fund(3) Bioscience Partners (venture Naragansett Insured Tax-Free capital partnerships) and Income Fund, Rocky Mountain Equity President, Oxford Venture Fund, Prime Cash Fund, several Corporation. private companies and QuadraMed Corporation (NASDAQ). 42 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS(1) AND LENGTH OF TIME OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE POSITION(2) WITH FUND SERVED PRINCIPAL OCCUPATION(S)(4) DIRECTOR(5) FUND COMPLEX BY DIRECTOR
--- Peter P. Trapp (61) Since the Regional Manager for Atlanta 45 None. Director inception of the Region, Ford Motor Credit Fund(3) Company since August 1997; formerly, President, Ford Life Insurance Company, April 1995 to August 1997. DIRECTOR WHO IS AN "INTERESTED PERSON" Peter E. Sundman* (46) Since the Executive Vice President, 45 Director and Vice President, Chief Executive Officer, inception of the Neuberger Berman Inc. (holding Neuberger & Berman Agency, Inc. Director and Chairman of the Fund(3) company) since 1999; Head of since 2000; formerly, Director, Board Neuberger Berman Inc.'s Mutual Neuberger Berman Inc. (holding Funds Business (since 1999) company) from October 1999 to and Institutional Business March 2003; Trustee, Frost Valley (from 1999 to October

2005); YMCA. responsible for Managed Accounts Business and intermediary distribution since October 2005; President and Director, Management since 1999; Executive Vice President, Neuberger since 1999; formerly, Principal, Neuberger from 1997 to 1999; formerly, Senior Vice President, Management from 1996 to 1999. CLASS II INDEPENDENT FUND DIRECTORS John Cannon (75) Since the Consultant. Formerly, 45 Independent Trustee or Director of Director inception of the Chairman, CDC Investment three series of Oppenheimer Funds: Fund(3) Advisers (registered Limited Term New York Municipal investment adviser), 1993 to Fund, Rochester Fund Municipals, January 1999; formerly, and Oppenheimer Convertible President and Chief Executive Securities Fund, since 1992. Officer, AMA Investment Advisors, an affiliate of the American Medical Association. 43 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS(1) AND LENGTH OF TIME OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE POSITION(2) WITH FUND SERVED PRINCIPAL OCCUPATION(S)(4) DIRECTOR(5) FUND COMPLEX BY DIRECTOR
--- Barry Hirsch (72) Since the Attorney-at-Law. Formerly, 45 None. Director inception of Senior Counsel, Loews the Fund(3) Corporation (diversified financial corporation) May 2002 to April 2003; formerly, Senior Vice President, Secretary and General Counsel, Loews Corporation. Tom D. Seip (55) Since the General Partner, Seip 45 Director, H&R Block, Inc. Director inception of Investments LP (a private (financial services company) since the Fund(3) investment partnership); May 2001; Director, Forward formerly, President and CEO, Management, Inc. (asset Westaff, Inc. (temporary management) since 2001; formerly, staffing), May 2001 to January Director, General Magic (voice 2002; Senior Executive at the recognition software) 2001 to Charles Schwab Corporation 2002; formerly, Director, from 1983 to 1999, including E-Finance Corporation (credit Chief Executive Officer, decisioning services) 1999 to Charles Schwab Investment 2003; formerly, Director, Management, Inc. and Trustee, Save-Daily.com (micro investing Schwab Family of Funds and services) 1999 to 2003; Director, Schwab Investments from 1997 Offroad Capital Inc. (pre-public to 1998; and Executive Vice internet commerce company). President-Retail Brokerage, Charles Schwab Investment Management from 1994 to 1997. 44 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS(1) AND LENGTH OF TIME OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE POSITION(2) WITH FUND SERVED PRINCIPAL OCCUPATION(S)(4) DIRECTOR(5) FUND COMPLEX BY DIRECTOR

DIRECTOR WHO IS AN "INTERESTED PERSON" Jack L. Rivkin* (65) Since 2002(3) Executive Vice President and 45 Director, Dale Carnegie and President and Director Chief Investment Officer, Associates, Inc. (private company) Neuberger Berman Inc. (holding since 1998; Director, Emagin Corp. company) since 2002 and 2003, (public company) since 1997; respectively; Executive Vice Director, Solbright, Inc. (private President and Chief Investment company) since 1998; Director, Officer, Neuberger since Infogate, Inc. (private company) December 2002 and 2003, since 1997; Director, Broadway respectively; Director and Television Network (private Chairman, Management since company) since 2000. December 2002; formerly, Executive Vice President, Citigroup Investments, Inc. from September 1995 to February 2002; formerly, Executive Vice President, Citigroup Inc. from September 1995 to February 2002. CLASS III INDEPENDENT FUND DIRECTORS Robert A. Kavesh (78) Since the Marcus Nadler Professor 45 Director, The Caring Community Director inception of Emeritus of Finance and (not-for-profit); formerly, the Fund(3) Economics, New York University Director, DEL Laboratories, Inc. Stern School of Business; (cosmetics and pharmaceuticals), formerly, Executive 1978 to 2004; formerly, Director, Secretary-Treasurer, American Apple Bank for Savings, 1979 to Finance Association, 1961 to 1990; formerly, Director, Western 1979. Pacific Industries, Inc., 1972 to 1986 (public company). 45 NUMBER OF PORTFOLIOS IN FUND COMPLEX NAME, AGE, ADDRESS(1) AND LENGTH OF TIME OVERSEEN BY OTHER DIRECTORSHIPS HELD OUTSIDE POSITION(2) WITH FUND SERVED PRINCIPAL OCCUPATION(S)(4) DIRECTOR(5) FUND COMPLEX BY DIRECTOR
--- Howard A. Mileaf (68) Since the Retired. Formerly, Vice 45 Director, WHX Corporation (holding Director inception of President and Special Counsel, company) since August 2002; the Fund(3) WHX Corporation (holding Director, Webfinancial Corporation company) 1993 to 2001. (holding company) since December 2002; Director, State Theatre of New Jersey (not-for-profit theater) since 2000; formerly, Director, Kevlin Corporation (manufacturer of microwave and other products). Edward I. O'Brien (77) Since the Formerly, Member, Investment 45 Director, Legg Mason, Inc.

Director inception of Policy Committee, Edward (financial services holding the Fund(3) Jones, 1993 to 2001; company) since 1993; formerly, President, Securities Industry Director, Boston Financial Group Association ("SIA") (real estate and tax shelters) (securities industry's 1993 to 1999. representative in government relations and regulatory matters at the federal and state levels) 1974 to 1992; Adviser to SIA, November 1992 to November 1993. William E. Rulon (73) Since the Retired. Formerly, Senior Vice 45 Director, Pro-Kids Golf and Director inception of President, Foodmaker, Inc. Learning Academy (teach golf and the Fund(3) (operator and franchiser of computer usage to "at risk" restaurants) until January children) since 1998; formerly, 1997. Director, Prandium, Inc. (restaurants) from March 2001 to July 2002. Candace L. Straight (58) Since the Private investor and 45 Director, The Proformance Director inception of consultant specializing in the Insurance Company (personal lines the Fund(3) insurance industry; formerly, property and casualty insurance Advisory Director, Securitas company) since March 2004; Capital LLC (a global private Director, Providence Washington equity investment firm (property and casualty insurance dedicated to making company) since December 1998; investments in the insurance Director, Summit Global Partners sector) 1998 to December 2002. (insurance brokerage firm) since October 2000. 46 (1) The business address of each listed person is 605 Third Avenue, New York, New York 10158. (2) The Board of Directors shall at times be divided as equally as possible into three classes of Directors designated Class I, Class II, and Class III. The terms of office of Class I, Class II, and Class III Directors shall expire at the annual meeting of shareholders held in 2006, 2007, and 2008, respectively, and at each third annual meeting of stockholders thereafter. (3) The Director has served since the Fund's inception except for Mr. Rivkin who has served as a Director since December 2002 for the Funds with an inception date of 2002. The inception date of Neuberger Berman Intermediate Municipal Fund Inc., Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman New York Intermediate Municipal Fund Inc., and Neuberger Berman Real Estate Income Fund Inc. is 2002. The inception date of Neuberger Berman Realty Income Fund Inc., Neuberger Berman Real Estate Securities Income Fund Inc. and Neuberger Berman Income Opportunity Fund Inc. is 2003. The inception date of Neuberger Berman Dividend Advantage Fund Inc. is 2004. (4) Except as otherwise indicated, each individual has held the positions shown for at least the last five years. (5) For funds organized in a master-feeder structure, we count the master fund and its associated feeder funds as a single portfolio. * Indicates a Director who is an "interested person" within the meaning of the 1940 Act. Mr. Sundman and Mr. Rivkin are interested persons of the Fund by virtue of the fact that they are officers and/or directors of Management and Executive Vice Presidents of Neuberger Berman. 47 INFORMATION ABOUT THE OFFICERS OF THE FUND POSITION AND NAME, AGE, AND ADDRESS (1) LENGTH OF TIME SERVED PRINCIPAL OCCUPATION(S) (2) --- Michael J. Bradler (35) Assistant Treasurer since 2005 Employee, Management since 1997; Assistant Treasurer, fifteen registered investment companies for which Management acts as investment manager and administrator since 2005. Claudia A. Brandon (49) Secretary since the Fund's Vice President-Mutual Fund Board Relations, Management since inception (3) 2000 and Assistant Secretary since 2004; Vice President, Neuberger since 2002 and employee since 1999; Assistant Secretary, Management since 2004; formerly, Vice President, Management from 1986 to 1999; Secretary, fifteen registered investment companies for which Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004 and one since 2005). Robert Conti (49) Vice President since the Fund's Senior Vice President, Neuberger since 2003; formerly, Vice inception (3) President, Neuberger from 1999 to 2003; Senior Vice President, Management since 2000; formerly, Controller, Management until 1996; formerly, Treasurer, Management from 1996 to 1999; Vice President, fifteen registered investment companies for which Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004 and one since 2005). Brian J. Gaffney (52) Vice President since the Fund's Managing Director, Neuberger since 1999; Senior Vice inception (3) President, Management since 2000; formerly, Vice President, Management from 1997 to 1999; Vice President, fifteen registered investment companies for which Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004 and one since 2005). 48 POSITION AND NAME, AGE, AND ADDRESS (1) LENGTH OF TIME SERVED PRINCIPAL OCCUPATION(S) (2) --- Sheila R. James (40) Assistant Secretary since the Employee, Neuberger since 1999; formerly, Employee, Fund's inception (3) Management from 1991 to 1999; Assistant Secretary, fifteen registered investment companies for which Management

acts as investment manager and administrator (seven since 2002, three since 2003, four since 2004 and one since 2005). Kevin Lyons (50) Assistant Secretary since 2003 Employee, Neuberger since 1999; formerly, Employee, (4) Management from 1993 to 1999; Assistant Secretary, fifteen registered investment companies for which Management acts as investment manager and administrator (ten since 2003, four since 2004 and one since 2005). John M. McGovern (35) Treasurer and Principal Vice President, Neuberger since January 2004; Employee, Financial and Accounting Officer Management since 1993; Treasurer and Principal Financial and since 2005; prior thereto, Accounting Officer, fifteen registered investment companies Assistant Treasurer since the for which Management acts as investment manager and Fund's inception (3) administrator (fifteen since 2005); formerly, Assistant Treasurer, fifteen registered investment companies for which Management acts as investment manager and administrator from 2002 to 2005. Frank Rosato (34) Assistant Treasurer since 2005 Employee, Management since 1995; Assistant Treasurer, fifteen registered investment companies for which Management acts as investment manager and administrator since 2005. Frederic B. Soule (59) Vice President since the Fund's Senior Vice President, Neuberger since 2003; formerly, Vice inception (3) President, Neuberger from 1999 to 2003; formerly, Vice President, Management from 1995 to 1999; Vice President, fifteen registered investment companies for which Management acts as investment manager and administrator (three since 2000, four since 2002, three since 2003, four since 2004 and one since 2005). 49 POSITION AND NAME, AGE, AND ADDRESS (1) LENGTH OF TIME SERVED PRINCIPAL OCCUPATION(S) (2)

Chamaine Williams (34) Chief Compliance Officer since Vice President, Lehman Brothers Inc. since 2003; Chief 2005 Compliance Officer, fifteen registered investment companies for which Management acts as investment manager and administrator (fifteen since 2005); Chief Compliance Officer, Lehman Brothers Asset Management Inc. since 2003; Chief Compliance Officer, Lehman Brothers Alternative Investment Management LLC since 2003; formerly, Vice President, UBS Global Asset Management (US) Inc. (formerly, Mitchell Hutchins Asset Management, a wholly-owned subsidiary of PaineWebber Inc.) from 1997-2003. ---------- (1) The business address of each listed person is 605 Third Avenue, New York, New York 10158. (2) Except as otherwise indicated, each individual has held the positions shown for at least the last five years. (3) The officer has served since the Fund's inception. The inception date of Neuberger Berman Intermediate Municipal Fund, Inc., Neuberger Berman California Intermediate Municipal Fund, Inc., Neuberger Berman New York Intermediate Municipal Fund, Inc., and Neuberger Berman Real Estate Income Fund is 2002. The inception date of Neuberger Berman Realty Income Fund, Inc., Neuberger Berman Real Estate Securities Income Fund, Inc. and Neuberger Berman Income Opportunity Fund, Inc. is 2003. The inception date of the Neuberger Berman Dividend Advantage Fund, Inc. is 2004. (4) For Neuberger Berman Dividend Advantage Fund, Inc., the officer has served since the Fund's inception in March 2004. 50 PROXY VOTING POLICIES AND PROCEDURES A description of the policies and procedures that the Funds use to determine how to vote proxies relating to portfolio securities is available, without charge, by calling 1-800-877-9700 (toll-free) and on the website of the Securities and Exchange Commission at www.sec.gov. Information regarding how the Funds voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is also available, without charge, by calling 1-800-877-9700 (toll-free), on the website of the Securities and Exchange Commission at www.sec.gov, and on the Funds' website at www.nb.com. QUARTERLY PORTFOLIO SCHEDULE The Funds file a complete schedule of portfolio holdings for each Fund with the Securities and Exchange Commission for the first and third quarters of each fiscal year on Form N-Q. The Funds' Forms N-Q are available on the Securities and Exchange Commission's website at www.sec.gov and may be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. The information on Form N-Q is available upon request, without charge, by calling (800) 877-9700 (toll-free). 51 NOTICE TO SHAREHOLDERS In January 2006 you will receive information to be used in filing your 2005 tax returns, which will include a notice of the exact tax status of all dividends paid to you by each Fund during calendar 2005. Please consult your own tax advisor for details as to how this information should be reflected on your tax returns. For the fiscal year ended October 31, 2005, the percentages representing the portion of distributions from net investment income, which are exempt from federal income tax, other than alternative minimum tax are as follows: NEUBERGER BERMAN
-- California Intermediate Municipal Fund Inc. 99.96% Intermediate Municipal Fund Inc. 99.81% New York Intermediate Municipal Fund Inc. 99.95% 52 BOARD

CONSIDERATION OF THE MANAGEMENT AND SUB-ADVISORY AGREEMENTS At a meeting held on September 21, 2005, the Boards of Directors (collectively the "Boards," each a "Board") of Neuberger Berman California Intermediate Municipal Fund Inc., Neuberger Berman Intermediate Municipal Fund Inc. and Neuberger Berman New York Intermediate Municipal Fund Inc. (each a "Fund"), including the Directors who are not "interested persons" of each Fund ("Independent Fund Directors"), approved continuance of the Management and Sub-Advisory Agreements ("Agreements") for each Fund. In evaluating the Agreements, the Boards, including the Independent Fund Directors, reviewed materials furnished by Management and Neuberger Berman, LLC ("Neuberger") in response to questions submitted by counsel to the Independent Fund Directors, and met with senior representatives of Management and Neuberger regarding their personnel and operations. The Independent Fund Directors were advised by counsel that is experienced in Investment Company Act of 1940 matters and that is independent of Management and Neuberger. The Independent Fund Directors received a memorandum from independent counsel discussing the legal standards for their consideration of the proposed continuance of the Agreements. They met with such counsel separately from representatives of Management to discuss the annual contract review. The annual contract review extends over two regular meetings of the Boards to ensure that Management and Neuberger have time to respond to any questions the Independent Fund Directors may have on their initial review of the report and that the Independent Fund Directors have time to consider those responses. In addition, during this process, the Boards held a separate meeting devoted to reviewing and discussing Fund performance. Each Board considered the following factors, among others, in connection with its approval of the continuance of the Agreements: (1) the nature, extent, and quality of the services to be provided by Management and Neuberger; (2) the performance of each Fund compared to relevant market indices and a peer group of investment companies; (3) the costs of the services to be provided and profits historically realized by Management and its affiliates from the relationship with the Funds; (4) the extent to which economies of scale might be realized as each Fund grows; and (5) whether fee levels reflect those potential economies of scale for the benefit of investors in each Fund. In their deliberations, the members of each Board did not identify any particular information that was all-important or controlling, and each Director may have attributed different weights to the various factors. Each Board evaluated the terms of the Agreements and whether the Agreements were in the best interests of each Fund and its shareholders. Each Board considered, with respect to each Fund, the nature, extent and quality of the services provided under the Agreements and the overall fairness of the Agreements to the Funds. The Boards requested and evaluated a report from Management and Neuberger that addressed specific factors designed to inform the Boards' consideration of these and other issues. The Boards also retained an independent consultant to provide additional data. With respect to the nature, extent and quality of the services provided, each Board considered the performance of each Fund and the degree of risk undertaken by the portfolio manager(s). The Boards considered the experience and staffing of portfolio management and the investment research personnel of Management and Neuberger dedicated to performing services for the Funds. The Boards noted that Management also provides certain administrative services, including fund accounting and compliance oversight. The Boards also considered Management's and Neuberger's policies and practices regarding brokerage and allocation of portfolio transactions for the Funds. In addition, the Boards noted the positive compliance history of Management and Neuberger, as each firm has been free of significant compliance problems. With respect to the performance of each Fund, each Board considered the performance of each Fund on both a market return and net asset value basis relative to its benchmark and a peer group of investment companies pursuing broadly similar strategies. Each Board also considered the performance in relation to the degree of risk undertaken by the portfolio manager(s). In the case of those Funds that had underperformed their peer group and/or relevant market indices, each Board discussed each Fund's performance with Management and discussed steps that Management had taken, or intended to take, to improve each Fund's performance. The Boards also considered Management's resources and responsiveness with respect to the Funds that experienced lagging performance. With respect to the overall fairness of the Agreements, the Boards considered the fee structure of the Agreements as compared to a peer group of comparable funds and any fall-out benefits likely to accrue to Management or Neuberger or their affiliates. The Boards also considered the profitability of Management and its affiliates from their association with the Funds. 53 The Boards received a detailed report from an independent consultant that compares each Fund's management fee and overall expense ratio to a peer group of comparable funds. Each Board considered the range and average of the management fees and expense ratios of the peer group. With regard to the sub-advisory fee paid to Neuberger, the Boards noted that this fee is reflective of an "at cost" basis and there is no profit to Neuberger with regard to these fees. Each Board considered each Fund's overall expenses in relation to the overall expenses of the peer group median. In addition, each Board considered the contractual waiver of a portion of the management fee undertaken by Management for each Fund. The Boards considered whether there were other funds that were sub-advised by Management or its affiliates or separate accounts managed by Management with similar investment objectives, policies and strategies as the Funds. The Boards noted that there were no comparable sub-advised funds or separate accounts. Each Board also evaluated any actual or anticipated economies of scale in relation to the services Management provides to each Fund. The Boards considered that each Fund was a closed-end fund that is not continuously offering shares and that, without daily inflows and outflows of capital, there were not at this time significant economies of scale to be realized by Management in managing each Fund's assets. In concluding that the benefits accruing to Management and its affiliates by virtue of their relationship to the Funds were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to each Fund, each Board reviewed specific data as to Management's profit or loss on each Fund for a recent period and the trend in profit or loss since each Fund's inception. The Boards also carefully examined Management's cost allocation methodology and had an independent expert review the methodology. It also reviewed an analysis from an independent data service on investment management profitability margins. The Boards also reviewed whether Management and Neuberger used brokers to execute Fund transactions that provide research and other services to Management and Neuberger, and the types of benefits potentially derived by the Funds and by other clients of Management and Neuberger from such services. The Boards recognized that Management should be entitled to earn a reasonable level of profits for services it provides to the Funds and, based on its review, concluded it was satisfied that Management's level of profitability from its relationship with the Funds was not excessive. CONCLUSIONS In approving the Agreements, each Board concluded that the terms of each Agreement are fair and reasonable and that approval of the Agreements is in the best interest of each Fund and its shareholders. In reaching this determination, each Board considered that Management and Neuberger could be expected to provide a high level of service to each Fund; in the case of underperforming Funds, that it retained confidence in Management's and Neuberger's capabilities to manage the Funds; that each Fund's fee structure appeared to each Board to be reasonable given the quality of services expected to be provided; and that the benefits accruing to Management and its affiliates by virtue of their relationship to the Funds were reasonable in comparison with the costs of providing the investment advisory services and the benefits accruing to each Fund. 54 [NEUBERGER BERMAN LOGO] A LEHMAN BROTHERS COMPANY NEUBERGER BERMAN MANAGEMENT INC. 605 Third Avenue, 2nd Floor New York, NY 10158-0180 INTERNAL SALES & SERVICES 877.461.1899 www.nb.com Statistics and projections in this report are derived from sources deemed to be reliable but cannot be regarded as a representation of future results of the Funds. This report is prepared for the general information of shareholders and is not an offer of shares of the Funds. [RECYCLED SYMBOL] CO435 12/05 ITEM 2. CODE OF ETHICS The Board of Neuberger Berman California Intermediate Municipal Fund Inc. ("Registrant") adopted a code of ethics that applies to the Registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions ("Code of Ethics"). A copy of the Code of Ethics is filed as Exhibit 12(a)(1) to this Form N-CSR. The Code of Ethics is also available, without charge, by calling 1-800-877-9700 (toll-free). ITEM 3. AUDIT COMMITTEE FINANCIAL EXPERT The Board has determined that the Registrant has two audit committee financial experts serving on its audit committee. The Registrant's audit committee financial experts are John Cannon and Howard Mileaf. Mr. Cannon and Mr.Mileaf are independent directors as defined by Form N-CSR. ITEM 4. PRINCIPAL ACCOUNTANT FEES AND SERVICES Ernst & Young, LLP ("E&Y") serves as independent registered public accounting firm to the Registrant. (a) Audit Fees ---------- The aggregate fees billed for professional services rendered by E&Y for the audit of the annual financial statements or services that are normally provided by E&Y in connection with statutory and regulatory filings or engagements for those fiscal years were $31,250 and $31,250 for the fiscal years ended 2004 and 2005, respectively. (b) Audit-Related Fees ------------------ The aggregate fees billed to the Registrant in each of the last two fiscal years for assurance and related services by E&Y that are reasonably related to the performance of the audit of the Registrant's financial statements and are not reported above in AUDIT FEES were $5,000 and $6,000 for the fiscal years ended 2004 and 2005, respectively. The nature of the services provided involved agreed upon procedures relating to preferred shares. The Audit Committee approved 0% and 0% of these services provided by E&Y for the fiscal years ended 2004 and 2005, respectively, pursuant to the waiver provisions of Rule 2-01(c)(7)(i)(C) of Regulation S-X. The fees billed to other entities in the investment company complex for assurance and related services by E&Y that are reasonably related to the performance of the audit that the Audit Committee was required to approve because the engagement related directly to the operations and financial reporting of the Registrant were $0 and $0 for the fiscal years ended 2004 and 2005, respectively. (c) Tax Fees -------- The aggregate fees billed to the Registrant for professional services rendered by E&Y for tax compliance, tax advice, and tax planning were $8,700 and $8,700 for the fiscal years ended 2004 and 2005, respectively. The nature of the services provided was tax compliance, tax advice, and tax planning. The Audit Committee approved 0% and 0% of these services provided by E&Y for the fiscal years ended 2004 and 2005, respectively, pursuant to the waiver provisions of Rule 2-01(c)(7)(i)(C) of Regulation S-X. The fees billed to other entities in the investment company complex for tax compliance, tax advice, and tax planning that the Audit Committee was required to approve because the engagement related directly to the operations and financial reporting of the Registrant were $0 and $0 for the fiscal years ended 2004 and 2005, respectively. (d) All Other Fees ------------- The aggregate fees billed to the Registrant for products and services provided by E&Y, other than services reported in AUDIT FEES, AUDIT-RELATED FEES, and TAX FEES were $0 and $0 for the fiscal years ended 2004 and 2005, respectively. The fees billed to other entities in the investment company complex for products and services provided by E&Y, other than services reported in AUDIT FEES, AUDIT-RELATED FEES, and TAX FEES that the Audit Committee was required to approve because the engagement related directly to the operations and financial reporting of the Registrant were $0 and $0 for the fiscal years ended 2004 and 2005, respectively. (e) Audit Committee's Pre-approval Policies and Procedures -- (1) The Audit Committee's pre-approval policies and procedures for the Registrant to engage an accountant to render audit and non-audit services delegate to the Chair of the Committee the power to pre-approve services between meetings of the Committee. (2) None of the services described in paragraphs (b) through (d) above were approved by the Audit Committee pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X. (f) Hours Attributed to Other Persons --------------------------------- Not applicable. (g) Non-Audit Fees ------------- Non-audit fees billed by E&Y for services rendered to the Registrant were $13,700 and $14,700 for the fiscal years ended 2004 and 2005, respectively. Non-audit fees billed by E&Y for services rendered to the Registrant's investment adviser and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the Registrant were $256,050 and $160,650 for the fiscal years ended 2004 and 2005, respectively. (h) The Audit Committee of the Board of Directors considered whether the provision of non-audit services rendered to the Registrant's investment adviser and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the Registrant that were not pre-approved by the Audit Committee because the engagement did not relate directly to the operations and financial reporting of the Registrant is compatible with maintaining E&Y's independence. ITEM 5. AUDIT COMMITTEE OF LISTED REGISTRANTS The Board has established an Audit Committee to oversee particular aspects of the Registrant's management. The Audit Committee's purposes are (a) to oversee the Funds' accounting and financial reporting processes, their internal control over financial reporting and, as the Committee deems appropriate, to inquire into the internal control over financial reporting of certain third-party service providers; (b) to oversee the quality and integrity of the Funds' financial statements and the independent audit thereof; (c) to oversee, or, as appropriate, assist Board oversight of, the Funds' compliance with legal and regulatory requirements that relate to the Funds' accounting and financial reporting, internal control over financial reporting and independent audits; (d) to approve prior to appointment the engagement of the Funds' independent registered public accounting firms and, in connection therewith, to review and evaluate the qualifications, independence and performance of the Funds' independent registered public accounting firms; (e) to act as a liaison between the Funds' independent registered public accounting firms and the full Board; and (f) to prepare an audit committee report as required by Item 306 of Regulations S-K to be included in proxy statements relating to the election of directors. Its members are John Cannon, Howard A. Mileaf, Cornelius T. Ryan (Chairman), Tom D. Seip, and Peter P. Trapp. All members are Independent Fund Trustees. ITEM 6. SCHEDULE OF INVESTMENTS The complete schedule of investments for each series is disclosed in the Registrant's Annual Report, which is included as Item 1 of this Form N-CSR. ITEM 7. DISCLOSURE OF PROXY VOTING POLICIES AND PROCEDURES FOR CLOSED-END MANAGEMENT INVESTMENT COMPANIES The Board has delegated to Neuberger Berman, LLC ("Neuberger Berman") the responsibility to vote proxies related to the securities held in the Fund's portfolios. Under this authority, Neuberger Berman is required by the Board to vote proxies related to portfolio securities in the best interests of the Fund and its stockholders. The Board permits Neuberger Berman to contract with a third party to obtain proxy voting and related services, including research of current issues. Neuberger Berman has implemented written Proxy Voting Policies and Procedures ("Proxy Voting

Policy") that are designed to reasonably ensure that Neuberger Berman votes proxies prudently and in the best interest of its advisory clients for whom Neuberger Berman has voting authority, including the Fund. The Proxy Voting Policy also describes how Neuberger Berman addresses any conflicts that may arise between its interests and those of its clients with respect to proxy voting. Neuberger Berman's Proxy Committee is responsible for developing, authorizing, implementing and updating the Proxy Voting Policy, overseeing the proxy voting process and engaging and overseeing any independent third-party vendors as voting delegate to review, monitor and/or vote proxies. In order to apply the Proxy Voting Policy noted above in a timely and consistent manner, Neuberger Berman utilizes Institutional Shareholder Services Inc. ("ISS") to vote proxies in accordance with Neuberger Berman's voting guidelines. Neuberger Berman's guidelines adopt the voting recommendations of ISS. Neuberger Berman retains final authority and fiduciary responsibility for proxy voting. Neuberger Berman believes that this process is reasonably designed to address material conflicts of interest that may arise between Neuberger Berman and a client as to how proxies are voted. In the event that an investment professional at Neuberger Berman believes that it is in the best interests of a client or clients to vote proxies in a manner inconsistent with Neuberger Berman's proxy voting guidelines or in a manner inconsistent with ISS recommendations, the Proxy Committee will review information submitted by the investment professional to determine that there is no material conflict of interest between Neuberger Berman and the client with respect to the voting of the proxy in that manner. If the Proxy Committee determines that the voting of a proxy as recommended by the investment professional presents a material conflict of interest between Neuberger Berman and the client or clients with respect to the voting of the proxy, the Proxy Committee shall: (i) take no further action, in which case ISS shall vote such proxy in accordance with the proxy voting guidelines or as ISS recommends; (ii) disclose such conflict to the client or clients and obtain written direction from the client as to how to vote the proxy; (iii) suggest that the client or clients engage another party to determine how to vote the proxy; or (iv) engage another independent third party to determine how to vote the proxy. ITEM 8. PORTFOLIO MANAGERS OF CLOSED-END MANAGEMENT INVESTMENT COMPANIES Not applicable to the Registrant. ITEM 9. PURCHASES OF EQUITY SECURITIES BY CLOSED-END MANAGEMENT INVESTMENT COMPANY AND AFFILIATED PURCHASERS No reportable purchases for the period covered by this report. ITEM 10. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS There were no changes to the procedures by which shareholders may recommend nominees to the Board. ITEM 11. CONTROLS AND PROCEDURES (a) Based on an evaluation of the disclosure controls and procedures (as defined in rule 30a-3(c) under the Investment Company Act of 1940, as amended (the "Act")) as of a date within 90 days of the filing date of this document, the Chief Executive Officer and Treasurer and Principal Financial and Accounting Officer of the Registrant have concluded that such disclosure controls and procedures are effectively designed to ensure that information required to be disclosed by the Registrant is accumulated and communicated to the Registrant's management to allow timely decisions regarding required disclosure. (b) There were no significant changes in the Registrant's internal controls over financial reporting (as defined in rule 30a-3(d) under the Act) that occurred during the Registrant's last fiscal half-year that have materially affected, or are reasonably likely to materially affect, the Registrant's internal control over financial reporting. ITEM 12. EXHIBITS (a)(1) A copy of the Code of Ethics is filed herewith. (a)(2) The certifications required by Rule 30a-2(a) of the Act and Section 302 of the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act") are attached hereto. (a)(3) Not applicable to the Registrant. (b) The certifications required by Rule 30a-2(b) of the Act and Section 906 of the Sarbanes-Oxley Act are attached hereto. The certifications provided pursuant to Section 906 of the Sarbanes-Oxley Act are not deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934 ("Exchange Act"), or otherwise subject to the liability of that section. Such certifications will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Exchange Act, except to the extent that the Registrant specifically incorporates them by reference. 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. Neuberger Berman California Intermediate Municipal Fund Inc. By: /s/ Peter E. Sundman ----------------------- Peter E. Sundman Chief Executive Officer Date: January 9, 2006 Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated. By: /s/ Peter E. Sundman ----------------------- Peter E. Sundman Chief Executive Officer Date: January 9, 2006 By: /s/ John M. McGovern ----------------------- John M. McGovern Treasurer and Principal Financial and Accounting Officer Date: January 9, 2006