

Nuveen Multi-Strategy Income & Growth Fund 2  
Form DEF 14A  
August 27, 2007

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement.
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)).**
- Definitive Proxy Statement.
- Definitive Additional Materials.
- Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

Nuveen Multi-Strategy Income and Growth Fund 2 (JQC)

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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**Important Notice  
to Fund Shareholders**

**August 27, 2007**

Although we recommend that you read the complete Proxy Statement, for your convenience, we have provided a brief overview of the issues to be voted on.

**Q. Why am I receiving this Proxy Statement?**

**A.** You are being asked to vote on two or more important matters affecting your Fund:

- (1) Approval of a New Investment Management Agreement. Nuveen Asset Management ( NAM ) serves as your Fund 's investment adviser. Nuveen Investments, Inc. ( Nuveen ), the parent company of NAM, recently announced its intention to be acquired by investors led by Madison Dearborn Partners, LLC, and to thereby become a privately-held company. In the event this takes place, securities laws require your Fund 's shareholders to approve a new investment management agreement between NAM and the Fund;
- (2) Approval of a New Investment Sub-Advisory Agreement. For certain Funds, NAM has retained one or more sub-advisers to manage all or a portion of such funds ' assets. In the event the transaction described in (1) above takes place, securities laws require shareholders of those funds to approve a new sub-advisory agreement between NAM and each sub-adviser;
- (3) Approval of an Additional Sub-Advisory Agreement for each Fund sub-advised by Gateway. For those Funds where Gateway Investment Advisers, L.P. ( Gateway ) serves as a sub-adviser, securities laws require shareholders of those funds to approve an additional new sub-advisory agreement between NAM and Gateway in the event Gateway 's anticipated acquisition by Natixis Global Asset Management, L.P. takes place as described in the enclosed proxy statement.
- (4) Approval of Fund Board Nominees. Each year, you and other Fund shareholders must approve the election of Board members to serve on your Fund 's Board. This is a requirement for all funds that list their common shares on a stock exchange. Certain of the Funds described in this proxy statement are holding their annual shareholders meeting at which Board members will be elected. The list of specific nominees for those Funds is contained in the enclosed proxy statement; and
- (5) Ratification of Independent Registered Public Accounting Firm. This year, you and other Fund shareholders are being asked to ratify the selection of the independent registered public accounting firm. Ernst and Young LLP or PricewaterhouseCoopers LLP, as applicable, has been selected to serve as your Fund 's independent registered public accounting firm.

Your Fund 's Board, including the independent Board members, unanimously recommends that you vote **FOR** each proposal.

**Your vote is very important. We encourage you as a shareholder to participate in your Fund 's governance by returning your vote as soon as possible. If enough shareholders do not cast their votes, your Fund may not be able to hold its meeting or the vote on each issue, and will be required to incur additional solicitation costs in order to obtain sufficient shareholder participation.**



**Q. How will I as a Fund shareholder be affected if Nuveen becomes a privately-held company?**

**A.** Your Fund investment will not change as a result of NAM's change of ownership. You will still own the same Fund shares and the underlying value of those shares will not change as a result of the transaction. NAM will continue to manage your Fund according to the same objectives and policies as before, and does not anticipate any significant changes to its operations.

**Q. Will there be any important differences between my Fund's new investment management agreement and sub-advisory agreement, as applicable, and the current agreements?**

**A.** No. The terms of the new and current agreements are substantially identical. There will be no change in the fees you pay, who manages your Fund, your Fund's objectives and policies, or your Fund's day-to-day management.

**Q. What will happen if shareholders do not approve the new investment management agreement or sub-advisory agreement?**

**A.** NAM and your Fund's sub-adviser(s), as applicable, will continue to manage your Fund under an interim investment management agreement and an interim sub-advisory agreement, but must place their compensation for their services during this interim period in escrow, pending shareholder approval. For the Funds where Gateway serves as a sub-adviser, if shareholders do not approve the additional new sub-advisory agreement with Gateway, your Fund's Board will take such actions as it deems to be in the best interests of your Fund. This is discussed in more detail in the proxy statement. **Your Fund's Board urges you to vote without delay in order to avoid potential disruption to the Fund's operations.**

**Q. Who do I call if I have questions?**

**A.** If you need any assistance, or have any questions regarding the proposals or how to vote your shares, please call Computershare Fund Services, your Fund proxy solicitor, at 866-434-7510 with your proxy material.

**Q. How do I vote my shares?**

**A.** You can vote your shares by completing and signing the enclosed proxy card, and mailing it in the enclosed postage-paid envelope. Alternatively, you may vote by telephone by calling the toll-free number on the proxy card or by computer by going to the Internet address provided on the proxy card and following the instructions, using your proxy card as a guide.

**Q. Will anyone contact me?**

**A.** You may receive a call from Computershare Fund Services, the proxy solicitor hired by the Funds, to verify that you received your proxy materials, to answer any questions you may have about the proposals and to encourage you to vote your proxy.

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333 West Wacker Drive  
Chicago, Illinois 60606  
(800) 257-8787

**Notice of Annual Meeting  
of Shareholders**

**August 27, 2007**

**Nuveen Floating Rate Income Fund (JFR)  
Nuveen Floating Rate Income Opportunity Fund (JRO)  
Nuveen Tax-Advantaged Floating Rate Fund (JFP)  
Nuveen Senior Income Fund (NSL)**

**Notice of Special Meeting  
of Shareholders**

**Nuveen Real Estate Income Fund (JRS)  
Nuveen Diversified Dividend and Income Fund (JDD)  
Nuveen Equity Premium and Growth Fund (JPG)  
Nuveen Equity Premium Advantage Fund (JLA)  
Nuveen Equity Premium Income Fund (JPZ)  
Nuveen Equity Premium Opportunity Fund (JSN)  
Nuveen Quality Preferred Income Fund (JTP)  
Nuveen Quality Preferred Income Fund 2 (JPS)  
Nuveen Quality Preferred Income Fund 3 (JHP)  
Nuveen Tax-Advantaged Total Return Strategy Fund (JTA)  
Nuveen Global Government Enhanced Income Fund (JGG)  
Nuveen Global Value Opportunities Fund (JGV)  
Nuveen Multi-Strategy Income and Growth Fund (JPC)  
Nuveen Multi-Strategy Income and Growth Fund 2 (JQC)  
Nuveen Core Equity Alpha Fund (JCE)  
Nuveen Multi-Currency Short-Term Government Income Fund (JGT)  
Nuveen Tax-Advantaged Dividend Growth Fund (JTD)**

**To the Shareholders of the Above Funds:**

Notice is hereby given that an Annual Meeting of Shareholders (the Annual Meeting ) of Nuveen Floating Rate Income Fund ( Floating Rate ), Nuveen Floating Rate Income Opportunity Fund ( Floating Rate Income Opportunity ), Nuveen Tax-Advantaged Floating Rate Fund ( Tax-Advantaged Floating Rate ) and Nuveen Senior Income Fund ( Senior Income ) and notice is hereby given that a Special Meeting of Shareholders (the Special Meeting, collectively with the Annual Meeting, the Meeting ) of Nuveen Real Estate Income Fund ( Real Estate ), Nuveen Diversified Dividend and Income Fund ( Diversified Dividend ), Nuveen Equity Premium and Growth Fund ( Equity Premium ), Nuveen Equity Premium Advantage Fund ( Equity Premium Advantage ), Nuveen Equity Premium Income Fund ( Equity Premium Income ), Nuveen Equity Premium Opportunity Fund ( Equity Premium Opportunity ), Nuveen Quality Preferred Income Fund ( Quality Preferred ), Nuveen Quality Preferred Income Fund 2 ( Quality Preferred 2 ), Nuveen Quality Preferred Income Fund 3 ( Quality Preferred 3 ), Nuveen Tax-Advantaged Total Return Strategy Fund ( Total Return ), Nuveen Global Government Enhanced Income Fund ( Global Government ), Nuveen Global Value Opportunities Fund ( Global Value ), Nuveen Multi-Strategy Income and Growth Fund ( Multi-Strategy Income ),





Fund ( Core Equity Alpha ), Nuveen Multi-Currency Short-Term Government Income Fund ( Multi-Currency Short-Term ) and Nuveen Tax-Advantaged Dividend Growth Fund ( Tax-Advantaged Dividend Growth ), each a Massachusetts business trust (individually, a Fund and collectively, the Funds ), will be held (along with meetings of shareholders of several other Nuveen funds) in the 31st floor conference room of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois 60606, on Friday, October 12, 2007, at 10:00 a.m., Central time, for the following purposes and to transact such other business, if any, as may properly come before the Meeting:

**Matters to Be Voted on by Shareholders:**

1. To approve a new investment management agreement between each Fund and Nuveen Asset Management ( NAM ), each Fund s investment adviser.
  2. To approve a new sub-advisory agreement between NAM and each sub-adviser as outlined below:
    - a. (For shareholders of Equity Premium, Equity Premium Advantage, Equity Premium Income and Equity Premium Opportunity only) to approve a new sub-advisory agreement between NAM and Gateway Investment Advisers, L.P.;
    - b. (For shareholders of Core Equity Alpha only) to approve a new sub-advisory agreement between NAM and Enhanced Investment Technologies, LLC;
    - c. (For shareholders of Diversified Dividend, Total Return and Tax-Advantaged Dividend Growth only) to approve a new sub-advisory agreement between NAM and NWQ Investment Management Company, LLC;
    - d. (For shareholders of Tax-Advantaged Dividend Growth only) to approve a new sub-advisory agreement between NAM and Santa Barbara Asset Management, LLC;
    - e. (For shareholders of Real Estate and Diversified Dividend only) to approve a new sub-advisory agreement between NAM and Security Capital Research & Management Incorporated;
    - f. (For shareholders of Tax-Advantaged Floating Rate, Quality Preferred, Quality Preferred 2, Quality Preferred 3, Multi-Strategy Income and Multi-Strategy Income 2 only) to approve a new sub-advisory agreement between NAM and Spectrum Asset Management, Inc.;
    - g. (For shareholders of Floating Rate, Floating Rate Income Opportunity, Senior Income, Diversified Dividend, Total Return, Multi-Strategy Income and Multi-Strategy Income 2
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- only) to approve a new sub-advisory agreement between NAM and Symphony Asset Management LLC;
- h. (For shareholders of Global Value, Multi-Strategy Income and Multi-Strategy Income 2 only) to approve a new sub-advisory agreement between NAM and Tradewinds Global Investors, LLC; and
  - i. (For shareholders of Diversified Dividend only) to approve a new sub-advisory agreement between NAM and Wellington Management Company, LLP.
3. For shareholders of Equity Premium, Equity Premium Advantage, Equity Premium Income and Equity Premium Opportunity only, to approve a new sub-advisory agreement between NAM and Gateway Investment Advisers, LLC.
4. To elect four (4) members to the Board of Trustees (each a Board and each Trustee a Board Member ) of Floating Rate, Floating Rate Income Opportunity, Tax-Advantaged Floating Rate and Senior Income as outlined below:
- a. two (2) Board Members to be elected for a three-year term by the holders of Common Shares and Taxable Auctioned Preferred Shares for Senior Income and Fund Preferred Shares for Floating Rate, Floating Rate Income Opportunity and Tax-Advantaged Floating Rate (collectively, Preferred Shares ), voting together as a single class; and
  - b. two (2) Board Members to be elected for a one-year term by the holders of Preferred Shares only, voting separately as a single class.
5. To ratify the selection of independent registered public accounting firm for the current fiscal year as outlined below:
- a. For all Funds, except Equity Premium, Equity Premium Advantage, Equity Premium Income, Equity Premium Opportunity, Core Equity Alpha, Global Government, Global Value, and Multi-Currency Short-Term, to ratify the selection of Ernst & Young LLP as independent registered public accounting firm for the current fiscal year; and
  - b. For Equity Premium, Equity Premium Advantage, Equity Premium Income, Equity Premium Opportunity, Core Equity Alpha, Global Government, Global Value and Multi-Currency Short-Term, to ratify the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm for the current fiscal year.
6. To transact such other business as may properly come before the Meeting.

Shareholders of record at the close of business on August 1, 2007 are entitled to notice of and to vote at the Meeting.

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**All shareholders are cordially invited to attend the Meeting. In order to avoid delay and additional expense, and to assure that your shares are represented, please vote as promptly as possible, regardless of whether or not you plan to attend the Meeting. You may vote by mail, telephone or over the Internet. To vote by mail, please mark, sign, date and mail the enclosed proxy card. No postage is required if mailed in the United States. To vote by telephone, please call the toll-free number located on your proxy card and follow the recorded instructions, using your proxy card as a guide. To vote over the Internet, go to the Internet address provided on your proxy card and follow the instructions, using your proxy card as a guide.**

Kevin J. McCarthy  
*Vice President and Secretary*

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333 West Wacker Drive  
Chicago, Illinois 60606  
(800) 257-8787  
**Joint Proxy Statement**

**August 27, 2007**

This Joint Proxy Statement is first being mailed to shareholders on or about August 27, 2007.

**Nuveen Floating Rate Income Fund (JFR)**  
**Nuveen Floating Rate Income Opportunity Fund (JRO)**  
**Nuveen Tax-Advantaged Floating Rate Fund (JFP)**  
**Nuveen Senior Income Fund (NSL)**  
**Nuveen Real Estate Income Fund (JRS)**  
**Nuveen Diversified Dividend and Income Fund (JDD)**  
**Nuveen Equity Premium and Growth Fund (JPG)**  
**Nuveen Equity Premium Advantage Fund (JLA)**  
**Nuveen Equity Premium Income Fund (JPZ)**  
**Nuveen Equity Premium Opportunity Fund (JSN)**  
**Nuveen Quality Preferred Income Fund (JTP)**  
**Nuveen Quality Preferred Income Fund 2 (JPS)**  
**Nuveen Quality Preferred Income Fund 3 (JHP)**  
**Nuveen Tax-Advantaged Total Return Strategy Fund (JTA)**  
**Nuveen Global Government Enhanced Income Fund (JGG)**  
**Nuveen Global Value Opportunities Fund (JGV)**  
**Nuveen Multi-Strategy Income and Growth Fund (JPC)**  
**Nuveen Multi-Strategy Income and Growth Fund 2 (JQC)**  
**Nuveen Core Equity Alpha Fund (JCE)**  
**Nuveen Multi-Currency Short-Term Government Income Fund (JGT)**  
**Nuveen Tax-Advantaged Dividend Growth Fund (JTD)**

### **General Information**

This Joint Proxy Statement is furnished in connection with the solicitation by the Board of Trustees (each a **Board** and collectively, the **Boards**, and each Trustee a **Board Member** and collectively, the **Board Members** ) of Nuveen Floating Rate Income Fund ( **Floating Rate** ), Nuveen Floating Rate Income Opportunity Fund ( **Floating Rate Income Opportunity** ), Nuveen Tax-Advantaged Floating Rate Fund ( **Tax-Advantaged Floating Rate** ), Nuveen Senior Income Fund ( **Senior Income** ), Nuveen Real Estate Income Fund ( **Real Estate** ), Nuveen Diversified Dividend and Income Fund ( **Diversified Dividend** ), Nuveen Equity Premium and Growth Fund ( **Equity Premium** ), Nuveen Equity Premium Advantage Fund ( **Equity Premium Advantage** ), Nuveen Equity Premium Income Fund ( **Equity Premium Income** ), Nuveen Equity Premium Opportunity Fund ( **Equity Premium Opportunity** ), Nuveen Quality Preferred Income Fund ( **Quality Preferred** ), Nuveen Quality Preferred Income Fund 2 ( **Quality Preferred 2** ), Nuveen Quality Preferred Income Fund 3 ( **Quality Preferred 3** ), Nuveen Tax-Advantaged Total Return Strategy Fund ( **Total Return** ), Nuveen Global Government Enhanced Income Fund ( **Global Government** ), Nuveen Global Value Opportunities Fund ( **Global Value** ), Nuveen Multi-Strategy Income and Growth Fund ( **Multi-Strategy Income** ), Nuveen Multi-Strategy Income and Growth Fund 2 ( **Multi-Strategy Income 2** ), Nuveen Core Equity Alpha Fund ( **Core Equity Alpha** ), Nuveen Multi-Currency Short-Term Government Income Fund ( **Multi-Currency Short-Term** ) and Nuveen Tax-Advantaged

Dividend Growth Fund ( Tax-Advantaged Dividend

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Growth ), each a Massachusetts business trust (each a Fund and collectively, the Funds ), of proxies to be voted at an Annual Meeting of Shareholders for Floating Rate, Floating Rate Income Opportunity, Tax-Advantaged Floating Rate and Senior Income or a Special Meeting of Shareholders for all other Funds to be held (along with meetings of shareholders of several other Nuveen funds) in the 31st floor conference room of Nuveen Investments, 333 West Wacker Drive, Chicago, Illinois 60606, on Friday, October 12, 2007, at 10:00 a.m., Central time, (for each Fund, a Meeting and collectively, the Meetings ), and at any and all adjournments thereof.

On the matters coming before each Meeting as to which a choice has been specified by shareholders on the proxy, the shares will be voted accordingly. If a properly executed proxy is returned and no choice is specified, the shares will be voted **FOR** approval of the new investment management agreement, **FOR** approval of the new sub-advisory agreement, **FOR** the election of the nominees as listed in this Joint Proxy Statement and **FOR** the ratification of the selection of the independent registered public accounting firm. Shareholders who execute proxies may revoke them at any time before they are voted by filing with that Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the Meeting and voting in person. Merely attending the Meeting, however, will not revoke any previously submitted proxy.

The Board of each Fund has determined that the use of this Joint Proxy Statement for each Meeting is in the best interest of each Fund and its shareholders in light of the similar matters being considered and voted on by the shareholders.

The following table indicates which shareholders are solicited with respect to each matter:

Matter	Common Shares	Preferred Shares <sup>(1),(2)</sup>
1. To approve a new investment management agreement between Nuveen Asset Management ( NAM or the Adviser ) and the Fund	X	X
2. To approve a new sub-advisory agreement between NAM and each sub-adviser below:		
2a. For shareholders of Equity Premium <sup>(2)</sup> , Equity Premium Advantage <sup>(2)</sup> , Equity Premium Income <sup>(2)</sup> and Equity Premium Opportunity <sup>(2)</sup> only to approve a new sub-advisory agreement between NAM and Gateway Investment Advisers, L.P. ( Gateway );	X	
2b. For shareholders of Core Equity Alpha <sup>(2)</sup> only to approve a new sub-advisory agreement between NAM and Enhanced Investment Technologies, LLC ( INTECH );	X	
2c. For shareholders of Diversified Dividend, Total Return and Tax-Advantaged Dividend Growth <sup>(2)</sup> only to approve a new sub-advisory agreement between NAM and NWQ Investment Management Company, LLC ( NWQ );	X	X
2d. For shareholders of Tax-Advantaged Dividend Growth <sup>(2)</sup> only to approve a new sub-advisory agreement between NAM and Santa Barbara Asset Management, LLC ( SBAM );	X	
2e. For shareholders of Real Estate and Diversified Dividend only to approve a new sub-advisory agreement between NAM and Security Capital Research & Management Incorporated ( Security Capital );	X	X
2f. For shareholders of Tax-Advantaged Floating Rate, Quality Preferred, Quality Preferred 2, Quality Preferred 3, Multi-Strategy Income and Multi-Strategy Income 2 only to approve a new sub-advisory agreement between NAM and Spectrum Asset Management, Inc. ( Spectrum );	X	X

2g.	For shareholders of Floating Rate, Floating Rate Income Opportunity, Senior Income, Diversified Dividend, Total Return, Multi-Strategy Income and Multi-Strategy Income 2 only to approve a new sub-advisory agreement between NAM and Symphony Asset Management LLC ( Symphony );	X	X
2h.	For shareholders of Global Value <sup>(2)</sup> , Multi-Strategy Income and Multi-Strategy Income 2 only to approve a new sub-advisory agreement between NAM and Tradewinds Global Investors, LLC ( Tradewinds ); and	X	X

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Matter	Common Shares	Preferred Shares <sup>(1),(2)</sup>
2i. For shareholders of Diversified Dividend only to approve a new sub-advisory agreement between NAM and Wellington Management Company, LLP ( Wellington )	X	X
3. For shareholders of Equity Premium <sup>(2)</sup> , Equity Premium Advantage <sup>(2)</sup> , Equity Premium Income <sup>(2)</sup> and Equity Premium Opportunity <sup>(2)</sup> only, to approve a new sub-advisory agreement between NAM and Gateway Investment Advisers, LLC ( New Gateway )	X	
4a. For Floating Rate, Floating Rate Income Opportunity, Tax-Advantaged Floating Rate and Senior Income, election of two (2) Board Members for a three-year term by all shareholders	X	X
4b. For Floating Rate, Floating Rate Income Opportunity, Tax-Advantaged Floating Rate and Senior Income, election of two (2) Board Members for a one-year term by Preferred Shares only		X
5. To ratify the selection of independent registered public accounting firm	X	X

(1) Taxable Auctioned Preferred Shares for Senior Income and Fund Preferred shares for Floating Rate, Floating Rate Income Opportunity, Tax-Advantaged Floating Rate, Real Estate, Diversified Dividend, Quality Preferred, Quality Preferred 2, Quality Preferred 3, Total Return, Multi-Strategy Income and Multi-Strategy Income 2 are referred to as Preferred Shares.

(2) Equity Premium, Equity Premium Advantage, Equity Premium Income, Equity Premium Opportunity, Global Government, Global Value, Core Equity Alpha, Multi-Currency Short-Term and Tax-Advantaged Dividend Growth have not issued Preferred Shares.

A quorum of shareholders is required to take action at each Meeting. A majority of the shares entitled to vote at each Meeting, represented in person or by proxy, will constitute a quorum of shareholders at that Meeting, except that for the election of the two Board Member nominees to be elected by holders of Preferred Shares of each Fund, 33 1/3% of the Preferred Shares entitled to vote and represented in person or by proxy will constitute a quorum. Votes cast by proxy or in person at each Meeting will be tabulated by the inspectors of election appointed for that Meeting. The inspectors of election will determine whether or not a quorum is present at the Meeting. The inspectors of election will treat abstentions and broker non-votes (i.e., shares held by brokers or nominees, typically in street name, as to which

(i) instructions have not been received from the beneficial owners or persons entitled to vote and (ii) the broker or nominee does not have discretionary voting power on a particular matter) as present for purposes of determining a quorum.

For purposes of determining the approval of any new investment management agreement, sub-advisory agreement and ratification of the selection of the independent registered public accounting firm, abstentions and broker non-votes will have the same effect as shares voted against the proposal. For purposes of determining the approval of the proposal to elect nominees, abstentions and broker non-votes will have no effect on the election of Board

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Members. The details of the proposals to be voted on by the shareholders of each Fund and the vote required for approval of the proposals are set forth under the description of the proposals below.

Preferred Shares held in street name as to which voting instructions have not been received from the beneficial owners or persons entitled to vote as of one business day before the Meeting, or, if adjourned, one business day before the day to which the Meeting is adjourned, and that would otherwise be treated as broker non-votes may, pursuant to Rule 452 of the New York Stock Exchange, be voted by the broker on the proposal in the same proportion as the votes cast by all Preferred shareholders as a class who have voted on the proposal or in the same proportion as the votes cast by all Preferred shareholders of the Fund who have voted on that item. Rule 452 permits proportionate voting of Preferred Shares with respect to a particular item if, among other things, (i) a minimum of 30% of the Preferred Shares or shares of a series of Preferred Shares outstanding has been voted by the holders of such shares with respect to such item and (ii) less than 10% of the Preferred Shares or shares of a series of Preferred Shares outstanding has been voted by the holders of such shares against such item. For the purpose of meeting the 30% test, abstentions will be treated as shares voted and for the purpose of meeting the 10% test, abstentions will not be treated as shares voted against the item.

Those persons who were shareholders of record at the close of business on August 1, 2007 (the Record Date), will be entitled to one vote for each share held and a proportionate fractional vote for each fractional share held. As of the Record Date, the shares of the Funds were issued and outstanding as follows:

<b>Fund</b>	<b>Ticker Symbol*</b>	<b>Common Shares</b>	<b>Preferred Shares</b>	
Floating Rate	JFR	47,395,206	Series M	4,000
			Series T	4,000
			Series W	4,000
			Series F	4,000
Floating Rate Income Opportunity	JRO	28,419,321	Series M	3,200
			Series TH	3,200
			Series F	3,200
Tax-Advantaged Floating Rate	JFP	13,857,647	Series TH	3,120
Senior Income	NSL	29,834,352	Series TH	3,120
Real Estate	JRS	28,259,132	Series M	1,720
			Series T	1,720
			Series W	1,720
			Series F	1,720
Diversified Dividend	JDD	16,536,342	Series T	2,400
			Series W	2,400

Equity Premium	JPG	20,202,819	N/A
Equity Premium Advantage	JLA	26,114,540	N/A
Equity Premium Income	JPZ	38,682,086	N/A
Equity Premium Opportunity	JSN	66,537,837	N/A

<b>Fund</b>	<b>Ticker Symbol*</b>	<b>Common Shares</b>	<b>Preferred Shares</b>	
Quality Preferred	JTP	64,557,648	Series M	3,520
			Series T	3,520
			Series W	3,520
			Series TH	3,520
			Series F	3,520
Quality Preferred 2	JPS	119,845,698	Series M	4,800
			Series T	4,800
			Series T2	4,000
			Series W	4,800
			Series TH	4,800
			Series TH2	4,000
			Series F	4,800
Quality Preferred 3	JHP	23,686,571	Series M	3,320
			Series TH	3,320
Total Return	JTA	13,958,267	Series W	1,800
Global Government	JGG	9,330,610	N/A	
Global Value	JGV	19,355,240	N/A	
Multi-Strategy Income	JPC	99,714,627	Series M	4,720
			Series T	4,720
			Series W	4,720
			Series TH	4,720
			Series F	4,720
			Series F2	4,720
Multi-Strategy Income 2	JQC	140,495,800	Series M	3,860
			Series M2	3,860
			Series T	3,860
			Series T2	3,860
			Series W	3,860
			Series W2	3,860
			Series TH	3,860

Series TH2	3,860
Series F	3,860
Series F2	3,860

Core Equity Alpha	JCE	16,471,485	N/A
Multi-Currency Short-Term	JGT	44,467,792	N/A
Tax-Advantaged Dividend Growth	JTD	14,225,240	N/A

\* The common shares of all of the Funds are listed on the New York Stock Exchange, except the common shares of JRS, which are listed on the American Stock Exchange.

## 1. Approval of the New Investment Management Agreements

### Background

Under an investment management agreement between the Adviser and each Fund (each, an Original Investment Management Agreement and collectively, the Original Investment

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Management Agreements ), NAM has served as each Fund's investment adviser and has been responsible for each Fund's overall investment strategy and its implementation. The date of each Fund's Original Investment Management Agreement and the date on which it was last approved by shareholders and approved for continuance by the Board are provided in Appendix B. NAM is a wholly-owned subsidiary of Nuveen Investments, Inc. ( Nuveen ). Nuveen is currently a publicly traded company.

On June 19, 2007, Nuveen entered into a merger agreement (the Transaction Agreement ) providing for the acquisition of Nuveen by Windy City Investments, Inc. ( Windy City ), a corporation formed by investors led by Madison Dearborn Partners, LLC ( MDP ), a private equity investment firm based in Chicago, Illinois (the Transaction ). Windy City is controlled by MDP on behalf of the Madison Dearborn Capital Partner V funds. Other owners of Windy City include Merrill Lynch & Co.'s Global Private Equity group and affiliates (including private equity funds) of Wachovia, Citigroup and Deutsche Bank. If the Transaction is completed, Nuveen will become a wholly-owned subsidiary of Windy City and Nuveen will become a privately-held company. Completion of the Transaction is subject to a number of conditions, including obtaining approval of Nuveen's stockholders and obtaining consent to the Transaction by a certain percentage of NAM's clients representing at least 80% of annualized revenue (which includes fund shareholder approval of new investment management agreements with NAM). Nuveen and Windy City currently expect to complete the Transaction in the fourth quarter of 2007.

Upon completion of the Transaction, it is anticipated that Merrill Lynch will be an indirect affiliated person (as that term is defined in the Investment Company Act of 1940, as amended (the 1940 Act )) of each Fund. As a result, each Fund would then generally be prohibited from entering into principal transactions with Merrill Lynch and certain of its affiliates. NAM does not believe that any such prohibition or limitation would have a materially adverse effect on any Fund's ability to pursue its investment objective and policies.

Nuveen is relying on Section 15(f) of the 1940 Act. Section 15(f) provides in substance that when a sale of a controlling interest in an investment adviser occurs, the investment adviser or any of its affiliated persons may receive any amount or benefit in connection with the sale so long as two conditions are satisfied. The first condition of Section 15(f) is that, during the three-year period following the consummation of a transaction, at least 75% of the investment company's board of directors must not be interested persons (as defined in the 1940 Act) of the investment adviser or predecessor adviser. Each of the Funds currently meets this test. Second, an unfair burden (as defined in the 1940 Act, including any interpretations or no-action letters of the Securities and Exchange Commission (the SEC )) must not be imposed on the investment company as a result of the transaction relating to the sale of such interest, or any express or implied terms, conditions or understandings applicable thereto. The term unfair burden (as defined in the 1940 Act) includes any arrangement, during the two-year period after the transaction, whereby the investment adviser (or predecessor or successor adviser), or any interested person (as defined in the 1940 Act) of such an adviser, receives or is entitled to receive any compensation directly or indirectly, from the investment company or its security holders (other than fees for bona fide investment advisory or other services) or from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for the investment company). Under the Transaction Agreement, Windy City acknowledges Nuveen's reliance on Section 15(f) of the 1940 Act and has agreed that it and its affiliates (as

defined in the Transaction Agreement) shall conduct its business and use commercially reasonable efforts to enable the provisions of Section 15(f) to be true in relation to the Funds.

In addition, to help ensure that an unfair burden is not imposed on the Funds, Nuveen has committed for a period of two years from the date of the closing of the Transaction (i) not to increase gross management fees for any Fund; (ii) not to reduce voluntary expense reimbursement levels for any Fund from their currently scheduled prospective levels during that period; (iii) that no Fund whose portfolio is managed by a Nuveen affiliate shall use Merrill Lynch as a broker with respect to portfolio transactions done on an agency basis, except as may be approved in the future by the Compliance Committee of the Board; and (iv) that each adviser/portfolio team affiliated with Nuveen shall not cause the Funds (or sleeves thereof) and other Nuveen funds that the team manages, as a whole, to enter into portfolio transactions with or through the other minority owners of Nuveen, on either a principal or an agency basis, to a significantly greater extent than both what one would expect an investment team to use such firm in the normal course of business, and what such team has historically done, without prior Board or Compliance Committee approval (excluding the impact of proportionally increasing the use of such other minority owners to fill the void necessitated by not being able to use Merrill Lynch).

Each Original Investment Management Agreement, as required by Section 15 of the 1940 Act, provides for its automatic termination in the event of its assignment (as defined in the 1940 Act). Any change in control of the Adviser is deemed to be an assignment. The consummation of the Transaction will result in a change in control of the Adviser and therefore cause the automatic termination of each Original Investment Management Agreement, as required by the 1940 Act.

In anticipation of the Transaction, each Fund's Board met in person at a joint meeting on July 31, 2007 for purposes of, among other things, considering whether it would be in the best interests of each Fund and its shareholders to approve a new investment management agreement between the Fund and NAM in substantially the same form as the Original Investment Management Agreement to take effect immediately after the Transaction or shareholder approval, whichever is later (each a New Investment Management Agreement and collectively, the New Investment Management Agreements). The form of the New Investment Management Agreement is attached hereto as Appendix C.

The 1940 Act requires that each New Investment Management Agreement be approved by the Fund's shareholders in order for it to become effective. At the July 31, 2007 Board meeting, and for the reasons discussed below (see Board Considerations after proposal 2), each Board, including the Board Members who are not parties to the Original Investment Management Agreements, New Investment Management Agreements or any sub-advisory agreement entered into by the Adviser with respect to any Fund or who are not interested persons of the Funds or the Adviser as defined in the 1940 Act (the Independent Board Members), unanimously approved the New Investment Management Agreement and unanimously recommended its approval by shareholders in order to assure continuity of investment advisory services to the Fund after the Transaction. In the event shareholders of a Fund do not approve the New Investment Management Agreement at the Meeting or any adjournment thereof prior to the closing of the Transaction, an interim investment management agreement between the Adviser and each such Fund (each, an Interim Investment Management Agreement and collectively, the Interim Investment Management Agreements) will take effect upon the closing of the Transaction.



At the July 31, 2007 meeting, each Board, including the Independent Board Members, also unanimously approved the Interim Investment Management Agreements in order to assure continuity of investment advisory services to the Funds after the Transaction. The terms of each Interim Investment Management Agreement are substantially identical to those of the Original Investment Management Agreements and New Investment Management Agreements, except for the term and escrow provisions described below. If a Fund's shareholders have not approved a New Investment Management Agreement prior to the Transaction, an Interim Investment Management Agreement will take effect upon the closing of the Transaction and will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the "150-day period") or when shareholders of a Fund approve the New Investment Management Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by the Adviser under an Interim Investment Management Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Investment Management Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Investment Management Agreement will be paid to the Adviser. If shareholders of a Fund do not approve the New Investment Management Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund and its shareholders, and the Adviser will be paid the lesser of its costs incurred in performing its services under the Interim Investment Management Agreement or the total amount in the escrow account, plus interest earned.

#### **Comparison of Original Investment Management Agreement and New Investment Management Agreement**

The terms of each New Investment Management Agreement, including fees payable to the Adviser by the Fund thereunder, are substantially identical to those of the Original Investment Management Agreement, except for the date of effectiveness. There is no change in the fee rate payable by each Fund to the Adviser. If approved by shareholders of a Fund, the New Investment Management Agreement for the Fund will expire on August 1, 2008, unless continued. Each New Investment Management Agreement will continue in effect from year to year thereafter if such continuance is approved for the Fund at least annually in the manner required by the 1940 Act and the rules and regulations thereunder. Below is a comparison of certain terms of the Original Investment Management Agreement to the terms of the New Investment Management Agreement.

**Investment Management Services.** The investment management services to be provided by the Adviser to each Fund under the New Investment Management Agreements will be identical to those services currently provided by the Adviser to each Fund under the Original Investment Management Agreements. Both the Original Investment Management Agreements and New Investment Management Agreements provide that the Adviser shall manage the investment and reinvestment of the Fund's assets in accordance with the Fund's investment objective and policies and limitations and administer the Fund's affairs to the extent requested by and subject to the oversight of the Fund's Board. In addition, the investment management services will be provided by the same Adviser personnel under the New Investment Management Agreements as under the Original Investment Management Agreements. The Adviser does not anticipate that the Transaction will have any adverse effect on the performance of its obligations under the New Investment Management Agreements.

**Fees.** Under each Original Investment Management Agreement and New Investment Management Agreement, the Fund pays to the Adviser an investment management fee that consists of two components a fund-level fee, calculated by applying a Fund-specific breakpoint fee schedule that pays progressively reduced fee rates at increased Fund-specific asset levels to the average daily managed assets (which includes assets attributable to all types of leverage used in leveraged funds) of that individual Fund, and a complex-level fee, calculated by applying a fee rate based on the aggregate managed assets of all Nuveen-branded closed-end and open-end registered investment companies organized in the United States to a complex-wide fee schedule that would pay ever-reducing effective fee rates at increasing complex-wide assets, multiplied by that Fund's average daily managed assets. The investment management fee paid by each Fund equals the sum of the fund-level fee and complex-level fee calculated for that Fund.

The fee schedules for the fund-level fee and complex-level fee breakpoint schedules under the New Investment Management Agreements for each Fund are identical to the fund-level fee and complex-level fee breakpoint schedules under the Original Investment Management Agreements. The annual fund-level fee schedule for each Fund under the Original Investment Management Agreements and the New Investment Management Agreements, the fees paid by each Fund to the Adviser during each Fund's last fiscal year and the Fund's net assets as of June 30, 2007 are set forth in Appendix D to this Proxy Statement. The fee schedule for the complex-level component is the same for each Fund under both the Original Investment Management Agreements and New Investment Management Agreements and is also set forth in Appendix D. That complex-wide fee schedule was recently reduced with an effective date of August 20, 2007, as reflected in Appendix D.

**Payment of Expenses.** Under each Original Investment Management Agreement and each New Investment Management Agreement, the Adviser shall furnish office facilities and equipment and clerical, bookkeeping and administrative services (other than such services, if any, provided by the Fund's transfer agent) for the Fund.

**Limitation on Liability.** The Original Investment Management Agreements and New Investment Management Agreements provide that the Adviser will not be liable for any loss sustained by reason of the purchase, sale or retention of any security, whether or not such purchase, sale or retention shall have been based upon the investigation and research made by any other individual, firm or corporation, if such recommendation shall have been selected with due care and in good faith, except loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Adviser in the performance of its obligations and duties, or by reason of its reckless disregard of its obligations and duties under the Agreement.

**Continuance.** The Original Investment Management Agreement of each Fund originally was in effect for an initial term and could be continued thereafter for successive one-year periods if such continuance was specifically approved at least annually in the manner required by the 1940 Act. If the shareholders of a Fund approve the New Investment Management Agreement for that Fund, the New Investment Management Agreement will expire on August 1, 2008, unless continued. The New Investment Management Agreement may be continued for successive one-year periods if approved at least annually in the manner required by the 1940 Act.

**Termination.** The Original Investment Management Agreement and New Investment Management Agreement for each Fund provide that the Agreement may be terminated at any time

without the payment of any penalty by the Fund or Adviser on sixty (60) days written notice to the other party. A Fund may effect termination by action of the Board or by vote of a majority of the outstanding voting securities of the Fund, accompanied by appropriate notice.

### **Information about the Adviser**

NAM, a registered investment adviser, is a wholly-owned subsidiary of Nuveen. Founded in 1898, Nuveen and its affiliates had approximately \$172 billion in assets under management as of June 30, 2007. Nuveen is currently a publicly traded company. Nuveen is currently listed on the New York Stock Exchange and trades under the symbol JNC.

The principal occupation of the officers and directors of NAM is shown in Appendix E. The business address of NAM, Nuveen and each principal executive officer and director of NAM is 333 West Wacker Drive, Chicago, Illinois 60606.

Timothy Schwertfeger, Chairman of the Board, is currently a Director and Non-Executive Chairman of Nuveen. Prior to July 1, 2007, he was Chairman and CEO of Nuveen. In addition to his interests as a stockholder of Nuveen, Mr. Schwertfeger has interests in the Transaction. As a result of the Transaction, Mr. Schwertfeger's outstanding options to acquire shares of Nuveen common stock under various Nuveen stock option plans will be cashed out and his outstanding shares of restricted stock (and deferred restricted stock) granted under Nuveen's equity incentive plans will become fully vested and will be converted into the right to receive a cash payment. Based on the number of options and shares of restricted stock held by Mr. Schwertfeger as of July 19, 2007, without regard to any deductions for withholding taxes, his options and restricted stock are valued at \$118,621,561.61 and \$29,405,661.18, respectively.

Mr. Schwertfeger has an employment agreement with Nuveen which provides for certain payments to Mr. Schwertfeger if his employment is terminated under the circumstances described in such agreement. The appointment of another individual to serve as Chief Executive Officer of Nuveen effective July 1, 2007 gives Mr. Schwertfeger a basis to terminate his employment agreement for good reason and the right to receive the payments described therein. Windy City and Mr. Schwertfeger have informed Nuveen that they have reached an agreement in principle under which, among other things, Mr. Schwertfeger would waive his rights upon a good reason termination and Windy City would permit Mr. Schwertfeger to purchase, on terms similar to MDP, equity of Windy City or the surviving corporation after the Transaction.

If Mr. Schwertfeger's employment were to be terminated immediately following the completion of the Transaction and assuming that the Transaction were to be completed on October 1, 2007, he would be entitled to severance payments totaling \$54,908,238.

If Mr. Schwertfeger were to retire on October 1, 2007, under Nuveen's Retirement Plan and Excess Benefit Retirement Plan, the present value of his early retirement benefits would be \$4,691,653.

### **Shareholder Approval**

To become effective with respect to a particular Fund, the New Investment Management Agreement must be approved by a vote of a majority of the outstanding voting securities of the Fund, with the Common and Preferred shareholders voting together as a single class for those Funds that have issued Preferred Shares. The vote of a majority of the outstanding voting



securities is defined in the 1940 Act as the lesser of the vote of (i) 67% or more of the shares of the Fund entitled to vote thereon present at the meeting if the holders of more than 50% of such outstanding shares are present in person or represented by proxy; or (ii) more than 50% of such outstanding shares of the Fund entitled to vote thereon. Each New Investment Management Agreement was approved by the Board of the respective Fund after consideration of all factors which it determined to be relevant to its deliberations, including those discussed below. The Board of each Fund also determined to submit the Fund's New Investment Management Agreement for consideration by the shareholders of the Fund.

**The Board of each Fund unanimously recommends that shareholders of the Fund vote FOR approval of the New Investment Management Agreement.**

## 2. Approval of New Sub-Advisory Agreements

### Background

NAM entered into investment sub-advisory agreements (each, an Original Sub-Advisory Agreement and collectively, the Original Sub-Advisory Agreements ) with various sub-advisers (each a Sub-Adviser and collectively, the Sub-Advisers ) for each of the Funds, other than Global Government and Multi-Currency Short-Term which are not sub-advised, as set forth below (the Sub-Advised Funds ).

Fund	Sub-Adviser
Floating Rate	Symphony
Floating Rate Income Opportunity	Symphony
Tax-Advantaged Floating Rate	Spectrum
Senior Income	Symphony
Real Estate	Security Capital
Diversified Dividend	NWQ <sup>(1)</sup> , Security Capital <sup>(2)</sup> , Symphony <sup>(3)</sup> and Wellington <sup>(4)</sup>
Equity Premium	Gateway
Equity Premium Advantage	Gateway
Equity Premium Income	Gateway
Equity Premium Opportunity	Gateway
Quality Preferred	Spectrum
Quality Preferred 2	Spectrum
Quality Preferred 3	Spectrum
Total Return	NWQ <sup>(1)</sup> and Symphony <sup>(3)</sup>
Global Value	Tradewinds
Multi-Strategy Income	Spectrum <sup>(5)</sup> , Symphony <sup>(6)</sup> and Tradewinds <sup>(7)</sup>
Multi-Strategy Income 2	Spectrum <sup>(5)</sup> , Symphony <sup>(6)</sup> and Tradewinds <sup>(7)</sup>
Core Equity Alpha	INTECH <sup>(8)</sup>
Tax-Advantaged Dividend Growth	NWQ <sup>(1)</sup> and SBAM <sup>(9)</sup>

(1) NWQ is the sub-adviser only with respect to the Fund's dividend paying securities.

(2) Security Capital is the sub-adviser only with respect to the Fund's REIT preferred and common stock and convertible securities investments.

(3) Symphony is the sub-adviser only with respect to the Fund's senior loans and other debt instruments.

(4) Wellington is the sub-adviser only with respect to the Fund's emerging markets and sovereign debt.

(5) Spectrum is the sub-adviser only with respect to the Fund's preferred securities.

(6)

Symphony is the sub-adviser only with respect to the Fund's senior loans, other debt instruments and equity securities.

(7) Tradewinds is the sub-adviser only with respect to the Fund's equity securities.

(8) INTECH is the sub-adviser only with respect to the Fund's equity securities.

(9) SBAM is the sub-adviser only with respect to the Fund's dividend growth equity securities.

The date of each Original Sub-Advisory Agreement and the date it was last approved by shareholders and approved for continuance by the Board is provided in Appendix F.

As with the Original Investment Management Agreements, each Original Sub-Advisory Agreement, as required by Section 15 of the 1940 Act, provides for its automatic termination in the event of its assignment. A change in control of the investment adviser or sub-adviser is deemed to be an assignment. The completion of the Transaction will result in a change in control of NAM and therefore will be deemed an assignment of each Original Sub-Advisory Agreement resulting in its automatic termination, as required by the 1940 Act. In addition, for NWQ, SBAM, Symphony and Tradewinds, which are wholly-owned by Nuveen, the completion of the Transaction will result in a change in control of NWQ, SBAM, Symphony and Tradewinds and therefore will be deemed an assignment of each Original Sub-Advisory Agreement resulting in its automatic termination, as required by the 1940 Act.

In anticipation of the Transaction, the Board of each Fund met in person on July 31, 2007 for purposes of considering whether it would be in the best interests of each Fund and its shareholders to approve a new sub-advisory agreement between NAM and the respective Sub-Adviser (each a New Sub-Advisory Agreement and collectively, the New Sub-Advisory Agreements ). At the Board meeting, and for the reasons discussed below (see Board Considerations ), the Board of each Fund, including the Independent Board Members, unanimously determined that the Fund's New Sub-Advisory Agreement or Agreements was or were in the best interests of the Fund and its shareholders and approved the New Sub-Advisory Agreement or Agreements, subject to the consummation of the Transaction and approval by shareholders. The form of the New Sub-Advisory Agreement is attached hereto as Appendix G.

The 1940 Act requires that each New Sub-Advisory Agreement be approved by that Fund's shareholders in order for it to become effective. The Board of each Fund unanimously recommends that shareholders approve the New Sub-Advisory Agreement. In the event shareholders of a Fund do not approve the New Sub-Advisory Agreement, at the Meeting or any adjournment thereof prior to the closing of the Transaction, an interim sub-advisory agreement between the Adviser and the applicable Sub-Adviser (each an Interim Sub-Advisory Agreement and collectively, the Interim Sub-Advisory Agreements ) will take effect upon the closing of the Transaction.

At the July 31, 2007 meeting, each Board, including the Independent Board Members, also unanimously approved the Interim Sub-Advisory Agreements in order to assure continuity of advisory services to the Funds after the Transaction. The terms of each Interim Sub-Advisory Agreement are substantially identical to those of the Original Sub-Advisory Agreements and New Sub-Advisory Agreements, except for the term and escrow provisions described below. If a Fund's shareholders have not approved a New Sub-Advisory Agreement prior to the Transaction, an Interim Sub-Advisory Agreement will take effect upon the closing of the Transaction and will continue in effect for a term ending on the earlier of 150 days from the closing of the Transaction (the 150-day period ) or when shareholders of a Fund approve the New Sub-Advisory Agreement. Pursuant to Rule 15a-4 under the 1940 Act, compensation earned by a Sub-Adviser under an Interim Sub-Advisory Agreement will be held in an interest-bearing escrow account. If shareholders of a Fund approve the New Sub-Advisory Agreement prior to the end of the 150-day period, the amount held in the escrow account under the Interim Sub-Advisory Agreement will be paid to the Sub-Adviser. If shareholders of a Fund do not approve the New Sub-Advisory Agreement prior to the end of the 150-day period, the Board will take such action as it deems to be in the best interests of the Fund and its shareholders, and the Sub-Adviser will be paid the lesser of its costs incurred in performing its services under the



Interim Sub-Advisory Agreement or the total amount in the escrow account, plus interest earned.

### **Comparison of Original Sub-Advisory Agreement and New Sub-Advisory Agreement**

The terms of each New Sub-Advisory Agreement, including fees payable to the Sub-Adviser by NAM thereunder, are substantially identical to those of the Original Sub-Advisory Agreement, except for the date of effectiveness. There is no change in the fee rate payable by NAM to the Sub-Adviser. If approved by shareholders of a Fund, the New Sub-Advisory Agreement for the Fund will expire on August 1, 2008, unless continued. Each New Sub-Advisory Agreement will continue in effect from year to year thereafter if such continuance is approved for the Fund at least annually in the manner required by the 1940 Act and the rules and regulations thereunder. Below is a comparison of certain terms of the Original Sub-Advisory Agreements to the terms of the New Sub-Advisory Agreements.

**Advisory Services.** The advisory services to be provided by the Sub-Adviser to each Fund under the New Sub-Advisory Agreements will be identical to those advisory services currently provided by the Sub-Adviser to each Fund under the Original Sub-Advisory Agreements. Both the Original Sub-Advisory Agreements and New Sub-Advisory Agreements provide that the Sub-Adviser will furnish an investment program in respect of, make investment decisions for and place all orders for the purchase and sale of securities for the portion of the Fund's investment portfolio allocated by the Adviser to the Sub-Adviser, all on behalf of the Fund and subject to oversight of the Fund's Board and the Adviser. In performing its duties under both the Original Sub-Advisory Agreements and the New Sub-Advisory Agreements, the Sub-Adviser will monitor the Fund's investments and will comply with the provisions of the Fund's Declaration of Trust and By-Laws and the stated investment objectives, policies and restrictions of the Fund. It is not anticipated that the Transaction will have any adverse effect on the performance of a Sub-Adviser's obligations under the New Sub-Advisory Agreements.

**Brokerage.** Both the Original Sub-Advisory Agreements and New Sub-Advisory Agreements authorize the Sub-Adviser to select the brokers or dealers that will execute the purchases and sales of portfolio securities for the Funds, subject to its obligation to obtain best execution under the circumstances, which may take account of the overall quality of brokerage and research services provided to the Sub-Adviser.

Tax-Advantaged Floating Rate, Quality Preferred, Quality Preferred 2, Quality Preferred 3, Multi-Strategy Income and Multi-Strategy Income 2 paid affiliated brokerage commissions within the last fiscal year to Spectrum, which is also the Sub-Adviser to each such Fund. The affiliated brokerage commission paid by each of these Funds is shown in Appendix H.

**Fees.** Under both the Original Sub-Advisory Agreements and New Sub-Advisory Agreements, the Adviser pays the Sub-Adviser a portfolio management fee out of the investment management fee it receives from the Fund. The rate of the portfolio management fees payable by the Adviser to the Sub-Adviser under the New Sub-Advisory Agreements is identical to the rate of the fees paid under the Original Sub-Advisory Agreements. The annual rate of portfolio management fees payable to the Sub-Adviser under the Original Sub-Advisory Agreements and the New Sub-Advisory Agreements and the fees paid by the Adviser to the Sub-Adviser with respect to each Fund during each Fund's last fiscal year is set forth in Appendix I to this Proxy Statement. Appendix I also includes the advisory fee rates and net assets of funds not included

in this Proxy Statement advised by each Sub-Adviser with similar investment objectives as the Funds the Sub-Adviser sub-advises.

**Payment of Expenses.** Under each Original Sub-Advisory Agreement and New Sub-Advisory Agreement, the Sub-Adviser agrees to pay all expenses it incurs in connection with its activities under the Agreement other than the cost of securities (including brokerage commissions) purchased for the Fund.

**Limitation on Liability.** The Original Sub-Advisory Agreements and New Sub-Advisory Agreements provide that the Sub-Adviser will not be liable for, and the Adviser will not take any action against the Sub-Adviser to hold the Sub-Adviser liable for, any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the performance of the Sub-Adviser's duties under the Agreement, except for a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Sub-Adviser in the performance of duties under the Agreement, or by reason of its reckless disregard of its obligations and duties under the Agreement.

**Continuance.** Each Original Sub-Advisory Agreement of each Fund originally was in effect for an initial term and could be continued thereafter for successive one-year periods if such continuance was specifically approved at least annually in the manner required by the 1940 Act. If the shareholders of a Fund approve a New Sub-Advisory Agreement for that Fund, the New Sub-Advisory Agreement will expire on August 1, 2008, unless continued. Thereafter, the New Sub-Advisory Agreement may be continued for successive one-year periods if approved at least annually in the manner required by the 1940 Act.

**Termination.** The Original Sub-Advisory Agreement and New Sub-Advisory Agreement or Agreements for each Fund provide that the Agreement may be terminated at any time without the payment of any penalty by NAM or the Sub-Adviser on sixty (60) days' written notice to the other party. The Original Sub-Advisory Agreement and any New Sub-Advisory Agreement may also be terminated by a Fund by action of the Fund's Board or by a vote of a majority of the outstanding voting securities of that Fund, accompanied by 60 days' written notice.

The Original Sub-Advisory Agreement and New Sub-Advisory Agreement or Agreements for each Fund are also terminable with respect to that Fund at any time without the payment of any penalty, by the Adviser, the Board or by vote of a majority of the outstanding voting securities of that Fund in the event that it is established by a court of competent jurisdiction that the Sub-Adviser or any of its officers or directors has taken any action that results in a breach of the representations of the Sub-Adviser set forth in the Agreement.

### **Information About Sub-Advisers**

**Gateway.** Gateway manages the investment portfolios of Equity Premium, Equity Premium Advantage, Equity Premium Income and Equity Premium Opportunity. Gateway is a registered investment adviser that specializes in the management of index-option-based strategies for managing risk in equity portfolios. Gateway is a Delaware limited partnership and its majority-owner and general partner is Gateway Investment Advisers, Inc. Although Gateway commenced operations in 1995, its predecessor firm was founded in 1977. As of June 30, 2007, Gateway managed over \$7.6 billion in assets. The principal occupation of the officers and directors of Gateway is shown in Appendix J. The business address of Gateway and each officer and director of Gateway is Rookwood Tower, 3805 Edwards Road, Suite 600, Cincinnati, Ohio 45209. Please also see proposal 3 below for additional information about Gateway.

**INTECH.** INTECH manages the equity portion of the investment portfolio of Core Equity Alpha. Founded in 1987, INTECH specializes exclusively in providing highly-disciplined, mathematical investment strategies designed to seek long term returns in excess of target benchmarks. Their proprietary approach to managing large cap stock portfolios reflects their belief that mathematical, risk controlled stock selection and ongoing portfolio management (focused on the analysis of stock price volatility) can systematically generate alpha for investors risk-adjusted excess return relative to specified benchmarks over time with lower levels of risk. INTECH, a registered investment adviser, is an independently managed subsidiary of Janus Capital Group Inc. Most of the firm's clients are institutional investors, primarily pension funds and endowments. INTECH serves as subadviser for three mutual funds that employ the same large cap core strategy used by Core Equity Alpha. As of June 30, 2007, INTECH managed over \$70 billion in assets. The principal occupation of the officers and directors of INTECH is shown in Appendix J. The business address of INTECH and each officer and director of INTECH is Harbour Financial Center, 2401 PGA Blvd., Suite 100, Palm Beach Gardens, Florida 33410.

**NWQ.** NWQ, an affiliate of NAM, manages the investment portfolios, or a sleeve thereof, of Diversified Dividend, Total Return and Tax-Advantaged Dividend Growth and certain other Nuveen funds. NWQ is organized as a member-managed limited liability company, and its sole managing member is Nuveen. NWQ has provided investment management services to institutions and high net worth individuals since 1982. As of June 30, 2007, NWQ managed \$38.6 billion in assets (with \$18.2 billion in the Institutional Division and \$20.4 billion in the Managed Accounts Division). The principal occupation of the officers and directors of NWQ is shown in Appendix J. The business address of NWQ and each officer and director of NWQ is 2049 Century Park East, 16th Floor, Los Angeles, California 90067.

**SBAM.** SBAM, an affiliate of NAM, manages the dividend growth equity strategy of Tax-Advantaged Dividend Growth and certain other Nuveen funds. SBAM is organized as a member-managed limited liability company, and its sole managing member is Nuveen. SBAM specializes in fundamental, bottom-up research to select growth companies. Santa Barbara also serves as subadviser to four open-end mutual funds. As of June 30, 2007, SBAM managed over \$5 billion in assets. The principal occupation of the officers and directors of SBAM is shown in Appendix J. The business address of SBAM and each officer and director of SBAM is 200 E. Carrillo Street, Santa Barbara, California 93101.

**Security Capital.** Security Capital manages the investment portfolio of Real Estate and the real estate sleeve of the investment portfolio of Diversified Dividend. Security Capital is an indirect wholly-owned subsidiary of JPMorgan Chase & Co. As of June 30, 2007, Security Capital managed over \$5.5 billion in assets. The principal occupation of the officers and directors of Security Capital is shown in Appendix J. The business address of Security Capital and each officer and director of Security Capital is 10 South Dearborn, Suite 1400, Chicago, Illinois 60603.

**Spectrum.** Spectrum manages the investment portfolios of Tax-Advantaged Floating Rate, Quality Preferred, Quality Preferred 2 and Quality Preferred 3, and the preferred securities sleeves of the investment portfolios of Multi-Strategy Income and Multi-Strategy Income 2. Spectrum specializes in the management of diversified preferred securities portfolios for institutional investors, including Fortune 500 companies, pension funds, insurance companies and foundations. Spectrum, a registered investment adviser, commenced operations in 1987. Spectrum is an independently managed wholly-owned subsidiary of Principal Global Investors, LLC, which is part of Principal Financial Group Inc., a publicly traded, diversified, insurance and

financial services company. As of June 30, 2007, Spectrum managed approximately \$13.2 billion in assets. The principal occupation of the officers and directors of Spectrum is shown in Appendix J. The business address of Spectrum and each officer and director of Spectrum is 2 High Ridge Park, Stamford, Connecticut 06905.

**Symphony.** Symphony, an affiliate of NAM, manages the investment portfolios of Floating Rate, Floating Rate Income Opportunity and Senior Income, and sleeves of the investment portfolios of Diversified Dividend, Total Return, Multi-Strategy Income and Multi-Strategy Income 2, and certain other Nuveen funds. Symphony specializes in the management of market neutral equity and debt strategies and senior loan and other debt portfolios. Symphony, a registered investment adviser, commenced operations in 1994. Symphony is an indirect wholly-owned subsidiary of Nuveen. As of June 30, 2007, Symphony managed over \$10 billion in assets. The principal occupation of the officers and directors of Symphony is shown in Appendix J. The business address of Symphony and each officer and director of Symphony is 555 California Street, San Francisco, California 94104.

**Tradewinds.** Tradewinds, an affiliate of NAM, manages the investment portfolio of Global Value, and sleeves of the investment portfolios of Multi-Strategy Income and Multi-Strategy Income 2, and certain other Nuveen funds. Tradewinds specializes in global and international equity investing. Most of Tradewinds' personnel were affiliated with NWQ until March 2006, when NWQ reorganized into two distinct entities: NWQ and Tradewinds. Tradewinds is organized as a member-managed limited liability company, with Nuveen as its sole managing member. As of June 30, 2007, Tradewinds managed approximately \$35.3 billion in assets. The principal occupation of the officers and directors of Tradewinds is shown in Appendix J. The business address of Tradewinds and each officer and director of Tradewinds is 2049 Century Park East, 20th Floor, Los Angeles, California 90067.

**Wellington.** Wellington manages the emerging market debt sleeve of the investment portfolio of Diversified Dividend. Wellington is a professional investment counseling firm which provides investment services to investment companies, employee benefit plans, endowments, foundations and other institutions. Wellington manages assets for clients using a broad range of equity and fixed-income approaches. Wellington, a registered investment adviser, and its predecessor organizations commenced operations in 1928. Wellington is a Massachusetts limited liability partnership owned by its 98 partners, all of whom are active in the business. As of June 30, 2007, Wellington managed approximately \$597 billion in assets. The principal occupation of the principal executive officers of Wellington is shown in Appendix J. The business address of Wellington and each principal executive officer of Wellington is 75 State Street, Boston, Massachusetts 02109.

### **Shareholder Approval**

To become effective, each New Sub-Advisory Agreement must be approved by a vote of a majority of the outstanding voting securities of the Fund, with the Common and Preferred shareholders voting together as a single class for the Funds that have issued Preferred Shares. The vote of a majority of the outstanding voting securities is defined in the 1940 Act as the lesser of the vote of (i) 67% or more of the shares of the Fund entitled to vote thereon present at the meeting if the holders of more than 50% of such outstanding shares are present in person or represented by proxy; or (ii) more than 50% of such outstanding shares of the Fund entitled to vote thereon. Each New Sub-Advisory Agreement was approved by the Board after consideration of all factors which it determined to be relevant to its deliberations, including those

discussed below. The Board also determined to submit the New Sub-Advisory Agreement for consideration by the shareholders of the Fund.

**The Board of each Fund unanimously recommends that shareholders of the Fund vote FOR approval of the Fund's New Sub-Advisory Agreement.**

## **Board Considerations**

### **I. Approval of the Original Investment Management Agreements and Original Sub-Advisory Agreements**

The Board Members are responsible for overseeing the performance of the investment adviser to the Funds and determining whether to approve or continue the advisory arrangements. During the year, the Board of each Fund had performed a full annual review of or initially approved the Original Investment Management Agreements and, with respect to Funds with Sub-Advisers, the Original Sub-Advisory Agreements. The annual review of advisory and sub-advisory contracts was held at a Board Meeting on May 21, 2007 (the May Meeting). The Funds with Original Investment Management Agreements and/or Original Sub-Advisory Agreements subject to the annual review at the May Meeting (the Existing Funds) and the Funds with Original Investment Management Agreements and/or Original Sub-Advisory Agreements that were initially approved (the New Funds) at other dates during the year (each an Initial Approval Meeting) are set forth in Appendix B (for Original Investment Management Agreements) and Appendix F (for Original Sub-Advisory Agreements). NAM and each Sub-Adviser are referred to herein as a Fund Adviser. Because the information provided and considerations made at the annual and initial reviews continue to be relevant with respect to the evaluation of the New Investment Management Agreements and New Sub-Advisory Agreements, the Board considered the foregoing as part of their deliberations of the New Investment Management Agreements and New Sub-Advisory Agreements. Accordingly, as indicated, the discussions immediately below outline the materials and information presented to the Board in connection with the Board's prior annual or initial review and the analysis undertaken and the conclusions reached by Board Members when determining to approve or continue the Original Investment Management Agreements and Original Sub-Advisory Agreements.

During the course of the year, the Board received a wide variety of materials relating to the services provided by the Fund Advisers and the performance of the Funds (as applicable). At each of its quarterly meetings, the Board reviewed investment performance (as applicable) and various matters relating to the operations of the Funds, including the compliance program, shareholder services, valuation, custody, distribution and other information relating to the nature, extent and quality of services provided by the Fund Adviser. Between the regularly scheduled quarterly meetings, the Board Members received information on particular matters as the need arose. In addition, because the Advisers and Sub-Advisers to the New Funds (other than INTECH) already serve in such respective capacities for other Nuveen funds, the information provided regarding the Fund Advisers at the annual review at the May Meeting supplemented the information received at the initial approvals. INTECH, however, is a new Sub-Adviser to a New Fund in the complex (i.e., Core Equity Alpha). Accordingly, the discussion below for Fund Advisers at the annual review does not include INTECH. In addition, with respect to Multi-Strategy Income and Multi-Strategy Income 2, in connection with recent changes to the mandates of these Funds, the Board Members approved Tradewinds as a new additional Sub-Adviser to these Funds and an amended sub-advisory agreement with

Symphony in November, 2006. Such agreements were also subject to shareholder approval. Although Tradewinds did not begin to serve as a Sub-Adviser to these Funds by the time of the May Meeting, Tradewinds, as noted, serves as Sub-Adviser to other Nuveen funds. Accordingly, the information provided and considerations regarding Tradewinds at the annual review continue to be relevant to the evaluation of Tradewinds and supplement the information provided at the prior review. Finally, with respect to Global Government and Global Value, since such Funds are relatively new, the Funds are treated similarly to New Funds with respect to performance and expenses, unless indicated otherwise.

In preparation for their considerations at the May Meeting, the Independent Board Members received extensive materials, well in advance of the meeting, which outlined or are related to, among other things:

the nature, extent and quality of services provided by the Fund Adviser;

the organization and business operations of the Fund Adviser, including the responsibilities of various departments and key personnel;

each Existing Fund's past performance as well as the Existing Fund's performance compared to funds with similar investment objectives based on data and information provided by an independent third party and to recognized and/or customized benchmarks (as appropriate);

the profitability of the Fund Adviser and certain industry profitability analyses for unaffiliated advisers;

the expenses of the Fund Adviser in providing the various services;

the advisory fees and total expense ratios of each Existing Fund, including comparisons of such fees and expenses with those of comparable, unaffiliated funds based on information and data provided by an independent third party (the Peer Universe) as well as compared to a subset of funds within the Peer Universe (the Peer Group) of the respective Existing Fund (as applicable);

the advisory fees the Fund Adviser assesses to other types of investment products or clients;

the soft dollar practices of the Fund Adviser, if any; and

from independent legal counsel, a legal memorandum describing among other things, applicable laws, regulations and duties in reviewing and approving advisory contracts.

At the Initial Approval Meetings, the Board Members received in advance of such meeting or at prior meetings similar materials, including the nature, extent and quality of services expected to be provided; the organization and operations of any Fund Adviser (including the responsibilities of various departments and key personnel); the expertise and background of the Fund Adviser; the profitability of Nuveen (which includes its wholly-owned advisory subsidiaries); the proposed management fees, including comparisons with peers; the expected expenses of the New Fund, including comparisons of the expense ratios with peers; and the soft dollar practices of the Fund Adviser. However, unlike Existing Funds, the New Funds did not have actual past performance at the time of approval.

At the May Meeting, NAM made a presentation to, and responded to questions from, the Board. At the May Meeting and applicable Initial Approval Meeting, the Independent Board Members met privately with their legal counsel to review the Board's duties in reviewing advisory contracts and considering the approval or renewal of the advisory contracts (which



include the sub-advisory contracts). The Independent Board Members, in consultation with independent counsel, reviewed the factors set out in judicial decisions and SEC directives relating to the approval or renewal of advisory contracts. As outlined in more detail below, the Board Members considered all factors they believed relevant with respect to each Fund, including, but not limited to, the following: (a) the nature, extent and quality of the services to be provided by the Fund Adviser; (b) the investment performance of the Fund and the Fund Adviser (as applicable); (c) the costs of the services to be provided and profits to be realized by the Fund Adviser and its affiliates; (d) the extent to which economies of scale would be realized; and (e) whether fee levels reflect those economies of scale for the benefit of the Fund's investors. In addition, as noted, the Board Members met regularly throughout the year to oversee the Funds. In evaluating the advisory contracts, the Board Members also relied upon their knowledge of the respective Fund Adviser, its services and the Funds resulting from their meetings and other interactions throughout the year. It is with this background that the Board Members considered each advisory contract.

#### **A. Nature, Extent and Quality of Services**

In considering the approval or renewal of the Original Investment Management Agreements and Original Sub-Advisory Agreements, the Board Members considered the nature, extent and quality of the respective Fund Adviser's services. The Board Members reviewed materials outlining, among other things, the Fund Adviser's organization and business; the types of services that the Fund Adviser or its affiliates provide or are expected to provide to the Funds; the performance record of the Fund (as described in further detail below); and at the annual review, any initiatives Nuveen had taken for the applicable fund product line. As noted, at the annual review, the Board Members were already familiar with the organization, operations and personnel of each respective Fund Adviser due to the Board Members' experience in governing the respective Funds and working with such Fund Advisers on matters relating to the Funds. At the May Meeting, the Board Members also recognized NAM's investment in additional qualified personnel throughout the various groups in the organization and recommended to NAM that it continue to review staffing needs as necessary. The Board Members recognized NAM's investment of resources and efforts to continue to enhance and refine its investment processes. With respect to the taxable fixed income funds advised by NAM (e.g., Global Government and Multi-Currency Short-Term) the Board Members also considered the depth of experience of NAM personnel managing this type of Fund and their respective investment strategies.

With respect to Sub-Advisers, the Board Members also received and reviewed an evaluation of each Sub-Adviser (other than INTECH) from NAM at the annual review. Such evaluation outlined, among other things, the respective Sub-Adviser's organizational history, client base, product mix, investment team and any changes thereto, investment process and any changes to its investment strategy, and the Funds' investment objectives and performance (as applicable). At the May Meeting, the Board Members noted that NAM recommended the renewal of the applicable Original Sub-Advisory Agreements and considered the basis for such recommendations and any qualifications in connection therewith. In its review of the Sub-Advisers, the Board Members also considered, among other things, the experience of the investment personnel, the quality of the Sub-Adviser's investment processes in making portfolio management decisions and any additional refinements and improvements adopted to the portfolio management processes and Fund performance. During the last year, the Board Members noted that they visited several Sub-Advisers meeting their key investment and business personnel. In



this regard, the Board Members visited Gateway in October, 2006 and SBAM, NWQ and Tradewinds in February, 2007. The Board Members noted such Sub-Advisers' experienced investment teams. With respect to the Funds sub-advised by NWQ, SBAM, and Security Capital, the Board Members also noted the depth of experience of their respective personnel and disciplined investment process at the annual review.

In addition to advisory services, the Independent Board Members considered the quality of administrative and non-advisory services provided by NAM and noted that NAM and its affiliates provide the Funds with a wide variety of services and officers and other personnel as are necessary for the operations of the Funds, including:

- product management;
- fund administration;
- oversight by shareholder services and other fund service providers;
- administration of Board relations;
- regulatory and portfolio compliance; and
- legal support.

As the Funds operate in a highly regulated industry and given the importance of compliance, the Board Members considered, in particular, NAM's compliance activities for the Funds and enhancements thereto. In this regard, the Board Members recognized the quality of NAM's compliance team. With respect to Funds with Sub-Advisers, the Board Members also considered NAM's ability and procedures to monitor the respective Sub-Adviser's performance, business practices and compliance policies and procedures. The Board Members further noted NAM's negotiations with other service providers and the corresponding reduction in certain service providers' fees at the May Meeting.

With respect to closed-end Funds, in addition to the foregoing services, the Board Members also noted the additional services that NAM or its affiliates provide to closed-end Funds, including, in particular, its secondary market support activities. The Board Members recognized Nuveen's continued commitment to supporting the secondary market for the common shares of its closed-end Funds through a variety of programs designed to raise investor and analyst awareness and understanding of closed-end funds. These efforts include:

- maintaining shareholder communications;
- providing advertising for the closed-end Funds;
- maintaining its closed-end fund website;
- maintaining continual contact with financial advisers;
- providing educational symposia;
- conducting research with investors and financial analysis regarding closed-end funds; and
- evaluating secondary market performance.



With respect to the closed-end Funds that utilize leverage through the issuance of Preferred Shares, the Board Members noted Nuveen's continued support for the holders of Preferred Shares by, among other things:

- maintaining an in-house trading desk;
- maintaining a product manager for the Preferred Shares;
- developing distribution for Preferred Shares with new market participants;
- maintaining an orderly auction process;
- managing leverage and risk management of leverage; and
- maintaining systems necessary to test compliance with rating agency criteria.

With respect to Sub-Advisers, the Board Members noted that the sub-advisory agreements were essentially agreements for portfolio management services only and the respective Sub-Adviser was not expected to supply other significant administrative services to the Funds.

Based on their review, the Board Members found that, overall, the nature, extent and quality of services provided (and expected to be provided) to the Funds under the respective Original Investment Management Agreement or Original Sub-Advisory Agreement, as applicable, were satisfactory.

## **B. The Investment Performance of the Funds and Fund Advisers**

At the May Meeting, the Board considered the investment performance for each Existing Fund, including the Existing Fund's historic performance as well as its performance compared to funds with similar investment objectives (the Performance Peer Group) based on data provided by an independent third party (as described below). The Board Members also reviewed the respective Existing Fund's historic performance compared to recognized and/or customized benchmarks (as applicable).

In evaluating the performance information during the annual review at the May Meeting, in certain instances, the Board Members noted that the closest Performance Peer Group for an Existing Fund may not adequately reflect such Existing Fund's investment objectives and strategies, thereby limiting the usefulness of the comparisons of such Fund's performance with that of the Performance Peer Group. These Performance Peer Groups include those for: Diversified Dividend, Multi-Strategy Income, Multi-Strategy Income 2, Tax-Advantaged Floating Rate, Real Estate, Equity Premium Advantage, Equity Premium Income, Equity Premium Opportunity and Equity Premium. In addition, the Board Members noted the recent change to the investment mandates of Multi-Strategy Income and Multi-Strategy Income 2 thereby limiting some of the usefulness of reviewing such Funds' past performance.

The Board Members reviewed performance information including, among other things, total return information compared with the Existing Fund's Performance Peer Group as well as recognized and/or customized benchmarks (as appropriate) for the one-, three- and five-year periods (as applicable) ending December 31, 2006. This information supplemented the performance information provided to the Board at each of its quarterly meetings. Based on their review at the May Meeting, the Board Members determined that the respective Existing Fund's investment performance over time had been satisfactory.



With respect to New Funds, the Funds did not have their own performance history at their Initial Approval Meetings. However, in certain cases, the Board Members received simulated performance information regarding the proposed investment strategies for the applicable New Fund (if available). In addition, the Board Members were also familiar with the Fund Adviser's performance record on other Nuveen funds (as applicable). Subsequent to the Initial Approval Meetings, the Board received updated performance information at each of its quarterly meetings. At the May Meeting, the Board noted that Global Government and Global Value are each relatively new Funds with performance histories that are too short for a meaningful assessment of performance.

## **C. Fees, Expenses and Profitability**

### **1. Fees and Expenses**

During the annual review, the Board evaluated the management fees and expenses of each Existing Fund reviewing, among other things, such Fund's advisory fees (net and gross management fees) and total expense ratios (before and after expense reimbursements and/or waivers) in absolute terms as well as comparisons to the gross management fees (before waivers), net management fees (after waivers) and total expense ratios (before and after waivers) of comparable funds in the Peer Universe and the Peer Group. In reviewing the fee schedule for an Existing Fund, the Board Members considered the fund-level and complex-wide breakpoint schedules (described in further detail below) and any fee waivers and reimbursements provided by Nuveen. The Board Members further reviewed data regarding the construction of Peer Groups as well as the methods of measurement for the fee and expense analysis and the performance analysis. In certain cases, due to the small number of peers in the Peer Universe, the Peer Universe and Peer Group had significant overlap or even consisted entirely of the same unaffiliated funds. In reviewing the comparisons of fee and expense information, the Board Members recognized that in certain cases, the size of the Existing Fund relative to peers, the small size and odd composition of the Peer Group (including differences in objectives and strategies), expense anomalies, timing of information used or other factors impacting the comparisons thereby limited some of the usefulness of the comparative data. The Board Members also considered the differences in the use of leverage. The Board Members also noted the limited Peer Groups available for the Nuveen funds with multi-sleeves of investments (e.g., Diversified Dividend, Multi-Strategy Income, Multi-Strategy Income 2 and Total Return). Based on their review of the fee and expense information provided, the Board Members determined that each Existing Fund's net total expense ratio was within an acceptable range compared to peers.

With respect to New Funds at the Initial Approval Meetings, the Board similarly considered the New Fund's proposed management fee structure, its sub-advisory fee arrangements and expected expense ratios in absolute terms as well as compared with the fees and expense ratios of comparable, unaffiliated funds and comparable, affiliated funds (if any). The Board Members also considered the applicable fund-level breakpoint schedule and complex-wide breakpoint schedule. In addition, the Board received information regarding the New Funds' expense ratios at each of its quarterly meetings. Based on their review of the overall fee arrangements of the respective New Funds, the Board Members determined that the advisory fees and expected expenses of the applicable New Funds were reasonable.

## **2. Comparisons with the Fees of Other Clients**

At the annual review, the Board Members further reviewed data comparing the advisory fees of NAM with fees NAM charges to other clients. Such clients include NAM's separately managed accounts and funds that are not offered by Nuveen but are sub-advised by one of Nuveen's investment management teams. In general, the advisory fees charged for separate accounts are somewhat lower than the advisory fees assessed to the Funds. The Board Members considered the differences in the product types, including, but not limited to, the services provided, the structure and operations, product distribution and costs thereof, portfolio investment policies, investor profiles, account sizes and regulatory requirements. The Board Members noted, in particular, that the range of services provided to the Funds (as discussed above) is much more extensive than that provided to separately managed accounts. As described in further detail above, such additional services include, but are not limited to: product management, fund administration, oversight of third party service providers, administration of Board relations, and legal support. The Board Members noted that the Funds operate in a highly regulated industry requiring extensive compliance functions compared to other investment products. Given the inherent differences in the products, particularly the extensive services provided to the Funds, the Board Members believe such facts justify the different levels of fees.

With respect to Sub-Advisers, in considering the fees of a Sub-Adviser, the Board Members also considered the pricing schedule or fees that the Sub-Adviser charges for similar investment management services for other fund sponsors or clients, as applicable. With respect to Symphony, the Board Members also reviewed the generally higher fees for equity and taxable fixed-income hedge funds and hedge accounts it manages, which include a performance fee. The Board Members noted that, with respect to Sub-Advisers unaffiliated with Nuveen, such fees were the result of arm's-length negotiations.

## **3. Profitability of Fund Advisers**

In conjunction with its review of fees, the Board Members also considered the profitability of Nuveen for its advisory activities (which incorporated Nuveen's wholly-owned affiliated sub-advisers) and its financial condition. At the annual review, the Board Members reviewed the revenues and expenses of Nuveen's advisory activities for the last three years, the allocation methodology used in preparing the profitability data as well as the 2006 Annual Report for Nuveen. The Board Members noted this information supplemented the profitability information requested and received during the year to help keep them apprised of developments affecting profitability (such as changes in fee waivers and expense reimbursement commitments). In this regard, the Board Members noted the enhanced dialogue and information regarding profitability with NAM during the year, including more frequent meetings and updates from Nuveen's corporate finance group. The Board Members considered Nuveen's profitability compared with other fund sponsors prepared by three independent third party service providers as well as comparisons of the revenues, expenses and profit margins of various unaffiliated management firms with similar amounts of assets under management prepared by Nuveen.

In reviewing profitability, the Board Members recognized the subjective nature of determining profitability which may be affected by numerous factors including the allocation of expenses. Further, the Board Members recognized the difficulties in making comparisons as the profitability of other advisers generally is not publicly available and the profitability information that is available for certain advisers or management firms may not be representative of the

industry and may be affected by, among other things, the adviser's particular business mix, capital costs, types of funds managed and expense allocations.

Notwithstanding the foregoing, the Board Members reviewed Nuveen's methodology at the annual review and assumptions for allocating expenses across product lines to determine profitability. Last year, the Board Members also designated an Independent Board Member as a point person for the Board to review the methodology determinations during the year and any refinements thereto, which relevant information produced from such process was reported to the full Board. In reviewing profitability, the Board Members recognized Nuveen's increased investment in its fund business. Based on its review, the Board Members concluded that Nuveen's level of profitability for its advisory activities was reasonable in light of the services provided. With respect to Funds with Sub-Advisers unaffiliated with Nuveen, the Board Members also considered the Sub-Adviser's revenues from serving as sub-adviser to the applicable Existing Funds, expenses (including the basis for allocating expenses) and profitability margins (pre- and post-tax). Based on their review, the Board Members were satisfied that the respective Fund Adviser's level of profitability was reasonable in light of the services provided.

In evaluating the reasonableness of the compensation, the Board Members also considered other amounts paid to a Fund Adviser by the Funds as well as any indirect benefits (such as soft dollar arrangements, if any) the Fund Adviser and its affiliates receive, or are expected to receive, that are directly attributable to the management of the Funds, if any. See Section E below for additional information on indirect benefits a Fund Adviser may receive as a result of its relationship with the Funds. Based on their review of the overall fee arrangements of each Existing Fund, the Board Members determined that the advisory fees and expenses of the Funds were reasonable.

#### **D. Economies of Scale and Whether Fee Levels Reflect These Economies of Scale**

With respect to economies of scale, the Board Members recognized the potential benefits resulting from the costs of a Fund being spread over a larger asset base. To help ensure the shareholders share in these benefits, the Board Members reviewed and considered the breakpoints in the advisory fee schedules that reduce advisory fees. In addition to advisory fee breakpoints, the Board also approved a complex-wide fee arrangement in 2004. Pursuant to the complex-wide fee arrangement, the fees of the funds in the Nuveen complex, including the Funds, are reduced as the assets in the fund complex reach certain levels. In evaluating the complex-wide fee arrangement, the Board Members noted that the last complex-wide asset level breakpoint for the complex-wide fee schedule was at \$91 billion and that the Board Members anticipated further review and/or negotiations prior to the assets of the Nuveen complex reaching such threshold. Based on their review, the Board Members concluded that the breakpoint schedule and complex-wide fee arrangement were acceptable and desirable in providing benefits from economies of scale to shareholders, subject to further evaluation of the complex-wide fee schedule as assets in the complex increase. See Section II, Paragraph D

Approval of the New Investment Management Agreements and New Sub-Advisory Agreements – Economies of Scale and Whether Fee Levels Reflect These Economies of Scale for information regarding subsequent modifications to the complex-wide fee.

**E. Indirect Benefits**

In evaluating fees, the Board Members also considered any indirect benefits or profits the respective Fund Adviser or its affiliates may receive as a result of its relationship with each Fund. In this regard, the Board Members considered the revenues received by affiliates of NAM for serving as agent at Nuveen's preferred trading desk and for serving as a co-manager in the initial public offering of new closed-end exchange traded funds.

In addition to the above, the Board Members considered whether the Fund Adviser received any benefits from soft dollar arrangements whereby a portion of the commissions paid by a Fund for brokerage may be used to acquire research that may be useful to the Fund Adviser in managing the assets of the Funds and other clients. With respect to NAM, the Board Members noted that NAM does not currently have any soft dollar arrangements; however, to the extent certain bona fide agency transactions that occur on markets that traditionally trade on a principal basis and riskless principal transactions are considered as generating commissions, NAM intends to comply with the applicable safe harbor provisions. With respect to NWQ, SBAM, Security Capital, and Tradewinds, the Board Members considered that such Sub-Advisers may benefit from their soft dollar arrangements pursuant to which the respective Sub-Adviser receives research from brokers that execute the applicable Fund's portfolio transactions. With respect to Wellington, the Board Members noted that while Wellington does have some soft dollar arrangements with respect to some of its agency trades, the trades in fixed income securities held by Diversified Dividend are done on a principal basis. For these Sub-Advisers, the Board Members noted that such Sub-Advisers' profitability may be lower if they were required to pay for this research with hard dollars.

With respect to Gateway, Spectrum and Symphony, the following soft dollar arrangements were noted. The Board noted that Spectrum does not pay excess brokerage commissions in order to receive research services but may from time to time receive research generally provided to a broker's clients. With respect to Gateway, the Board considered that while Gateway may select brokers that provide it with research services, it is Gateway's current practice not to receive soft dollar credits in connection with trades executed for the Funds it advises but it may seek to do so in the future. With respect to Symphony, the Board also considered that Symphony currently does not enter into soft dollar arrangements; however, it has adopted a soft dollar policy in the event it does so in the future.

With respect to INTECH, the Board noted at its Initial Approval Meeting that INTECH currently does not use soft dollar arrangements.

Based on their review, the Board Members concluded that any indirect benefits received by a Fund Adviser as a result of its relationship with the Funds were reasonable and within acceptable parameters.

**F. Other Considerations**

The Board Members did not identify any single factor discussed previously as all-important or controlling in their considerations to initially approve or continue an advisory contract. The Board Members, including the Independent Board Members, unanimously concluded that the terms of the Original Investment Management and Original Sub-Advisory Agreements are fair and reasonable, that the respective Fund Adviser's fees are reasonable in light of the services provided to each Fund and that the Original Investment Management Agreements and the Original Sub-Advisory Agreements be approved or renewed (as applicable).



## **II. Approval of the New Investment Management Agreements and New Sub-Advisory Agreements**

Following the May Meeting, the Board Members were advised of the potential Transaction. As noted above, the completion of the Transaction would terminate each of the Original Investment Management Agreements and Original Sub-Advisory Agreements. Accordingly, at a meeting held on July 31, 2007 (the July Meeting), the Board of each Fund, including the Independent Board Members, unanimously approved the New Investment Management Agreements and New Sub-Advisory Agreements on behalf of the respective Funds. Leading up to the July Meeting, the Board Members had several meetings and deliberations with and without Nuveen management present, and with the advice of legal counsel, regarding the proposed Transaction as outlined below.

On June 8, 2007, the Board Members held a special telephonic meeting to discuss the proposed Transaction. At that meeting, the Board Members established a special ad hoc committee comprised solely of Independent Board Members to focus on the Transaction and to keep the Independent Board Members updated with developments regarding the Transaction. On June 15, 2007, the ad hoc committee discussed with representatives of NAM the Transaction and modifications to the complex-wide fee schedule that would generate additional fee savings at specified levels of complex-wide asset growth (as set forth in Appendix D). Following the foregoing meetings and several subsequent telephonic conferences among Independent Board Members and independent counsel, and between Independent Board Members and representatives of Nuveen, the Board met on June 18, 2007 to further discuss the proposed Transaction. Immediately prior to and then again during the June 18, 2007 meeting, the Independent Board Members met privately with their independent legal counsel. At that meeting, the Board met with representatives of MDP, of Goldman Sachs, Nuveen's financial adviser in the Transaction, and of the Nuveen Board to discuss, among other things, the history and structure of MDP, the terms of the proposed Transaction (including the financing terms), and MDP's general plans and intentions with respect to Nuveen (including with respect to management, employees, and future growth prospects). On July 9, 2007, the Board also met to be updated on the Transaction as part of a special telephonic Board meeting. The Board Members were further updated at a special in-person Board meeting held on July 19, 2007 (one Independent Board Member participated telephonically). Subsequently, on July 27, 2007, the ad hoc committee held a telephonic conference with representatives of Nuveen and MDP to further discuss, among other things, the Transaction, the financing of the Transaction, retention and incentive plans for key employees, the effect of regulatory restrictions on transactions with affiliates after the Transaction, and current volatile market conditions and their impact on the Transaction.

In connection with their review of the New Investment Management Agreements and New Sub-Advisory Agreements, the Independent Board Members, through their independent legal counsel, also requested in writing and received additional information regarding the proposed Transaction and its impact on the provision of services by NAM and its affiliates.

The Independent Board Members received, well in advance of the July Meeting, materials which outlined, among other things:

the structure and terms of the Transaction, including MDP's co-investor entities and their expected ownership interests, and the financing arrangements that will exist for Nuveen following the closing of the Transaction;

the strategic plan for Nuveen following the Transaction;

the governance structure for Nuveen following the Transaction;

any anticipated changes in the operations of the Nuveen funds following the Transaction, including changes to NAM s and Nuveen s day-to-day management, infrastructure and ability to provide advisory, distribution or other applicable services to the Funds;

any changes to senior management or key personnel who work on Fund related matters (including portfolio management, investment oversight, and legal/compliance) and any retention or incentive arrangements for such persons;

any anticipated effect on each Fund s expense ratio (including advisory fees) following the Transaction;

any benefits or undue burdens imposed on the Funds as a result of the Transaction;

any legal issues for the Funds as a result of the Transaction;

the nature, quality and extent of services expected to be provided to the Funds following the Transaction, changes to any existing services and policies affecting the Funds, and cost-cutting efforts, if any, that may impact such services or policies;

any conflicts of interest that may arise for Nuveen or MDP with respect to the Funds;

the costs associated with obtaining necessary shareholder approvals and who would bear those costs; and

from legal counsel, a memorandum describing the applicable laws, regulations and duties in approving advisory contracts, including, in particular, with respect to a change of control.

Immediately preceding the July Meeting, representatives of MDP met with the Board to further respond to questions regarding the Transaction. After the meeting with MDP, the Independent Board Members met with independent legal counsel in executive session. At the July Meeting, Nuveen also made a presentation and responded to questions. Following the presentations and discussions of the materials presented to the Board, the Independent Board Members met again in executive session with their counsel. As outlined in more detail below, the Independent Board Members considered all factors they believed relevant with respect to each Fund, including the impact that the Transaction could be expected to have on the following: (a) the nature, extent and quality of services to be provided; (b) the investment performance of the Funds; (c) the costs of the services and profits to be realized by Nuveen and its affiliates; (d) the extent to which economies of scale would be realized; and (e) whether fee levels reflect those economies of scale for the benefit of investors. As noted above, during the past year, the Board Members had completed their annual review of, or initially approved, the respective Original Investment Management Agreements and Original Sub-Advisory Agreements and many of the factors considered at such reviews were applicable to their evaluation of the New Investment Management Agreements and New Sub-Advisory Agreements. Accordingly, in evaluating such agreements, the Board Members relied upon their knowledge and experience with the Fund Advisers and considered the information received and their evaluations and conclusions drawn at the reviews. The Independent Board Members evaluated

all information available to them on a Fund-by-Fund basis, and their determinations were made separately in respect of each Fund.

**A. Nature, Extent and Quality of Services**

In evaluating the nature, quality and extent of the services expected to be provided by the Fund Adviser under the applicable New Investment Management Agreement or New Sub-Advisory Agreement, the Independent Board Members considered, among other things, the expected impact, if any, of the Transaction on the operations, facilities, organization and personnel of NAM and each Sub-Adviser (if applicable); the potential implications of regulatory restrictions on the Funds following the Transaction; the ability of NAM and its affiliates to perform their duties after the Transaction; and any anticipated changes to the current investment and other practices of the Funds.

The Board noted that the terms of each New Investment Management Agreement, including the fees payable thereunder, are substantially identical to those of the Original Investment Management Agreement relating to the same Fund (with both reflecting reductions to fee levels in the complex-wide fee schedule for complex-wide assets in excess of \$80 billion that have an effective date of August 20, 2007). Similarly, the terms of each New Sub-Advisory Agreement, including fees payable thereunder, are substantially identical to those of the Original Sub-Advisory Agreement relating to the same Fund. The Board considered that the services to be provided and the standard of care under the New Investment Advisory Agreements and the New Sub-Advisory Agreements are the same as the corresponding original agreements. For Funds with Sub-Advisers, the Board Members noted the Transaction does not alter the allocation of responsibilities between the Adviser and Sub-Adviser. The respective Sub-Adviser for the applicable Funds will continue to furnish an investment program in respect of, make investment decisions for and place all orders for the purchase and sale of securities for the portion of the Fund's investment portfolio allocated by the Adviser to the respective Sub-Adviser, all on behalf of the applicable Fund and subject to oversight of the Board and the Adviser. The Board Members further noted that key personnel of the Adviser or Sub-Adviser who have responsibility for the Funds in each area, including portfolio management, investment oversight, fund management, fund operations, product management, legal/compliance and board support functions, are expected to be the same following the Transaction. The Board Members considered and are familiar with the qualifications, skills and experience of such personnel. The Board also considered certain information regarding any anticipated retention or incentive plans designed to retain key personnel. Further, the Board Members noted that no changes to Nuveen's infrastructure (including at the affiliated Sub-Adviser level) or operations as a result of the Transaction were anticipated other than potential enhancements as a result of an expected increase in the level of investment in such infrastructure and personnel. The Board noted MDP's representations that it does not plan to have a direct role in the management of Nuveen, appointing new management personnel, or directly impacting individual staffing decisions. The Board Members also noted that there were not any planned cost cutting measures that could be expected to reduce the nature, extent or quality of services. After consideration of the foregoing, the Board Members concluded that no diminution in the nature, quality and extent of services provided to the Funds and their shareholders by the respective Fund Advisers is expected.

In addition to the above, the Board Members considered potential changes in the operations of each Fund. In this regard, the Board Members considered the potential effect of regulatory

restrictions on the Funds' transactions with future affiliated persons. During their deliberations, it was noted that, after the Transaction, a subsidiary of Merrill Lynch is expected to have an ownership interest in Nuveen at a level that will make Merrill Lynch an affiliated person of Nuveen. The Board Members recognized that applicable law would generally prohibit the Funds from engaging in securities transactions with Merrill Lynch as principal, and would also impose restrictions on using Merrill Lynch for agency transactions. They recognized that having MDP and Merrill Lynch as affiliates may restrict the Funds' ability to invest in securities of issuers controlled by MDP or issued by Merrill Lynch and its affiliates even if not bought directly from MDP or Merrill Lynch as principal. They also recognized that various regulations may require the Funds to apply investment limitations on a combined basis with affiliates of Merrill Lynch. The Board Members considered information provided by NAM regarding the potential impact on the Funds' operations as a result of these regulatory restrictions. The Board Members considered, in particular, the Funds that may be impacted most by the restricted access to Merrill Lynch, including: municipal funds (particularly certain state-specific funds), senior loan funds, taxable fixed income funds, preferred security funds and funds that heavily use derivatives. The Board Members considered such Funds' historic use of Merrill Lynch as principal in their transactions and information provided by NAM regarding the expected impact resulting from Merrill Lynch's affiliation with Nuveen and available measures that could be taken to minimize such impact. NAM informed the Board Members that, although difficult to determine with certainty, its management did not believe that MDP's or Merrill Lynch's status as an affiliate of Nuveen would have a material adverse effect on any Fund's ability to pursue its investment objectives and policies.

In addition to the regulatory restrictions considered by the Board, the Board Members also considered potential conflicts of interest that could arise between the Funds and various parties to the Transaction and discussed possible ways of addressing such conflicts.

Based on its review along with its considerations regarding services at the annual and/or initial review, the Board concluded that the Transaction was not expected to adversely affect the nature, quality or extent of services provided by the respective Fund Adviser and that the expected nature, quality and extent of such services supported approval of the New Investment Management Agreements and New Sub-Advisory Agreements.

## **B. Performance of the Funds**

With respect to the performance of the Funds, the Board considered that the portfolio management personnel responsible for the management of the Funds' portfolios were expected to continue to manage the portfolios following the completion of the Transaction.

In addition, the Board Members recently reviewed Existing Fund performance at the May Meeting, as described above, and determined such Funds' performance was satisfactory or better. With respect to New Funds, the Funds did not have their own performance history at their respective Initial Approval Meetings. However, in certain cases, the Board Members received simulated performance information regarding the proposed investment strategies for the applicable New Fund (if available). The Board Members noted that the New Funds have only been operating for a short period since their inception. In this regard, with respect to the annual review at the May Meeting for Global Government and Global Value, the Board Members noted such Funds have a performance history that is too short for a meaningful assessment of performance. The Board Members further noted that the investment policies and strategies were not expected to change as a result of the Transaction.

In light of the foregoing factors, along with the prior findings regarding performance at the annual review, the Board concluded that its findings with respect to performance supported approval of the New Investment Management Agreements and New Sub-Advisory Agreements.

### **C. Fees, Expenses and Profitability**

As described in more detail above, during the annual or initial reviews, the Board Members considered, among other things, the management fees and expenses of the Funds, the breakpoint schedules, and comparisons of such fees and expenses with peers. At the annual or initial review, the Board Members determined that the respective Fund's advisory fees and expenses were reasonable. In evaluating the profitability of the Fund Adviser under the New Investment Management Agreements and New Sub-Advisory Agreements, the Board Members considered their conclusions at their prior reviews and whether the management fees or other expenses would change as a result of the Transaction. As described above, the investment management fee for NAM is composed of two components a fund-level component and complex-wide level component. The fee schedule under the New Investment Management Agreements to be paid to NAM is identical to that under the Original Investment Management Agreements, including the modified complex-wide fee schedule. As noted above, the Board recently approved a modified complex-wide fee schedule that would generate additional fee savings on complex-wide assets above \$80 billion. See Appendix D for both the prior and the new complex-wide fee schedule. The modifications have an effective date of August 20, 2007 and are part of the Original Investment Management Agreements. Accordingly, the terms of the complex-wide component under the New Investment Management Agreements are the same as under the Original Investment Management Agreements. The Board Members also noted that Nuveen has committed for a period of two years from the date of closing of the Transaction that it will not increase gross management fees for any Fund and will not reduce voluntary expense reimbursement levels for any Fund from their currently scheduled prospective levels. Based on the information provided, the Board Members did not expect that overall Fund expenses would increase as a result of the Transaction.

In addition, the Board Members considered that additional fund launches were anticipated after the Transaction which would result in an increase in total assets under management in the complex and a corresponding decrease in overall management fees under the complex-wide fee schedule. Taking into consideration the Board's prior evaluation of fees and expenses at the annual renewal or initial approval, and the modification to the complex-wide fee schedule, the Board determined that the management fees and expenses were reasonable.

While it is difficult to predict with any degree of certainty the impact of the Transaction on Nuveen's profitability for its advisory activities (which includes its affiliated Sub-Advisers), at the recent annual review, the Board Members were satisfied that Nuveen's level of profitability for its advisory activities was reasonable. During the year, the Board Members had noted the enhanced dialogue regarding profitability and the appointment of an Independent Board Member as a point person to review methodology determinations and refinements in calculating profitability. Given their considerations at the annual or initial review and the modifications to the complex-wide fee schedule, the Board Members were satisfied that Nuveen's level of profitability for its advisory activities continues to be reasonable.

With respect to the Sub-Advisers, the fees paid under the New Sub-Advisory Agreements are the same as the Original Sub-Advisory Agreements. With respect to Funds with Sub-Advisers

unaffiliated with Nuveen, the Board Members considered the Sub-Adviser's revenues from serving as Sub-Adviser to the applicable Funds, expenses (including the basis for allocating expenses) and profitability margins (pre- and post-tax) at the annual review. The Transaction is not anticipated to affect the profitability of such Sub-Advisers. At the annual review, the Board Members were satisfied that the respective Fund Adviser's level of profitability was reasonable in light of the services provided. Taking into account the Board's prior evaluation and the fact that sub-advisory fees will not change, the Board Members were satisfied that the respective Fund Advisers' levels of profitability were reasonable in light of the services provided.

**D. Economies of Scale and Whether Fee Levels Reflect These Economies of Scale**

The Board Members have been cognizant of economies of scale and the potential benefits resulting from the costs of a Fund being spread over a larger asset base. To help ensure that shareholders share in the benefits derived from economies of scale, the Board adopted the complex-wide fee arrangement in 2004. At the May Meeting, the Board Members reviewed the complex-wide fee arrangements and noted that additional negotiations may be necessary or appropriate as the assets in the complex approached the \$91 billion threshold. In light of this assessment coupled with the upcoming Transaction, at the June 15, 2007 meeting, the ad hoc committee met with representatives of Nuveen to further discuss modifications to the complex-wide fee schedule that would generate additional savings for shareholders as the assets of the complex grow. The proposed terms for the complex-wide fee schedule are expressed in terms of targeted cumulative savings at specified levels of complex-wide assets, rather than in terms of targeted marginal complex-wide fee rates. Under the modified schedule, the schedule would generate additional fee savings beginning at complex-wide assets of \$80 billion in order to achieve targeted cumulative annual savings at \$91 billion of \$28 million on a complex-wide level (approximately \$0.6 million higher than those generated under the then current schedule) and generate additional fee savings for asset growth above complex-wide assets of \$91 billion in order to achieve targeted annual savings at \$125 billion of assets of approximately \$50 million on a complex-wide level (approximately \$2.2 million higher annually than that generated under the then current schedule). At the July Meeting, the Board approved the modified complex-wide fee schedule for the Original Investment Management Agreements and these same terms will apply to the New Investment Management Agreements. Accordingly, the Board Members believe that the breakpoint schedules and revised complex-wide fee schedule are appropriate and desirable in ensuring that shareholders participate in the benefits derived from economies of scale.

**E. Indirect Benefits**

During their recent annual or initial review, the Board Members considered any indirect benefits that the Fund Adviser may receive as a result of its relationship with the Funds, as described above. As the policies and operations of the Fund Advisers are not anticipated to change significantly after the Transaction, such indirect benefits should remain after the Transaction. The Board Members further considered any additional indirect benefits to be received by the Fund Adviser or its affiliates after the Transaction. The Board Members noted that other than benefits from its ownership interest in Nuveen and indirect benefits from fee revenues paid by the Funds under the management agreements and other Board-approved relationships, it was currently not expected that MDP or its affiliates would derive any benefit from the Funds as a result of the Transaction or transact any business with or on behalf of the

Funds (other than perhaps potential Fund acquisitions, in secondary market transactions, of securities issued by MDP portfolio companies); or that Merrill Lynch or its affiliates would derive any benefits from the Funds as a result of the Transaction (noting that, indeed, Merrill Lynch would stand to experience the discontinuation of principal transaction activity with the Funds and likely would experience a noticeable reduction in the volume of agency transactions with the Funds).

## **F. Other Considerations**

In addition to the factors above, the Board Members also considered the following with respect to the Funds:

Nuveen would rely on the provisions of Section 15(f) of the 1940 Act (as described above). In this regard, to help ensure that an unfair burden is not imposed on the Funds, Nuveen has committed for a period of two years from the date of the closing of the Transaction (i) not to increase gross management fees for any Fund; (ii) not to reduce voluntary expense reimbursement levels for any Fund from their currently scheduled prospective levels during that period; (iii) that no Fund whose portfolio is managed by a Nuveen affiliate shall use Merrill Lynch as a broker with respect to portfolio transactions done on an agency basis, except as may be approved in the future by the Compliance Committee of the Board; and (iv) that each adviser/portfolio team affiliated with Nuveen shall not cause the Funds (or sleeves thereof) and other Nuveen funds that the team manages, as a whole, to enter into portfolio transactions with or through the other minority owners of Nuveen, on either a principal or an agency basis, to a significantly greater extent than both what one would expect an investment team to use such firm in the normal course of business, and what such team has historically done, without prior Board or Compliance Committee approval (excluding the impact of proportionally increasing the use of such other minority owners to fill the void necessitated by not being able to use Merrill Lynch).

The Funds would not incur any costs in seeking the necessary shareholder approvals for the New Investment Management Agreements or New Sub-Advisory Agreements (except for any costs attributed to seeking shareholder approvals of Fund specific matters unrelated to the Transaction, such as approval of Board Members or changes to investment policies, in which case a portion of such costs will be borne by the applicable Funds).

The reputation, financial strength and resources of MDP.

The long-term investment philosophy of MDP and anticipated plans to grow Nuveen's business to the benefit of the Funds.

The benefits to the Funds as a result of the Transaction including: (i) as a private company, Nuveen may have more flexibility in making additional investments in its business; (ii) as a private company, Nuveen may be better able to structure compensation packages to attract and retain talented personnel; (iii) as certain of Nuveen's distribution partners are expected to be equity or debt investors in Nuveen, Nuveen may be able to take advantage of new or enhanced distribution arrangements with such partners; and (iv) MDP's experience, capabilities and resources that may help Nuveen identify and acquire investment teams or firms and finance such acquisitions.

The historic premium and discount levels at which the shares of the Funds have traded at specified dates with particular focus on the premiums and discounts after the

announcement of the Transaction, taking into consideration recent volatile market conditions and steps or initiatives considered or undertaken by NAM to address discount levels.

## **G. Conclusion**

The Board Members did not identify any single factor discussed previously as all-important or controlling. The Board Members, including the Independent Board Members, unanimously concluded that the terms of the New Investment Management Agreements and New Sub-Advisory Agreements are fair and reasonable, that the fees therein are reasonable in light of the services to be provided to each Fund and that the New Investment Management Agreements and New Sub-Advisory Agreements should be approved and recommended to shareholders.

## **III. Approval of Interim Contracts**

As noted above, at the July Meeting, the Board Members, including the Independent Board Members, unanimously approved the Interim Investment Management Agreements and Interim Sub-Advisory Agreements. If necessary to assure continuity of advisory services, the Interim Investment Management Agreements and Interim Sub-Advisory Agreements will take effect upon the closing of the Transaction if shareholders have not yet approved the New Investment Management Agreements and New Sub-Advisory Agreements. The terms of each Interim Investment Management Agreement and Interim Sub-Advisory Agreement are substantially identical to those of the corresponding Original Investment Management Agreement and New Investment Management Agreement and the Original Sub-Advisory Agreement and New Sub-Advisory Agreement, respectively, except for the term and escrow provisions described above. In light of the foregoing, the Board Members, including the Independent Board Members, unanimously determined that the scope and quality of services to be provided to the Funds under the respective Interim Investment Management Agreement and Interim Sub-Advisory Agreement are at least equivalent to the scope and quality of services provided under the applicable Original Investment Management Agreement and Original Sub-Advisory Agreement.

### **3. Approval of New Sub-Advisory Agreements for Equity Premium, Equity Premium Advantage, Equity Premium Income and Equity Premium Opportunity only**

#### **Background**

NAM previously entered into investment sub-advisory agreements with Gateway for each of Equity Premium, Equity Premium Advantage, Equity Premium Income and Equity Premium Opportunity (each a Nuveen Gateway Fund and collectively, the Nuveen Gateway Funds). In addition, shareholders of each of the Nuveen Gateway Funds are being asked in proposal 2 of this proxy statement to approve a new sub-advisory agreement to take effect following the Nuveen Transaction with MDP. Each sub-advisory agreement between NAM and Gateway in effect immediately prior to the date of the Gateway Transaction (as defined below) is referred to as an Original Sub-Advisory Agreement and collectively as the Original Sub-Advisory Agreements.

It is currently expected that on or about February 12, 2008, Natixis Global Asset Management, L.P. will acquire, through its wholly owned subsidiary, IXIS Anchor Acquisition, LLC (which will simultaneously change its name to Gateway Investment Advisers, LLC ( New Gateway )),



substantially all of the assets and liabilities of Gateway (the Gateway Transaction). Consummation of the Gateway Transaction is subject to a number of conditions, including Gateway's receipt, from clients representing a large portion of assets managed by Gateway, of the requisite consents or approvals necessary for New Gateway to replace Gateway, as the client's adviser or sub-adviser.

Gateway is a Delaware limited partnership, 74.66% of which is owned by its general partner, Gateway Investment Advisers, Inc. (the General Partner), an Ohio corporation. The management, policies, and control of Gateway are vested exclusively in the General Partner. The General Partner is owned by J. Patrick Rogers and Walter G. Sall. Mr. Rogers has been President of Gateway since 1995 and has served as its Chief Executive Officer since 2006. Mr. Sall founded Gateway in 1977 and serves as its Chairman. Gateway also has three limited partners (the Limited Partners), each of which is a corporation owned by a senior executive officer of Gateway other than Mr. Sall and Mr. Rogers. The Limited Partners collectively own a 25.34% interest in Gateway.

New Gateway, a Delaware limited liability company, will be a wholly owned subsidiary of Natixis Global Asset Management, L.P. (Natixis GAM), a Delaware limited partnership which is a subsidiary of Natixis Global Asset Management, a French corporation that serves as the holding company for the asset management businesses of Natixis. Natixis GAM is ultimately owned principally, directly or indirectly, by three large French financial services entities: Natixis (formerly Natixis Banques Populaires), an investment banking and financial services firm; the Caisse Nationale des Caisses d'Épargne, a financial institution owned by French regional savings banks known as the Caisses d'Épargne; and Banque Fédérale des Banques Populaires, a financial institution owned by French regional cooperative banks known as the Banques Populaires. Natixis GAM has 14 principal subsidiary or affiliated asset management firms that collectively had over \$247 billion in assets under management at December 31, 2006. Assuming the Gateway Transaction occurs, New Gateway will be the successor in interest to Gateway, which is in turn the successor in interest to an investment adviser organized in 1977. Gateway had over \$7.6 billion in assets under management as of June 30, 2007.

Each Original Sub-Advisory Agreement, as required by Section 15 of the 1940 Act, provides for its automatic termination upon its assignment, as that term is defined in the 1940 Act. Under the 1940 Act, a change in control of an investment company's sub-adviser is deemed to be an assignment. The Gateway Transaction will cause a change in control of Gateway and, accordingly, will be deemed to cause an assignment of each Original Sub-Advisory Agreement. As a result, each Original Sub-Advisory Agreement will be automatically terminated as of the date of the Gateway Transaction.

In anticipation of the Gateway Transaction, the Board of each Nuveen Gateway Fund met in person on July 31, 2007 for purposes of considering whether it would be in the best interests of each Nuveen Gateway Fund and its shareholders to approve a new sub-advisory agreement between NAM and New Gateway (each a New Gateway Sub-Advisory Agreement) and collectively, the New Gateway Sub-Advisory Agreements) to take effect after the Gateway Transaction.

At the July 31, 2007 Board meeting, and for the reasons discussed below (see Additional Board Considerations for the Nuveen Gateway Funds), the Board of each Nuveen Gateway Fund, including the Independent Board Members, unanimously determined that the New Gateway Sub-Advisory Agreements were in the best interests of each Fund and its

shareholders and approved the New Gateway Sub-Advisory Agreements, subject to the consummation of the Gateway Transaction and approval by shareholders. The 1940 Act requires that each New Gateway Sub-Advisory Agreement be approved by that Fund's shareholders in order for it to become effective. In the event shareholders of a Fund do not approve that Fund's New Gateway Sub-Advisory Agreement, the Board of such Fund will take such action as it deems to be in the best interests of the Fund and its shareholders. In the event that the Gateway Transaction is not consummated, Gateway will continue to serve as sub-adviser to the Nuveen Gateway Funds under the Original Sub-Advisory Agreements, because the Original Sub-Advisory Agreement for each Fund would not terminate (except as described in proposal 2 above). The form of the New Gateway Sub-Advisory Agreement is attached hereto as Appendix G.

### **Comparison of Original Sub-Advisory Agreement and New Gateway Sub-Advisory Agreement**

Gateway and New Gateway are referred to collectively as the Sub-Adviser. The terms of each New Gateway Sub-Advisory Agreement, including fees payable to the Sub-Adviser by NAM thereunder, are substantially identical to those of the Original Sub-Advisory Agreement and the New Sub-Advisory Agreement, subject to shareholder approval under proposal 2, except for the dates of effectiveness. There is no change in the fee rate payable by NAM to the Sub-Adviser. If approved by shareholders of a Nuveen Gateway Fund, the New Gateway Sub-Advisory Agreement for the Fund will expire on August 1, 2008, unless continued. Each New Gateway Sub-Advisory Agreement will continue in effect from year to year thereafter if such continuance is approved for the Fund at least annually in the manner required by the 1940 Act and the rules and regulations thereunder. Below is a comparison of certain terms of the Original Sub-Advisory Agreements to the terms of the New Gateway Sub-Advisory Agreements.

**Advisory Services.** The advisory services to be provided by the Sub-Adviser to each Nuveen Gateway Fund under the New Gateway Sub-Advisory Agreements will be identical to those advisory services currently provided by the Sub-Adviser to each Fund under the Original Sub-Advisory Agreements. Both the Original Sub-Advisory Agreements and New Gateway Sub-Advisory Agreements provide that the Sub-Adviser will furnish an investment program in respect of, make investment decisions for and place all orders for the purchase and sale of securities for the portion of the Fund's investment portfolio allocated by the Adviser to the Sub-Adviser, all on behalf of the Fund and subject to oversight of the Fund's Board and the Adviser. In performing its duties under both the Original Sub-Advisory Agreements and the New Gateway Sub-Advisory Agreements, the Sub-Adviser will monitor the Fund's investments and will comply with the provisions of the Fund's Declaration of Trust and By-Laws and the stated investment objectives, policies and restrictions of the Fund. It is not anticipated that the Gateway Transaction will have any adverse effect on the performance of a Sub-Adviser's obligations under the New Gateway Sub-Advisory Agreements.

**Brokerage.** Both the Original Sub-Advisory Agreements and New Gateway Sub-Advisory Agreements authorize the Sub-Adviser to select the brokers or dealers that will execute the purchases and sales of portfolio securities for the Nuveen Gateway Funds, subject to its obligation to obtain best execution under the circumstances, which may take account of the overall quality of brokerage and research services provided to the Sub-Adviser.

**Fees.** Under both the Original Sub-Advisory Agreements and New Gateway Sub-Advisory Agreements, the Adviser pays the Sub-Adviser a portfolio management fee out of the

investment management fee it receives from the Fund. The rate of the portfolio management fees payable by the Adviser to the Sub-Adviser under the New Gateway Sub-Advisory Agreements is identical to the rate of the fees paid under the Original Sub-Advisory Agreements. The annual rate of portfolio management fees payable to the Sub-Adviser under the Original Sub-Advisory Agreements and the New Gateway Sub-Advisory Agreements and the fees paid by the Adviser to the Sub-Adviser with respect to each Fund during each Fund's last fiscal year is set forth in Appendix I to this Proxy Statement. Appendix I also includes the advisory fee rates and net assets of funds not included in this Proxy Statement advised by the Sub-Adviser with similar investment objectives as the Nuveen Gateway Funds.

**Payment of Expenses.** Under each Original Sub-Advisory Agreement and New Gateway Sub-Advisory Agreement, the Sub-Adviser agrees to pay all expenses it incurs in connection with its activities under the Agreement other than the cost of securities (including brokerage commissions) purchased for the Nuveen Gateway Fund.

**Limitation on Liability.** The Original Sub-Advisory Agreements and New Gateway Sub-Advisory Agreements provide that the Sub-Adviser will not be liable for, and the Adviser will not take any action against the Sub-Adviser to hold the Sub-Adviser liable for, any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the performance of the Sub-Adviser's duties under the Agreement, except for a loss resulting from willful misfeasance, bad faith or gross negligence on the part of the Sub-Adviser in the performance of duties under the Agreement, or by reason of its reckless disregard of its obligations and duties under the Agreement.

**Continuance.** The Original Sub-Advisory Agreement of each Nuveen Gateway Fund originally was in effect for an initial term and could be continued thereafter for successive one-year periods if such continuance was specifically approved at least annually in the manner required by the 1940 Act. If the shareholders of a Nuveen Gateway Fund approve the New Gateway Sub-Advisory Agreement for that Fund, the New Gateway Sub-Advisory Agreement will expire on August 1, 2008, unless continued. Thereafter, the New Gateway Sub-Advisory Agreement may be continued for successive one-year periods if approved at least annually in the manner required by the 1940 Act.

**Termination.** The Original Sub-Advisory Agreement and New Gateway Sub-Advisory Agreement for each Nuveen Gateway Fund provide that the Agreement may be terminated at any time without the payment of any penalty by NAM or the Sub-Adviser on sixty (60) days' written notice to the other party. The Original Sub-Advisory Agreement and New Gateway Sub-Advisory Agreement may also be terminated by a Fund with respect to that Fund by action of the Fund's Board or by a vote of a majority of the outstanding voting securities of that Fund, accompanied by 60 days' written notice.

The Original Sub-Advisory Agreement and New Gateway Sub-Advisory Agreement for each Nuveen Gateway Fund is also terminable with respect to that Fund at any time without the payment of any penalty, by the Adviser, the Board or by vote of a majority of the outstanding voting securities of that Fund in the event that it is established by a court of competent jurisdiction that the Sub-Adviser or any of its officers or directors has taken any action that results in a breach of the representations of the Sub-Adviser set forth in the Agreement.

### **Information about New Gateway**

For general information about Gateway and its officers and directors, see proposal 2. New Gateway will acquire substantially all of the assets and liabilities of Gateway and will become the successor in interest to Gateway's entire business. It is anticipated that New Gateway will operate as a stand-alone registered investment adviser. The management, policies and control of New Gateway are vested exclusively in its board of managers, which will include representatives from Natixis GAM and Gateway senior management chosen by Natixis GAM. After the Gateway Transaction, it is anticipated that each officer of Gateway will serve New Gateway in the same capacity. In connection with the Gateway Transaction, J. Patrick Rogers, Gateway's Chief Executive Officer and co-portfolio manager of the Nuveen Gateway Funds, Kenneth H. Toft, Gateway Vice President and co-portfolio manager of Equity Premium Opportunity and Equity Premium, Michael T. Buckius, Gateway Vice President and co-portfolio manager of Equity Premium Income and Equity Premium Advantage, and Paul R. Stewart, Gateway's Chief Investment Officer, have each extended the terms of their employment agreements with New Gateway. The Gateway Transaction is not expected to have any effect on the portfolio management of the Nuveen Gateway Funds.

### **Shareholder Approval**

To become effective, each Nuveen Gateway Fund's New Gateway Sub-Advisory Agreement must be approved by a vote of a majority of the outstanding voting securities of the Fund. The vote of a majority of the outstanding voting securities is defined in the 1940 Act as the lesser of the vote of (i) 67% or more of the shares of the Fund entitled to vote thereon present at the meeting if the holders of more than 50% of such outstanding shares are present in person or represented by proxy; or (ii) more than 50% of such outstanding shares of the Fund entitled to vote thereon. Each New Gateway Sub-Advisory Agreement was approved by the Board after consideration of all factors which it determined to be relevant to its deliberations, including those discussed below. The Board also determined to submit the New Gateway Sub-Advisory Agreement for consideration by the shareholders of the Fund.

**The Board of each Fund unanimously recommends that shareholders of the Fund vote FOR approval of the Fund's New Gateway Sub-Advisory Agreement.**

### **Additional Board Considerations for the Nuveen Gateway Funds**

#### **Approval of the New Gateway Sub-Advisory Agreements on behalf of the Nuveen Gateway Funds**

Following the May Meeting, the Board Members were advised of the potential Gateway Transaction. As noted above, the completion of the Gateway Transaction would terminate the Original Sub-Advisory Agreement with Gateway and NAM on behalf of each Nuveen Gateway Fund. Accordingly, at the July Meeting, the Board of each Nuveen Gateway Fund, including the Independent Board Members, unanimously approved the New Gateway Sub-Advisory Agreement on behalf of each Nuveen Gateway Fund.

In connection with their review of the New Gateway Sub-Advisory Agreements, the Independent Board Members, through their independent legal counsel, requested in writing and received information regarding the proposed Gateway Transaction and its impact on the provision of services by Gateway to the Nuveen Gateway Funds.

The Independent Board Members received, well in advance of the July Meeting, materials provided by Gateway and Nuveen which outlined, among other things:

the structure and terms of the Gateway Transaction, including the ownership structure of Natixis GAM following the closing of the Gateway Transaction and the financing arrangements that will exist for New Gateway following the Gateway Transaction;

the strategic plan for New Gateway following the Gateway Transaction;

background information regarding Natixis GAM, including its or its affiliates experience providing advisory and/or sub-advisory services to registered investment companies, financial condition, and regulatory or litigation history;

any anticipated changes in the operations of Gateway following the Gateway Transaction, including changes to Gateway's day-to-day management and infrastructure that are relevant to the services provided to the Nuveen Gateway Funds, the ability to provide sub-advisory services to the Nuveen Gateway Funds and to interact with NAM, as Adviser to the Nuveen Gateway Funds;

any changes or additions to senior management or the key personnel of Gateway who work on Nuveen Gateway Fund-related matters (including anticipated changes to portfolio management and compliance personnel); any retention or incentive arrangements for such persons; and, if new personnel are assigned to the Nuveen Gateway Funds, their experience and background;

any anticipated effect on each Nuveen Gateway Fund's expense ratio (including changes to sub-advisory fees) following the Gateway Transaction;

any benefits or undue burdens imposed on the Nuveen Gateway Funds as a result of the Gateway Transaction;

the nature, quality and extent of the sub-advisory services expected to be provided to the Nuveen Gateway Funds following the Gateway Transaction, changes to any existing sub-advisory services and policies affecting the Nuveen Gateway Funds, and any cost-cutting efforts, if any, that may impact such services or policies;

whether the Gateway Transaction will result in an increase in assets to be managed by the Nuveen Gateway Funds portfolio managers;

any conflicts of interest that may arise for Gateway or that Natixis GAM or its affiliates may have with respect to the Nuveen Gateway Funds;

the costs associated with obtaining necessary shareholder approvals, and who would bear those costs; and

from legal counsel, a memorandum describing the applicable laws, regulations and duties in approving advisory contracts, including, in particular, with respect to a change of control.

At the July Meeting, representatives of Nuveen made a presentation and responded to questions. Following the presentations and discussions of the materials presented to the Board, the Independent Board Members met in executive session with their counsel. As outlined in more detail below, the Independent Board Members considered all factors they believed relevant with respect to each Nuveen Gateway Fund, including the impact that the Gateway Transaction could be expected to have on the following: (a) the nature, extent and



quality of services to be provided; (b) the investment performance of the Nuveen Gateway Funds; (c) the costs of the services and profits to be realized by Gateway; (d) the extent to which economies of scale would be realized; and (e) whether fee levels reflect those economies of scale for the benefit of investors. As noted above, the Board Members had recently completed their annual review of the Original Gateway Sub-Advisory Agreements at the May Meeting and many of the factors considered at the annual review were applicable to their evaluation of the New Gateway Sub-Advisory Agreements. Accordingly, in evaluating the New Gateway Sub-Advisory Agreements, the Board Members relied upon their knowledge and experience with Gateway and considered the information received and their evaluations and conclusions drawn at the annual review. The Independent Board Members evaluated all information available to them on a Fund-by-Fund basis, and their determinations were made separately in respect of each Nuveen Gateway Fund.

#### **A. Nature, Extent and Quality of Services**

In evaluating the nature, quality and extent of the services expected to be provided by New Gateway under the New Gateway Sub-Advisory Agreements, the Independent Board Members considered, among other things, the expected impact, if any, of the Gateway Transaction on the operations, facilities, organization and personnel of Gateway; the potential implications of regulatory restrictions on the Funds following the Gateway Transaction; the ability of New Gateway to perform its duties after the Gateway Transaction; and any anticipated changes to the current investment and other practices of the Nuveen Gateway Funds.

The Board noted that the terms of each New Gateway Sub-Advisory Agreement, including fees payable thereunder, are substantially identical to those of the Original Gateway Sub-Advisory Agreement relating to the same Fund, except for the date of effectiveness. The Board considered that the advisory services to be provided by New Gateway to each Nuveen Gateway Fund under the New Gateway Sub-Advisory Agreements are the same as the Original Gateway Sub-Advisory Agreements. The fees under the New Gateway Sub-Advisory Agreements are the same as the Original Gateway Sub-Advisory Agreements. (However, it was noted that because the sub-advisory fees for Equity Premium Income and Equity Premium Opportunity are based on a percentage of the advisory fee to NAM, the modified complex-wide fee schedule described above will also impact the sub-advisory fees to be collected by Gateway.) The Board Members further noted that all of Gateway's senior management staff will continue to serve in their current capacities following the Gateway Transaction. The Board Members noted that the investment team is expected to remain in place under extended-term employment agreements. The Board Members considered and are familiar with such personnel's qualifications, skills and experience. Further, the Board Members noted that changes to Gateway's infrastructure relevant to the services provided to the Nuveen Gateway Funds were not planned or anticipated. New Gateway will continue to operate as a separate, stand-alone registered investment adviser, independent from Natixis GAM's other investment management affiliates. The Board Members also noted that there were not any planned cost cutting measures that could be expected to reduce the nature, extent, or quality of sub-advisory services provided to the Nuveen Gateway Funds. After consideration of the foregoing, the Board Members concluded that no diminution in the nature, quality and extent of services provided to the Nuveen Gateway Funds and their shareholders is expected.

In addition to the above, the Board Members considered potential changes in the operations of the Nuveen Gateway Funds. In this regard, the Board Members considered the potential effect

of regulatory restrictions on the Nuveen Gateway Funds' transactions with affiliated persons. The Board Members noted Gateway's representations that it will implement policies and procedures to prevent trading with affiliated firms on behalf of the Nuveen Gateway Funds, but does not expect the foregoing to have any impact as the firms that will be affiliated with New Gateway generally are not common trading partners used for those Funds. In addition to regulatory restrictions considered by the Board, the Board Members also considered whether a significant increase in assets under management could impact the management of the Nuveen Gateway Funds. While New Gateway will continue to seek increases in assets under management, due to the depth of volume in the markets its strategy operates, Gateway did not believe a significant increase in assets under management would affect its capacity to manage the Nuveen Gateway Funds. The Board Members also considered potential conflicts of interest that could arise between the Nuveen Gateway Funds and the various parties to the Gateway Transaction, noting that Gateway did not believe any conflict of interest arose as a result of the Gateway Transaction.

Based on its review along with its considerations regarding services at the annual review, the Board concluded that the Gateway Transaction was not expected to adversely affect the nature, quality or extent of services provided and that the expected nature, quality and extent of such services supported approval of the New Gateway Sub-Advisory Agreements.

#### **B. Performance of the Funds**

With respect to the performance of the Nuveen Gateway Funds, the Board considered that the portfolio management personnel responsible for the management of the Funds' portfolios were expected to continue to manage the portfolios following the completion of the Gateway Transaction.

In addition, the Board Members recently reviewed the Nuveen Gateway Funds' performance at the May Meeting as described above and determined that such performance was satisfactory or better. Further, the investment policies and strategies were not expected to change as a result of the Gateway Transaction.

In light of the foregoing factors, along with the prior findings regarding performance at the annual review, the Board concluded that its findings with respect to performance supported approval of the New Gateway Sub-Advisory Agreements.

#### **C. Fees, Expenses and Profitability**

As described in more detail above, during the annual review the Board Members considered, among other things, the management fees and expenses of the Nuveen Gateway Funds, the breakpoint schedules, and comparisons of such fees and expenses with peers. The Board also considered the sub-advisory arrangements of the Nuveen Gateway Funds. In considering the fees of Gateway at the annual review, the Board Members considered the pricing schedule or fees that the Sub-Adviser charges for similar investment management services for other fund sponsors or clients, as available. The Board also noted that as Gateway is unaffiliated with Nuveen, the sub-advisory fees were the result of arm's-length negotiations. At the annual review, the Board Members determined that the Nuveen Gateway Funds advisory fees and expenses were reasonable. In evaluating the sub-advisory fees and profitability of Gateway under the New Gateway Sub-Advisory Agreements, the Board Members considered their prior conclusions at the annual review and whether the sub-advisory fees or other expenses would



change as a result of the Gateway Transaction. As noted, the sub-advisory fee schedules under each New Gateway Sub-Advisory Agreement are the same as those of the Original Gateway Sub-Advisory Agreement relating to the same Nuveen Gateway Fund. Based on information provided, the Board does not anticipate that the Gateway Transaction will have any effect on the Nuveen Gateway Funds' expense ratios. In light of the foregoing and taking into consideration the Board's prior evaluation of fees and expenses at the annual renewal, the Board determined that the sub-advisory fees and expenses were reasonable.

While it is difficult to predict with any degree of certainty the impact of the Gateway Transaction on Gateway's part sales that are not violations of laws and regulations of any state or the United States; o Broker-dealers may agree with the selling stockholders to sell a specified number of such shares at a stipulated price per share; o Through the writing of options on the shares; o A combination of any such method of sales; and o Any other method permitted pursuant to applicable law. The selling stockholders may also sell shares under Rule 144 under the Securities Act of 1933, as amended, if available, rather than under this prospectus. The selling stockholders shall have the sole and absolute discretion not to accept any purchase order or make any sale of sales if they deem the purchase price to be unsatisfactory at any particular time. The selling stockholders may also engage in short sales against the box, puts and calls, and other transactions in our securities or derivatives of our securities and may sell or deliver shares in connection with these trades. The selling stockholders or their respective pledgees, donees, transferees or other successors-in-interest, may also sell the shares directly to market makers acting as principals and/or broker-dealers acting as agents for themselves or the customers. Such broker-dealers may receive compensation in the form of discounts, concessions or commissions from the selling stockholders and/or the purchasers of shares for whom such broker-dealers may act as agents or to whom they sell as principal or both, which compensation as to a particular broker-dealer might be in excess of customary commissions. Market makers and block purchasers purchasing the shares will do so for their own account and at their risk. It is possible that a selling stockholder will attempt to sell shares of common stock at block transaction to market makers or other purchasers at a price per share which may be below the then market price. The selling stockholders cannot assure that all or any of the shares offered in this prospectus will be issued to, or sold by, the selling stockholders. The selling stockholders and any brokers, dealers or agents, upon effecting the sale of any of the shares offered in this prospectus, may be deemed to be "underwriters" as that term is defined in the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or the rules and regulations under such acts. In such event, any commissions received by any such broker dealers or agents and any profit on the resale of the shares purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933, as amended. We are required to pay all fees and expenses incident to the registration of the shares, including fees and disbursements of counsel to the selling stockholders, but excluding brokerage commissions or underwriter discounts. 69 The selling stockholders, alternatively, may sell all or any part of the shares offered in this prospectus through an underwriter. No selling stockholder has entered into any agreement with a prospective underwriter and there is no assurance that any such agreement will be entered into. The selling stockholders may pledge their shares to the brokers under the margin provisions of customer agreements. If a selling stockholder defaults on a margin loan, the broker may, from time to time, offer and sell the pledged shares. The selling stockholders and any other persons participating in the sale or distribution of the shares will be subject to applicable provisions of the Securities Exchange Act of 1934, as amended, and the rules and regulations under such act, including without limitation, Regulation M. These provisions may restrict certain activities of, and limit the timing of purchases and sales of any of the shares by, the selling stockholders or any other such person. In the event that the selling stockholders are deemed affiliated purchasers or distribution participants within the meaning of Regulation M, then the selling stockholders will not be permitted to engage in short sales of common stock. Furthermore, under Regulation M, the persons engaged in a distribution of securities are prohibited from simultaneously engaging in market making and certain other activities with respect to such securities for a specified period of time prior to the commencement of such distributions, subject to specified exceptions or exemptions. In regards to short sales, the selling stockholder can only cover its short position with the securities it receives from us upon conversion. In addition, if such short sale is deemed to be a stabilizing activity, then the selling stockholder will not be permitted to engage in a short sale of our common stock. All of these limitations will affect the marketability of

the shares. We agreed to indemnify the selling stockholders, or their transferees or assignees, against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments to selling stockholders or their respective pledgees, donees, transferees or other successors-in-interest, may be required to make in respect to such liabilities. If the selling stockholders notify us that they have a material arrangement with a broker-dealer for the resale of the common stock, then we will be required to amend the registration statement of which this prospectus is a part, and file a prospectus supplement to describe the agreements between the selling stockholders and the broker-dealer. From time to time this prospectus will be supplemented and amended as required by the Securities Act of 1933, as amended. During any time when a supplement or amendment is so required, the Selling Securityholders are to cease sales until the prospectus has been supplemented or amended. Pursuant to the registration rights granted to certain of the Selling Securityholders, we have agreed to update and maintain the effectiveness of this prospectus. Certain of the Selling Securityholders also may be entitled to sell their shares without the use of this prospectus, provided that they comply with the requirements of Rule 144 promulgated under the Securities Act. EXPERTS Our consolidated financial statements for the years ended December 31, 2004 and 2005 included in this prospectus have been audited by Chisholm, Bierwolf & Nilson, independent auditors, as stated in their report appearing herein. We have included consolidated financial statements in this prospectus in reliance on such report given upon their authority s experts in auditing and accounting. LEGAL MATTERS The validity of the shares of common stock in this offering will be passed upon for us by Mackey Price Thompson & Ostler, Salt Lake City, Utah. Randall A. Mackey, the President, a director and a shareholder of the law firm of Mackey Price Thompson & Ostler is our Chairman of the Board. Legal fees and expenses paid to Mackey Price Thompson & Ostler for legal services during the fiscal years ended December 31, 2005 and 2004 totaled \$220,000 and \$100,000, respectively. Legal fees and expenses paid to Mackey Price Thompson & Ostler for legal services during the three months ended March 31, 2006 totaled \$33,000. As of December 31, 2005, we owed the firm \$93,000, which is included in the accounts payable. WHERE YOU CAN FIND MORE INFORMATION We have filed with the Securities and Exchange Commission, or SEC, a registration statement on Form SB-2 (including the exhibits and schedules thereto) under the Securities Act of 1933 and the rules and regulations promulgated thereunder, for the registration of the common stock offered hereby. This prospectus is part of the registration statement. This prospectus does not contain all the information included in the registration statement because we have omitted certain parts of the registration statement as permitted by the SEC 70 rules and regulations. For further information about us and our common stock, you should refer to the registration statement. Statements contained in this prospectus as to any contract, agreement or other document referred to are not necessarily complete. Where the contract or other document is an exhibit to the registration statement, each statement is qualified by the provisions of that exhibit. You can inspect and copy the registration statement and the exhibits and schedules thereto at the public reference facility maintained by the SEC at Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 233 Broadway, New York, New York 10279, and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. You may call the SEC at 1-800-732-0330 for further information about the operation of the public reference rooms. Copies of all or any portion of the registration statement can be obtained from the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. In addition, the registration statement is publicly available through the SEC's site on the Internet at [www.sec.gov](http://www.sec.gov). We also file annual, quarterly and current reports, proxy statements and other information with the SEC. You can also request copies of these documents, for a copying fee, by writing to the SEC. Our SEC filings are also available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov). We furnish to our stockholders annual reports containing audited financial statements for each fiscal year. 71 PARADIGM MEDICAL INDUSTRIES, INC. Financial Statements December 31, 2005 and 2004 PARADIGM MEDICAL INDUSTRIES, INC. Index to Financial Statements

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Accounting Firm F-2 Balance Sheet F-3 Statements of Operations F-4 Statements of Stockholders' Equity F-5  
Statements of Cash Flows F-6 Notes to Financial Statements F-7

----- F-1 REPORT OF INDEPENDENT REGISTERED  
PUBLIC ACCOUNTING FIRM The Board of Directors and shareholders Paradigm Medical Industries, Inc. Salt  
Lake City, Utah We have audited the accompanying balance sheet of Paradigm Medical Industries, Inc. (the  
Company) as of December 31, 2005, and the related statements of operations, stockholders' equity and cash flows for  
the years ended December 31, 2005 and 2004. These financial statements are the responsibility of the Company's  
management. Our responsibility is to express an opinion on these financial statements based on our audits. We

conducted our audits in accordance with the standards of the PCAOB (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, audits of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion. In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Paradigm Medical Industries, Inc. as of December 31, 2005, and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with accounting principles generally accepted in the United States of America. The accompanying financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 2 to the financial statements, the Company has a working capital deficit and has suffered recurring operating losses, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The financial statements do not include any adjustments that might result from the outcome of these uncertainties. Chisholm, Bierwolf & Nilson Bountiful, Utah April 20, 2006 F-2 PARADIGM MEDICAL INDUSTRIES, INC. Balance Sheet

December 31, 2005 -----		Assets -----	Current assets:
Cash	\$ 66,000	Receivables, net	401,000
Inventories, net	853,000	Prepaid and other assets	11,000
-----		Total current assets	1,331,000
Property and equipment, net	32,000	Intangibles, net	339,000
-----		Total assets	\$ 1,702,000
-----		Liabilities and	
Stockholders' Equity -----		Current liabilities:	Accounts payable
			\$ 459,000
		Accrued liabilities	704,000
		Current portion of capital lease obligations	14,000
-----		Total current liabilities	1,177,000
		Convertible Notes Payable	2,038,000
-----		Total long-term liabilities	2,038,000
-----		Total liabilities	3,215,000
-----		Commitments and contingencies -	Stockholders' equity:
-----		Preferred stock, \$.001 par value,	5,000,000 shares authorized,
-----		613,447 shares issued and outstanding (aggregate liquidation Preference of \$496,000)	1,000
-----		Common stock, \$.001 par value,	250,000,000 shares authorized,
-----		96,389,295 shares issued and outstanding	96,000
-----		Additional paid-in capital	60,586,000
-----		Accumulated deficit (62,196,000)	-----
-----		Total stockholders' equity	(1,513,000)
-----		Total liabilities and stockholders' equity	\$ 1,702,000

----- The accompanying notes are an integral part of these financial statements F-3 PARADIGM MEDICAL INDUSTRIES, INC. Statements of Operations Years Ended December 31, ----- 2005 2004

Sales	\$ 2,201,000	\$ 3,062,000	Cost of sales	1,599,000	1,217,000
-----		Gross profit	602,000	1,845,000	-----
-----		Operating expenses: General and administrative	(1,298,000)	(874,000)	Marketing and selling
-----		(641,000)	(801,000)	Research and development	(855,000)
-----		(768,000)	Gain on settlement of liabilities	12,000	206,000
-----		Total operating expenses	(2,782,000)	(2,237,000)	-----
-----		Operating loss	(2,180,000)	(392,000)	-----
-----		Other income (expense): Other income	16,000	-	Other expenses
-----		(2,870,000)	(27,000)	Interest expense	(15,000)
-----		(22,000)	Gain on sale of investment -	505,000	Impairment of intangible assets
-----		(340,000)	Total other income (expense)	(3,209,000)	456,000
-----		Income (loss) before provision for income taxes	(5,389,000)	64,000	Provision for income taxes
-----		-	-----	Net income (loss)	\$ (5,389,000)
-----		\$ 64,000	-----	Beneficial conversion feature on Series G preferred stock	-
-----		-	Series G preferred stock dividend due to registration rights	-	(54,000)
-----		-	Deemed dividend from Series G preferred detachable warrants	-	-----
-----		Net income (loss) applicable to common shareholders	\$ (5,389,000)	\$ 10,000	-----
-----		Earnings (loss) per common share - basic	\$ (0.13)	\$ -	-----
-----		Earnings (loss) per common share - diluted	\$ (0.13)	\$ -	-----
-----		Weighted average common shares - basic	42,033,000	25,405,000	-----
-----		Weighted average common shares - diluted	42,942,000	27,669,000	-----

----- The accompanying notes are an integral part of these financial statements F-4 PARADIGM MEDICAL

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**INDUSTRIES, INC. Statements of Stockholders' Equity Years Ended December 31, 2005 and 2004**

	Preferred			
Additional Stock	Common	Amount Paid-In	Subscription	Accumulated (See Note 8) Shares Capital Receivable
Deficit				Balance at January 1, 2004 \$ 2,000
25,372,794	\$ 25,000	\$ 57,470,000	- \$ (56,817,000)	Conversion of preferred stock - 255,000 - - - - Series G preferred
				stock dividend due to registration rights - - - - (54,000) registration rights Net income - - - - 64,000
				----- Balance at December 31, 2004 2,000
25,627,764	25,000	57,470,000	- (56,807,000)	Conversion of preferred stock (1000) 1,138,325 1,000 - - - Issuance of
				common stock for: ----- Cash - 2,000,000 2,000 148,000 - - Services - 228,000 - 22,000 - -
				Conversion of convertible debentures - 66,880,000 67,000 395,000 - - Value attribute to discount - - - 2,009,000 - - on
				note payable Value attribute to discount on warrants - - - 491,000 - - Penalty provisions of series G preferred in 2004 -
515,206	1,000	51,000	- -	Net loss - - - - - (5,389,000)
				----- Balance at December 31, 2005 \$ 1,000
96,389,295	\$ 96,000	\$ 60,586,000	\$ -	\$ (62,196,000)

----- The accompanying notes are an integral part of these financial statements F-5 PARADIGM MEDICAL INDUSTRIES, INC. Statements of Cash Flows Years Ended December 31,

	2005		2004	
Cash flows from operating activities: Net income (loss)	\$ (5,389,000)	\$ 64,000		
Adjustments to reconcile net income (loss) to net cash used in operating activities:				
Depreciation and amortization	77,000	137,000		
Issuance of common stock for satisfaction of penalty	53,000			
Issuance of common stock for services	23,000			
Beneficial conversion interest	2,009,000			
Issuance of stock options and warrants for services	491,000			
Provision for losses on receivables (1,000)	(369,000)			
Provision for losses on inventory (61,000)	(224,000)			
Gain on sale of investment - (505,000)	340,000			
Impairment of Intangibles and investments (Gain) loss on settlement of	(12,000)	(206,000)		
liabilities (12,000) (206,000) (Gain) loss on disposal of assets - 13,000 (Increase) decrease in:	257,000	420,000		
Inventories (72,000)	507,000			
Prepaid and other assets	56,000	76,000		
Increase (decrease) in: Accounts payable (291,000)	42,000			
Accrued liabilities (148,000)	(432,000)			
----- Net cash used in operating activities	(2,668,000)	(477,000)		
Cash flows from investing activities:				
Cash proceeds from sales of investment - 532,000	532,000			
----- Net cash provided by (used in) investing activities	0.00	532,000		
Cash flows from financing activities: Principal payments on notes payable and long-term debt (47,000)	(56,000)			
Proceeds from issuance of common stock	150,000			
Proceeds from issuance of convertible notes	2,500,000			
----- Net cash (used in) provided by financing activities	2,603,000	(56,000)		
----- Net change in cash	(65,000)	(1,000)		
Cash, beginning of year	131,000	132,000		
----- Cash, end of year	\$ 66,000	\$ 131,000		

----- The accompanying notes are an integral part of these financial statements F-6 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements December 31, 2005 and 2004 ----- 1.

Organization Organization and Significant Paradigm Medical Industries, Inc. (the Company) is a Accounting Delaware Corporation incorporated in October 1989. The Policies Company is engaged in the design, development, manufacture, and sale of high technology surgical and diagnostic eye care products. Its surgical equipment is designed to perform minimally invasive cataract surgery and is comprised of surgical devices and related instruments and accessories, including disposable products. Its diagnostic products include a Blood Flow Analyzer, a pachymeter, an A/B Scan, ultrasound biomicroscopes, perimeters, and a corneal topographer. Cash Equivalents For purposes of the statement of cash flows, cash includes all cash and investments with original maturities to the Company of three months or less. The Company maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such account and believes it is not exposed to any significant credit risk on cash and cash equivalents. The Company's financial instruments consist of cash, receivables, payables, and notes payable. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the

individual borrowings bear interest at market interest rates. Accounts Receivable Accounts receivable are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Specific reserves are estimated by management based on certain assumptions and variables, including the customer's financial condition, age of the customer's receivables, and changes in payment histories. Trade receivables are written off when deemed uncollectible. Recoveries of trade receivables previously written off are recorded when received. A trade receivable is considered to be past due if any portion of the receivable balance has not been received by the contractual pay date. Interest is not charge on trade receivables that are past due.

----- F-7 PARADIGM MEDICAL INDUSTRIES, INC.

Notes to Financial Statements Continued ----- 1.

Organization Inventories and Significant Inventories are stated at the lower of cost or market, Accounting cost is determined using the weighted average method. Policies Continued Property and Equipment Property and equipment are recorded at cost, less accumulated depreciation. Depreciation on property and equipment is determined using the straight-line method over the estimated useful lives of the assets or terms of the lease. Expenditures for maintenance and repairs are expensed when incurred and betterments are capitalized. Gains and losses on sale of property and equipment are reflected in operations. During the years 2005 and 2004 depreciation expense was 77,000 and 132,000 respectively. Intangible Assets As of December 31, 2005, intangible assets consisted of goodwill related to the purchase of Ocular Blood Flow, Ltd., product rights, capitalized payments to manufacturers for engineering and design services and patent costs. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," the Company performed an impairment test on all intangible assets at December 31, 2005. As a result an impairment change of \$340,000 was recognized on the Company's statements of operations. The impairment was based on a significant decrease in sales of the Blood Flow Analyzer during 2005. Intangible assets determined to have indefinite useful lives are not amortized. The Company tests such intangible assets with indefinite useful lives for impairment annually or more frequently if events or circumstances indicate that an asset might be impaired. Intangible assets determined to have definite lives are amortized on a straight-line basis over their useful lives. Product rights, capitalized engineering, and patents were fully amortized as of December 31, 2005. The Company reviews such intangible assets with definite lives for impairment to ensure they are appropriately valued if conditions exist that may indicate the carrying value may not be recoverable. Such conditions may include an economic downturn in a geographic market or a change in the assessment of future operations. Goodwill is not amortized. The Company performs tests for impairment of goodwill annually or more frequently if events or circumstances indicate it might be impaired. Such tests include comparing the fair value of a reporting unit with its carrying value,

----- F-8 PARADIGM MEDICAL INDUSTRIES, INC.

Notes to Financial Statements Continued ----- 1.

Organization Intangible Assets - Continue and including goodwill. Significant Accounting Impairment assessments are performed using a variety of Policies methodologies, including cash flow analysis and Continued estimates of sales proceeds. Where applicable, an appropriate discount rate is used, based on the Company's cost of capital rate or location-specific economic factors. Evaluation of Other Long-Lived Assets The Company evaluates the carrying value of the unamortized balances of other long-lived assets to determine whether any impairment of these assets has occurred or whether any revision to the related amortization periods should be made. This evaluation is based on management's projections of the undiscounted future cash flows associated with each asset. If management's evaluation were to indicate that the carrying values of these assets were impaired, such impairment would be recognized by a write down of the applicable asset. Income Taxes Deferred income taxes are provided in amounts sufficient to give effect to temporary differences between financial and tax reporting, principally related to net operating loss carryforwards, depreciation, impairment of intangible assets, stock compensation expense, and accrued liabilities. Stock - Based Compensation For stock options and warrants granted to employees the Company employs the footnote disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. SFAS No. 123 encourages entities to adopt a fair-value based method of accounting for stock options or similar equity instruments. However, it also allows an entity to continue measuring compensation cost for stock-based compensation using the intrinsic-value method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). The Company has elected to continue to apply the provisions of APB 25 and provide pro forma footnote disclosures required by SFAS No. 123. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an

exercise price equal to or greater than the market value of the underlying common stock on the date of grant.

----- F-9 PARADIGM MEDICAL INDUSTRIES, INC.

Notes to Financial Statements Continued ----- 1.

Organization Stock - Based Compensation - Continued and Significant Stock options and warrants granted to non-employees for Accounting services are accounted for in accordance with SFAS No. Policies 123, which requires expense recognition based on the Continued fair value of the options/warrants granted. The Company calculates the fair value of options and warrants granted by use of the Black-Scholes pricing model. The following table illustrates the effect on net income and earnings per share if the company had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation.

Years Ended December 31, -----	2005	2004	-----	Net income (loss)
applicable to common shareholders-as reported	\$ (5,390,000)	\$ 10,000	Deduct: total stock-based employee	
compensation determined under fair value based method for all awards, net of related tax effects	(355,000)	(362,000)		
-----	Net loss applicable to common shareholders - pro forma	\$ (5,745,000)	\$ (352,000)	
-----	Earnings per share: Basic and diluted - as reported	\$ (.14)	\$ -	
-----	Basic and diluted - pro forma	\$ (.13)	\$ (.01)	

The fair value of each option grant is estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions:

December 31, -----	2005	2004	-----	Expected dividend yield
\$ - \$ -	Expected stock price Volatility	189%-215%	112%-173%	Risk-free interest rate
2-7 years	2-7 years	The weighted average fair value of options granted during 2005 and 2004 are	\$0.07 and \$0.09,	respectively.

----- F-10 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 1. Organization Earnings Per Share and Significant

The computation of basic earnings per common share is Accounting based on the weighted average number of shares Policies outstanding during each year. Continued The computation of diluted earnings per common share is based on the weighted average number of shares outstanding during the year plus the common stock equivalents, which would arise from the conversion of preferred stock to common stock and from the exercise of stock options and warrants outstanding using the treasury stock method and the average market price per share during the year. Options and warrants to purchase 23,514,690 shares of common stock at prices ranging from \$0.10 to \$12.98 per share were outstanding at December 31, 2005. The following table is a reconciliation of basic and diluted weighted average shares for the years ended December 31, 2005 and 2004.

Years Ended December 31, -----	2005	2004	-----	Revenue Recognition
2005	2004	Basic weighted average shares outstanding	42,033,000	25,405,000
		Common stock equivalent-convertible preferred stock	909,000	2,047,000
		Diluted effect of stock options and warrants -	217,000	
		Diluted weighted average shares outstanding	42,942,000	27,669,000

Revenues for sales of products that require specific installation and acceptance by the customer are recognized upon such installation and acceptance by the customer. Revenues for sales of other surgical systems, ultrasound diagnostic devices, and disposable products are recognized when the product is shipped. A signed purchase agreement and a deposit or payment in full from customers is required before a product leaves the premises. Title passes at time of shipment (F.O.B. shipping point). ----- F-11

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 1. Organization Research and Development and

Significant Costs incurred in connection with research and Accounting development activities are expensed as incurred. These Policies costs consist of direct and indirect costs associated Continued with specific projects as well as fees paid to various entities that perform certain research on behalf of the Company. The total research and development expenses for the years ended December 2005 and 2004 was \$855,000 and 768,000, respectively.

Concentration of Risk The market for ophthalmic lasers is subject to rapid technological change, including advances in laser and other technologies and the potential development of alternative surgical techniques or new pharmaceutical products. Development by others of new or improved products, processes or technologies may make products developed by the Company obsolete or less competitive. The Company's high technology product line requires the Company to deal with suppliers and subcontractors supplying highly specialized parts, operating highly sophisticated and narrow tolerance equipment and performing highly technical calculations and tasks. Although there are a limited number of suppliers and manufacturers that meet the standards required of a regulated medical device, management

believes that other suppliers and manufacturers could provide similar components and services. The nature of the Company's business exposes it to risk from product liability claims. The Company maintains product liability insurance providing coverage up to \$2 million per claim with an aggregate policy limit of \$2 million. Any losses that the Company may suffer from any product liability litigation could have a material adverse effect on the Company. As of December 31, 2005, the company maintained the policy in placed. A significant portion of the Company's product sales is in foreign countries. The economic and political instability of some foreign countries may affect the ability of medical personnel to purchase the Company's products and the ability of the customers to pay for the procedures for which the Company's products are used. Such circumstances could cause a possible loss of sales, which would affect operating results adversely.

----- F-12 PARADIGM

MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 1. Organization Concentration of Risk - Continued and Significant During the years ended December 31, 2005 and 2004, no Accounting single customer represented more than 10 percent of Policies total net sales. Accounts receivable are due from Continued medical distributors, surgery centers, hospitals, optometrists and ophthalmologists located throughout the U.S. and a number of foreign countries. The receivables are generally due within thirty days for domestic customers with extended terms offered for some international customers. The Company maintains an allowance for estimated potentially uncollectible amounts. Warranty The Company provides product warranties on the sale of certain products that generally extend for one year from the date of sale. The Company maintains a reserve for estimated warranty costs based on historical experience and management's best estimates. Use of Estimates in the Preparation of Financial Statements The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Reclassifications No amounts in the 2005 financial statements have been reclassified to conform to the presentation of the current year financial statements. Series G Preferred Stock Dividends Under the terms of the private offering of Series G preferred shares, the Company is required to file a registration statement with the Securities and Exchange Commission to register the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. If the registration statement has not been declared effective within 120 days of the initial closing of such offering on August 29, 2003, there is a penalty of 2% per month payable to the Series G preferred. Stockholders in common shares (or 39,631 common shares per month) until the registration statement is declared effective. As of December 31, 2004, the Company had recorded a liability of \$54,000

----- F-13 PARADIGM MEDICAL INDUSTRIES,

INC. Notes to Financial Statements Continued ----- 1.

Organization Series G Preferred Stock Dividends - Continued and Significant related to the 356,682 common shares to be issued to the Accounting Series G preferred stockholders because a registration Policies statement had not been declared effective as of that Continued date. In addition, during the first quarter of 2005, the Company issued 515,206 shares of common stock to two shareholders that had purchased shares of the Company's Series G convertible preferred stock in a private offering. Under the terms of the private offering, the Company was required to file a registration statement with the Securities and Exchange Commission for the purpose of registering the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. The shares were issued as a penalty for the Company not having a registration statement declared effective within 120 days of the initial closing of the private offering. These shares were value at \$0.10 per share. 2. Going The accompanying financial statements have been prepared Concern on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Historically, the Company has not demonstrated the ability to generate sufficient cash flows from operations to satisfy its liabilities and sustain operations, and the Company has incurred significant losses from operations. These factors raise substantial doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is dependent on its ability to generate sufficient income and cash flow to meet its obligations on a timely basis and/or obtain additional financing as may be required. The Company is actively seeking to obtain additional capital and financing. In addition, the Company has taken significant steps to reduce costs and increase operating efficiencies, including the consolidation of several manufacturing, accounting and management responsibilities. Such consolidation

resulted in significant headcount reductions as well as savings in other overhead costs. The Company has also significantly reduced the use of consultants, which has resulted in a large decrease in expenses, and reduced the direct sales force from five to three representatives, which has resulted in less payroll, travel and other selling expenses. Although these cost savings have significantly reduced the Company's losses and ongoing cash flow needs, if the

----- F-14 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 2. Going Company is unable to obtain equity or debt financing, it Concern may be unable to continue development of its products Continued and may be required to substantially curtail or cease operations. 3. Detail of Receivables Certain Trade receivables \$ 501,000 Balance Allowance for doubtful accounts (100,000) Sheet ----- Accounts \$ 401,000 ----- Inventories: Raw Materials \$ 1,278,000 Finished goods 932,000 Reserve for obsolescence (1,357,000) ----- \$ 853,000 ----- Accrued liabilities: Consulting and litigation reserve \$ 492,000 Payroll and employment benefits 46,000 Sales tax payable 9,000 Customer deposits 29,000 Accrued royalties 1,000 Warranty and return allowance 119,000 Other accrued expenses 8,000 ----- \$ 704,000 -----

----- F-15 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 4. Intangible Intangible assets consist of the following at December Assets 31, 2005: Goodwill, net of accumulated amortization of \$120,000 \$ 339,000 ----- Other intangible assets: Product and technology rights 769,000 Engineering and design costs 482,000 Patents 92,000 ----- 1,343,000 Accumulated amortization (1,343,000) ----- Total other intangible asstes - ----- Net intangible assets \$ 339,000 ----- Amortization expense for the years ended December 31, 2005 and 2004 was \$0.00 and \$3,000, respectively. During the year ended December 31, 2005, the Company has no carrying value of its unissued patent costs and product and technology rights for recoverability. This analysis, based on the estimated future cash flows associated with such assets, resulted in an impairment expense of zero value related to patents and product and technology rights. The Company performed an impairment test on all intangible assets at December 31, 2005. As a result an impairment change of \$340,000 was recognize in the Company's statements of operations. The impairment was based on a significant decrease in sales of the Blood Flow Analyzer during 2005. 5. Property and Property and equipment consists of the following: Equipment Machinery and equipment \$ 750,000 Computer equipment and software 658,000 Furniture and fixtures 252,000 Leasehold improvements 166,000 ----- 1,826,000 Accumulated depreciation and amortization (1,794,000) ----- \$ 32,000 -----

----- F-16 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 6. Lease During the years ended December 31, 2005 and 2004, the Obligations Company leased certain equipment under noncancellable capital leases. These leases provide the Company the option to purchase the leased assets at the end of the initial lease term. Assets under capital leases included in fixed assets and are as follows: Computer and other equipment \$ 291,000 Less accumulated amortization (259,000) ----- \$ 32,000 -----

----- F-17 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 6. Lease Amortization expense on assets under capital leases Obligations during the years ended December 31, 2005 and 2004 was Continued \$32,000 and \$39,000, respectively. Capital lease obligations have imputed interest rates of approximately 7% to 22%. The leases are secured by equipment. Future minimum payments on the capital lease obligations are as follows: 2006 \$ 14,000 ----- 14,000 Less amount representing interest (1,000) ----- Present value of future minimum lease payments 13,000 Less current portion (13,000) ----- Long-term portion \$ - ----- The Company leases office and warehouse space under an operating lease agreement. Future minimum rental payments under the noncancellable operating lease as of December 31, 2005 are approximately as follows: Year Ending December 31, Amount ----- 2006 \$ 105,000 2007 108,000 2008 110,000 ----- Total future minimum rental payments \$ 323,000 ----- Rent expense related to noncancelable operating leases was approximately \$140,000 and \$137,000 for the years ended December 31, 2005 and 2004, respectively. ----- F-18

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 7. Income The provision for income taxes is different than amounts Taxes which would be provided by applying the statutory federal income tax rate to loss before



provision for income taxes for the following reasons: Years Ended December 31, ----- 2005  
 2004 ----- Income tax (provision) benefit at statutory rate \$ 2,101,000 \$ (24,000) NOL  
 adjustment 893,000 - Taxable temporary differences 57,000 Deductible temporary differences (156,000) Meals and  
 entertainment - (3,000) Non-deductible expenses (1,064,000) - Change in valuation allowance (1,831,000) 27,000  
 ----- \$ - \$ - ----- Net operating loss carryforward \$ 15,127,000  
 Depreciation, amortization, and impairment 1,009,000 Allowance and reserves 771,000 Research and development  
 tax credit carryforwards 56,000 ----- 16,963,000 Valuation allowance (16,963,000) ----- \$ -  
 ----- A valuation allowance has been established for the net deferred tax asset due to the uncertainty of the  
 Company's ability to realize such asset. ----- F-19

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 7. Income At December 31, 2005, the Company  
 had net operating loss Taxes carryforwards of approximately \$38.6 million and Continued research and development  
 tax credit carryforwards of approximately \$56,000. These carryforwards are available to offset future taxable income  
 and expire in 2006 through 2021. The utilization of the net operating loss carryforwards is dependent upon the tax  
 laws in effect at the time the net operating loss carryforwards can be utilized. The Tax Reform Act of 1986  
 significantly limits the annual amount that can be utilized for certain of these carryforwards as a result of the change  
 in ownership. 8. Capital The Company has established a series of preferred stock Stock with a total of 5,000,000  
 authorized shares and a par value of \$.001, and one series of common stock with a par value of \$.001 and a total of  
 250,000,000 authorized shares. On April 7, 2005 the Company issued 228,000 shares of common stock to Mackey  
 Price Thompson & Ostler in payment of \$22,500 in legal services. Series A Preferred Stock On September 1, 1993,  
 the Company established a series of non-voting preferred shares designated as the 6% Series A Preferred Stock,  
 consisting of 500,000 shares with \$.001 par value. The Series A Preferred Stock has the following rights and  
 privileges: 1. The holders of the shares are entitled to dividends at the rate of twenty-four cents (\$.24) per share per  
 annum, payable in cash only from surplus earnings of the Company or in additional shares of Series A Preferred  
 Stock. The dividends are non-cumulative and therefore deficiencies in dividend payments from one year are not  
 carried forward to the next year. 2. Upon the liquidation of the Company, the holders of the Series A Preferred Stock  
 are entitled to receive, prior to any distribution of any assets or surplus funds to the holders of shares of common stock  
 or any other stock, an amount equal to \$1.00 per share, plus any accrued and unpaid dividends related to the fiscal  
 year in which such liquidation occurs. Total liquidation preference at December 31, 2005 was \$6,000. 3. The shares  
 are convertible at the option of the holder at any time into common shares, based on an initial conversion rate of one  
 share of Series A Preferred Stock for 1.2 common shares.

----- F-20 PARADIGM MEDICAL INDUSTRIES,  
 INC. Notes to Financial Statements Continued ----- 8.  
 Capital Series A Preferred Stock - Continued Stock Continued 4. The holders of the shares have no voting rights. 5.  
 The Company may, at its option, redeem all of the then outstanding shares of the Series A Preferred Stock at a price of  
 \$4.50 per share, plus accrued and unpaid dividends related to the fiscal year in which such redemption occurs. Series  
 B Preferred Stock On May 9, 1994, the Company established a series of non-voting preferred shares designated as  
 12% Series B Preferred Stock, consisting of 500,000 shares with \$.001 par value. The Series B Preferred Stock has the  
 following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of forty-eight cents  
 (\$.48) per share per annum, payable in cash only from surplus earnings of the Company or in additional shares of  
 Series B Preferred Stock. The dividends are non-cumulative and therefore deficiencies in dividend payments from one  
 year are not carried forward to the next year. Upon the liquidation of the Company, the holders of the Series B  
 Preferred Stock are entitled to receive, prior to any distribution of any assets or surplus funds to the holders of shares  
 of common stock or any other stock, an amount equal to \$4.00 per share, plus any accrued and unpaid dividends  
 related to the fiscal year in which such liquidation occurs. Such right, however, is subordinate to the rights of the  
 holders of Series A Preferred Stock to receive a distribution of \$1.00 per share plus accrued and unpaid dividends.  
 Total liquidation preference at December 31, 2005 was \$36,000. 2. The shares are convertible at the option of the  
 holder at any time into common shares, based on an initial conversion rate of one share of Series B Preferred Stock for  
 1.2 common shares. 3. The holders of the shares have no voting rights. 4. The Company may, at its option, redeem all  
 of the then outstanding share of the Series B Preferred Stock at a price of \$4.50 per share, plus accrued and unpaid  
 dividends related to the fiscal year in which such redemption occurs.

----- F-21 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 8.  
 Capital Stock Series C Preferred Stock Continued In January 1998, the Company authorized the issuance of a total of 30,000 shares of Series C Preferred Stock, \$.001 par value, \$100 stated value. As of December 31, 2005 there were no Series C Preferred Stock issued and outstanding. The Series C Preferred Stock have the following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of 12% per share per annum of the aggregate stated value. The dividends are non-cumulative and, therefore, deficiencies in dividend payments from one year are not carried forward to the next year. 2. Upon the liquidation of the Company, the holders of the Series C Preferred Stock are entitled to receive an amount per share equal to the greater of (a) the amount they would have received if they had converted the shares into shares of Common Stock immediately prior to such liquidation plus declared but unpaid dividends; or (b) the stated value, subject to adjustment. 3. Each share was convertible, at the option of the holder at any time until January 1, 2002, into approximately 57.14 shares of common stock at an initial conversion price, subject to adjustments for stock splits, stock dividends and certain combination or recapitalization of the common stock, equal to \$1.75 per share of common stock. 4. The holders of the shares have no voting rights. Series D Preferred Stock In January 1999, the Company's Board of Directors authorized the issuance of a total of 1,140,000 shares of Series D Preferred Stock \$.001 par value, \$1.75 stated value. The Series D Preferred Stock has the following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of 10% per share per annum of the aggregate stated value. The dividends are non-cumulative and, therefore, deficiencies in dividend payments from one year are not carried forward to the next year. 2. Upon the liquidation of the Company, the holders of the Series D Preferred Stock are entitled to receive an amount per share equal to the greater

----- F-22 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 8.  
 Capital Stock of (a) the amount they would have received had Continued they converted the shares into Common Stock immediately prior to such liquidation plus all declared but unpaid dividends; or (b) the stated value, subject to adjustment. Total liquidation preference at December 31, 2005 was \$9,000. 3. Each share was convertible, at the option of the holder at any time until January 1, 2002, into one share of Common Stock at an initial conversion price, subject to adjustment. The Series D Preferred Stock shall be converted into one share of the Common Stock subject to adjustment (a) on January 1, 2002 or (b) upon 30 days written notice by the Company to the holders of the Shares, at any time after (i) the 30-day anniversary of the registration statement on which the shares of Common Stock issuable upon conversion of the Series D Preferred Stock were registered and (ii) the average closing price of the Common Stock for the 20-day period immediately prior to the date on which notice of redemption is given by the Company to the holders of the Series D Preferred Stock is at least \$3.50 per share. The Company in 1999 recorded \$872,000 as a beneficial conversion feature related to the differences in the conversion price of the preferred stock to common stock. 4. The holders of the shares have no voting rights. Series E Preferred Stock In May 2001, the Company authorized the issuance of a total of 50,000 shares of Series E Preferred Stock \$.001 par value, \$100 stated value. The Series E Preferred Stock has the following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of 8% per share per annum of the aggregate stated value. The dividends are non-cumulative and, therefore, deficiencies in dividend payments from one year are not carried forward to the next year. 2. Upon the liquidation of the Company, the holders of the Series E Preferred Stock are entitled to receive an amount per share equal to the greater of (a) the amount they would have received had they converted the shares into Common Stock immediately prior to such liquidation plus all declared but unpaid dividends; or (b) the stated value, subject to adjustment. Total liquidation preference at December 31, 2005 was \$53,000.

----- F-23 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 8.  
 Capital 3. Each share is convertible, at the option of the Stock holder at any time until January 1, 2005, into Continued approximately 53.33 shares of Common Stock at an initial conversion price, subject to adjustment for stock splits, stock dividends and certain combination or recapitalization of the common stock, equal to \$1.875 per share of common stock. The Series E Preferred Stock shall be converted into Common Stock subject to adjustment (a) on January 1, 2005 or (b) upon 30 days written notice by the Company to the holders of the Shares, at any time after (i) the 30-day anniversary of the registration statement on which the shares of Common Stock issuable upon conversion of the Series E Preferred Stock were registered and (ii) the average closing price of the Common Stock for the 20-day

period immediately prior to the date on which notice of redemption is given by the Company to the holders of the Series E Preferred Stock is at least \$3.50 per share. The Company in 2001 recorded \$1,482,000 as a beneficial conversion feature related to the differences in the conversion price of the preferred stock to common stock. 4. The holders of the shares have no voting rights. 5. The holders of the shares also were issued warrants to purchase shares of common stock equal to 1,000 warrants for every 200 shares purchased at an exercise price of \$4.00 per share. Each warrant is exercisable until May 23, 2006. Series F Preferred Stock In August 2001, the Company authorized the issuance of a total of 50,000 shares of Series F Preferred Stock \$.001 par value, \$100 stated value. The Series F Preferred Stock has the following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of 8% per share per annum of the aggregate stated value. The dividends are non-cumulative and, therefore, deficiencies in dividend payments from one year are not carried forward to the next year.

----- F-24 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 8.

Capital Stock 2. Upon the liquidation of the Company, the holders Continued of the Series F Preferred Stock are entitled to receive an amount per share equal to the greater of (a) the amount they would have received had they converted the shares into Common Stock immediately prior to such liquidation plus all declared but unpaid dividends; or (b) the stated value, subject to adjustment. Total liquidation preference at December 31, 2005 was \$245,000. 3. Each share is convertible, at the option of the holder at any time until January 1, 2005, into approximately 53.33 shares of Common Stock at an initial conversion price, subject to adjustment for stock splits, stock dividends and certain combination or recapitalization of the common stock, equal to \$1.875 per share of common stock. The Series F Preferred Stock shall be converted into Common Stock subject to adjustment (a) on January 1, 2005 or (b) upon 30 days written notice by the Company to the holders of the Shares, at any time after (i) the 30-day anniversary of the registration statement on which the shares of Common Stock issuable upon conversion of the Series F Preferred Stock were registered and (ii) the average closing price of the Common Stock for the 20-day period immediately prior to the date on which notice of redemption is given by the Company to the holders of the Series F Preferred Stock is at least \$3.50 per share. The Company in 2001 recorded \$1,105,000 as a beneficial conversion feature related to the differences in the conversion price of the preferred stock to common stock. 4. The holders of the shares have no voting rights. Series G Preferred Stock In August 2003, the Company authorized the issuance of a total of 2,000,000 shares of Series G Preferred Stock \$.001 par value, \$1.00 stated value. The Series G Preferred Stock has the following rights and privileges: 1. The holders of the shares are entitled to dividends at the rate of 7% per share per annum of the aggregate stated value. The dividends are non-cumulative and, therefore, deficiencies in dividend payments from one year are not carried forward to the next year. ----- F-25

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 8. Capital Stock 2. Upon the liquidation of the Company, the holders Continued of the Series G Preferred Stock are entitled to receive an amount per share equal to the greater of (a) the amount they would have received had they converted the shares into Common Stock immediately prior to such liquidation plus all declared but unpaid dividends; or (b) the stated value of \$.25 per share plus declared but unpaid dividends. Total liquidation preference at December 31, 2005 was \$147,000. 3. Each share is convertible, at the option of the holder at any time until August 1, 2005, into 1 share of common stock at an initial conversion price, subject to adjustment for dividends, equal to one share of common stock for each share of Series G Preferred Stock. The Series G Preferred Stock shall be converted into common stock subject to adjustment (a) on August 1, 2005 or (b) upon 30 days written notice by the Company to the holders of the shares, at any time after (i) the 30-day anniversary of the registration statement on which the shares of common stock issuable upon conversion of the Series G Preferred Stock were registered and (ii) the average closing price of the common stock for the 15-day period immediately prior to the date in which notice of redemption is given by the Company to the holders of the Series G Preferred Stock is at least \$.50 per share. In 2003, the Company recorded a beneficial conversion feature of \$217,000 related to the differences in the conversion price of the preferred stock to common stock. 4. The holders of the shares have no voting rights. ----- F-26

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 8. Capital Stock The following table summarizes preferred stock activity Continued during the years ended December 31, 2005 and 2004: Series A Series B Series C Series D Series E Series F Series G Shares Amount Shares Amount Shares Amount Shares Amount Shares Amount

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Shares Amount	Shares Amount	Balance at January 1, 2004	5,627	\$ - 8,986	\$ - -	\$ - 5,000	\$ - 1,000	\$ - 4,597	\$ -
1,981,560	\$ - Issuance of Series G preferred stock for cash	-----	2,000	Conversion of preferred stock	-----	(255,000)			
-----									
		Balance at December 31, 2004	5,627	\$ - 8,986	\$ - -	\$ - 5,000	\$ - 1,000	\$ - 4,597	\$ - 1,726,560
2,000	Issuance of Series G preferred stock for cash	-----							
-----	2	Conversion of preferred stock	-----	(1,138,325)	(1,000)				
-----									
		Balance at December 31, 2005	5,627	\$ - 8,986	\$ - -	\$ - 5,000	\$ - 1,000	\$ - 4,599	\$ - 588,235
1,000	Authorized	-----							
500,000	30,000	1,140,000	50,000	50,000	2,000,000				
-----									
		Liquidation preference	\$ 6,000	\$ 36,000	\$ -	\$ 9,000	\$ 53,000	\$ 245,000	\$ 147,000

----- F-27  
 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

9. Convertible Notes To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement with four accredited investors on April 27, 2005 for the sale of (i) \$2,500,000 in callable secured convertible notes and (ii) warrants to purchase 16,534,392 shares of its common stock. The sale of the callable secured convertible notes and warrants is to occur in three tranches and the investors are obligated to provide the Company with an aggregate of \$2,500,000 as follows: o \$850,000 was disbursed on April 27, 2005; o \$800,000 was disbursed on June 23, 2005 after filing a registration statement on June 22, 2005, which registered the shares of common stock underlying the callable secured convertible notes and the warrants; and o \$850,000 was disbursed on June 30, 2005, upon the effectiveness of the registration statement on June 29, 2005, which registered the shares of common stock underlying the callable secured convertible notes and the warrants. Each closing under the securities purchase agreement was subject to the following conditions: o The Company delivered to the investors duly executed callable secured convertible notes and warrants; o No litigation, statute, regulation or order had been commenced, enacted or entered by or in any court, governmental authority or any self-regulatory organization that prohibits consummation of the transactions contemplated by the securities purchase agreement; and o No event occurred that could reasonably be expected to have a material adverse effect on the Company's business. The Company also agreed not, without the prior written consent of a majority-in-interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning April 27, 2005 and ending on the later of (a)

----- F-28 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 9. Convertible 270 days from April 27, 2005, or (b) 180 days from the Notes date the registration statement is declared effective. Continued In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning April 27, 2005 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the Securities Purchase Agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice. The callable secured convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0945, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature

in three years from the date of issuance, and are convertible into our common stock at the selling stockholders' option, at the lower of (i) \$.09 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. The callable secured convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below \$.09 per share. An event of default includes the failure by the Company to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by the Company or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring

----- F-29 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 9. Convertible within 30 days following the issue date of the notes; Notes (b) 130% of the outstanding principal and accrued Continued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60 day of the following the issue date of the notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$.20 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, then the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the Securities Purchase Agreement. The selling stockholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the selling stockholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes. The Company is required to register the shares of its common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the April 27, 2005 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the callable secured convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at our option. The Company filed a registration statement with the Securities and Exchange Commission on June 22, 2005 to register the shares of common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement was declared effective on June 29, 2005. ----- F-30 PARADIGM

MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 9. Convertible As of June 30, 2005, the average of the three lowest Notes intraday trading prices of the Company's common stock Continued during the preceding 20 trading days as reported on the OTC Bulletin Board was \$.05 and, therefore, the conversion price for the callable secured convertible notes was \$.03. Based on this conversion price, the \$2,500,000 callable secured convertible notes, excluding interest, were convertible into 83,333,333 shares of the Company's common stock. As of June 30, 2005, none of the callable secured convertible notes had been converted. As of December 31, 2005, a total of \$461,558 in callable secured convertible notes have been converted into 66,880,000 shares of the Company's common stock pursuant to notices of conversion from The NIR Group. The dates of these notices of conversion, the amount of the notes converted, the conversion price of the notes converted, and the shares issued to the noteholders upon conversion were as follows: (See 10-K page 27). 10. Stock Option The Option Plan provides for the grant of incentive Plan and stock options and non-qualified stock options to Warrants employees and directors of the Company. Incentive stock options may be granted only to employees. The Option Plan is administered by the Board of Directors or a

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Compensation Committee, which determines the terms of options granted including the exercise price, the number of shares subject to the option, and the exercisability of the option. The Company granted the following options and warrants during the year ended December 31, 2004: o Options to officers and the board of directors to purchase 1,775,000 shares of common stock at an exercise price ranging from \$0.10 to \$0.14.

----- F-31 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 10.

Stock Option The Company granted the following options and warrants Plan and to non-employees during the year ended December 31, Warrants 2005: Continued o Options to employees, officers and the board of directors to purchase 1,250,000 shares of common stock at an exercise price ranging from \$0.09 to \$0.10. o Warrants to purchase 16,534,392 shares of common stock at an exercise price of \$0.20 per share in return for the sale of callable secure convertible notes. o Warrants to investors to purchase 200,000 shares of common stock at an exercise price of \$0.15.

----- F-32 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 10.

Stock Option A schedule of the options and warrants is as follows: Plan and Warrants Continued Exercise Number of Price Per ----- Options Warrants Share ----- Outstanding at January 1, 2004 3,628,456 2,807,983 \$ 2.00 - 12.98 Granted 1,775,000 - 0.10 - 0.14 Exercised - - - Expired (187,500) (161,019) 2.38 - 4.00 Forfeited (1,369,750) (200,000) 0.16 - 5.00 -----

Outstanding at December 31, 2004 3,846,206 2,446,964 0.10 - 12.98 Granted 1,250,000 16,734,392 0.09 - 0.20 Exercised - - - Expired (274,603) (10,048) 0.50 - 7.50 Forfeited (889,103) 410,882 0.22 - 12.98

----- Outstanding at December 31, 2005 3,932,500 19,582,190 \$ 0.10 - 12.98

----- The following table summarizes information about stock options and warrants outstanding at December 31, 2005: Outstanding Exercisable -----

-----	Weighted Average Remaining	Weighted	Weighted	Range of Contractual	Average	Average	-----
Exercise Number	Life	Exercise Number	Exercise Prices	Outstanding (Years)	Price	Exercisable Price	-----
-----	\$ 0.16 - 0.75	20,209,981	0.64	\$ 0.03	2,668,922	\$ 0.20	-----
2.00 - 5.00	2,254,709	1.84	3.56	2,253,459	3.67	6.00 - 8.13	1,050,000
-----	-----	-----	-----	-----	-----	-----	-----
-----	\$ 0.16 - 12.98	23,514,690	0.74	\$ 0.71	-----	-----	-----
5,972,381	\$ 2.84	-----	-----	-----	-----	-----	-----

----- F-33 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 11.

Sale of In July 2004, the Company sold its investment in Investment International Bioimmune Systems, Inc. (IBS) for \$532,000 cash. Because, for book purposes, the Company's investment in IBS had previously been reduced to \$0, the net sales price was recorded as a gain as follows. Sale of IBS stock \$ 532,000 Less commissions 27,000 ----- Net gain \$ 505,000

12. Gain on Due to the Company's ongoing cash flow difficulties, Settlement of during 2005 and 2004 most vendors and suppliers were Liabilities contacted with attempts to negotiate reduced payments and settlements of outstanding accounts payable and accrued expenses. While some vendors refused to negotiate and demanded payment in full, some vendors were willing to settle for a reduced amount. The accounts payable forgiven by vendors and suppliers and accrued expenses settled resulted in a gain of \$12,000 and \$206,000 in 2005 and 2004, respectively.

13. Related Party A law firm, of which the chairman of the board of Transactions directors of the Company is a shareholder, has rendered legal services to the Company. The Company paid this firm \$220,000 and \$100,000, for the years ended December 31, 2005 and 2004, respectively. As of December 31, 2005, the Company owed this firm \$93,000, which is included in accounts payable. During the year ended December 31, 2004, the Company increased accrued liabilities and increased accumulated deficit for \$54,000 for accrued preferred stock dividends related to registration rights on the Series G preferred stock.

14. Supplemental During the year ended December 31, 2005, the Company: Cash Flow Information o Incurred paid obligation of approximately \$13,000 for the settlement of accrued liabilities of approximately \$25,000 and recorded a corresponding gain of \$12,000.

----- F-34 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 14.

Supplemental Actual amounts paid for interest and income taxes are as Cash Flow follows: Information Continued Years Ended December 31, ----- 2005 2004 Interest \$ 15,000 \$ 22,000 ----- Income taxes \$ - \$ - -----

15. Export Sales Total sales include export sales by major geographic area as

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follows: Years Ended December 31, ----- Geographic Area 2005 2004  
 ----- Far East \$ 500,000 \$ 529,000 South America 27,000 50,000 Middle East 162,000  
 233,000 Europe 817,000 684,000 Canada 62,000 68,000 Mexico 1,000 - Africa 1,000 9,000  
 ----- \$ 1,570,000 \$ 1,573,000 -----

----- F-35 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 16.

Savings Plan In November 1996, the Company established a 401(k) Retirement Savings Plan for the Company's officers and employees. The Plan provisions include eligibility after six months of service, a three year vesting provision and nondiscriminatory no matching contributions at this time. During the years ended December 31, 2005 and 2004, the Company made no contributions to the Plan. 17. Commitments and Consulting Agreements Contingencies On April 3, 2003, the Company entered into a consulting agreement with Kinexsys Corporation ("Kinexsys"). Under the terms of the agreement, Kinexsys through its Senior Partner, Timothy R. Forstrom, was to prepare a capital markets plan and a corporate positioning and communications plan for the Company, for which Kinexsys was to receive warrants to purchase up to 200,000 shares of the Company's common stock at an exercise price of \$.16 per share. The capital markets plan is to include a detailed analysis of the Company's capital market structure in relation to current investors, market trends and projected equity movements, and recommendations on capital management strategies. The corporate positioning and communications plan was to include a corporate positioning matrix for markets, analysts, customers and partners, and a communications plan. The agreement was for a one-year term but may be renewed at the option of both parties. The Agreement expired on April 3, 2004, as the Company elected not to exercise its renewal option During the year ended December 31, 1999 the Company entered a consulting agreement with a former officer of the Company, which expired in 2004. Total payments made on the consulting agreement were \$12,500 and \$25,000 in 2004 and 2003, respectively Litigation An action was brought against the Company in March 2000 by George Wiseman, a former employee, in the Third District Court of Salt Lake County, State of Utah. The complaint alleges that the Company owes Mr. Wiseman 6,370 shares of its common stock plus costs, attorney's fees and a wage penalty (equal to 1,960 additional shares of its common stock) pursuant to Utah law. The action is based upon an extension of a written employment agreement. The Company disputes the amount allegedly owed and intends to vigorously defend against the action.

----- F-36 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 17.

Commitments and An action was brought against the Company on September Contingencies 11, 2000 by PhotoMed International, Inc. and Daniel M. Continued Eichenbaum, M.D. in the Third District Court of Salt Lake County, State of Utah. The action involves an amount of royalties that are allegedly due and owing to PhotoMed International, Inc. and Dr. Eichenbaum under a license agreement dated July 7, 1993, with respect to the sale of certain equipment, plus costs and attorneys' fees. Certain discovery has taken place and the Company has paid royalties of \$15,717, which the Company believes brings all payments current as of the date of last payment on January 7, 2005. The Company has been working with PhotoMed and Dr. Eichenbaum to ensure that the calculations have been correctly made on the royalties paid as well as the proper method of calculation for the future. It is anticipated that once the parties can agree on the correct calculations on the royalties, the legal action will be dismissed. An issue in dispute concerning the method of calculating royalties is whether royalties should be paid on returned equipment. Since July 1, 2001, only one Photon(TM) laser system has been sold and no systems returned. Thus, the amount of royalties due, according to the Company's calculations, is \$981. The Company made payment of this amount to Photomed and Dr. Eichenbaum on January 5, 2005 and, as a result, seeks to have the legal action dismissed. However, if the parties are unable to agree on a method for calculating royalties, there is a risk that PhotoMed and Dr. Eichenbaum might amend their complaint to request termination of the license agreement and, if successful, the Company would lose its right to manufacture and sell the Photon(TM) laser system. An action was filed on June 20, 2003, in the Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030914195) by CitiCorp Vendor Finance, Inc., formerly known as Copelco Capital, Inc. The complaint claims that \$49,626 plus interest is due for the leasing of three copy machines that were delivered to the Company's Salt Lake City facilities on or about April of 2000. The action also seeks an award of attorney's fees and costs incurred in the collection. The Company filed an answer to the complaint disputing the amounts allegedly owed due to machine problems and a claimed understanding with the vendor. The Company returned two of the machines. The Company was engaged in settlement discussions with CitiCorp until counsel for

CitiCorp withdrew from the case. New counsel for CitiCorp has been appointed. After the initial meeting with new counsel the Company provided initial disclosures to the new counsel.

----- F-37 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 17. Commitments and On August 3, 2003, a complaint was filed against the Contingencies Company by Corinne Powell, a former employee, in the Continued Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030918364). Defendants consist of the Company and Randall A. Mackey, Dr. David M. Silver and Keith D. Ignatz, directors of the Company. The complaint alleges that at the time the Company laid off Ms. Powell on March 25, 2003, she was owed \$2,030 for business expenses, \$11,063 for accrued vacation days, \$12,818 for unpaid commissions, the fair market value of 50,000 stock options exercisable at \$5.00 per share that she claims she was prevented from exercising, attorney's fees and a continuing wage penalty under Utah law. On March 29, 2005, the Company agreed to a settlement with Ms. Powell of her claims for unpaid business expenses, accrued vacation days, and unpaid commissions by agreeing to pay her the sum of \$13,000. The Company made payment to Ms. Powell for the agreed upon settlement amount. The Company believes the remaining claims are without merit and intends to vigorously defend against such claims. On September 10, 2003, an action was filed against the Company by Larry Hicks in the Third Judicial District Court, Salt Lake County, State of Utah, (Civil No. 030922220), for payments due under a consulting agreement with us. The complaint claims that monthly payments of \$3,083 are due for the months of October 2002 to October 2003 under a 20 consulting agreement and, if the agreement is terminated, for the sum of \$110,000 minus whatever the Company has paid Mr. Hicks prior to such termination, plus costs, attorney's fees and a wage penalty pursuant to Utah law. The Company has filed an answer in which it denies any liability to Mr. Hicks. Formal discovery in the matter has commenced. The Company disputes the amount allegedly owed and intends to vigorously defend against such action. On November 7, 2003, a complaint was filed against the Company by Todd Smith, a former employee, in the Third Judicial District Court, Salt Lake County, State of Utah (Civil No. 030924951 CN). Defendants consist of the Company and Randall Mackey, a director of the Company. The complaint alleges that while an employee of the Company, Mr. Smith was granted stock options to purchase 16,800 shares of common stock exercisable at \$5.00 per ----- F-38 PARADIGM

MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 17. Commitments and share. Mr. Smith claims unpaid wages in the amount of Contingencies the fair market value of the stock options he claims he Continued was prevented from exercising, attorney's fees, and a continuing wage penalty under Utah law. The Company believes the claims are without merit and intends to vigorously defend against such action. On March 31, 2005, an action was filed against the Company by Joseph W. Spadafora in the United States District Court, District of Utah (Civil No. 2:05CV00278 TS). The complaint alleges that Dr. Spadafora was a clinical investigator in the study for the FDA involving the Company's Photon(TM) laser system where he performed numerous surgeries using the Photon(TM). Dr. Spadafora contends that in meetings with Company personnel he suggested ways in which the handpiece on the Photon(TM) could be improved. Dr. Spadafora further contends that on August 5, 1999, the Company filed a patent application for an improved handpiece with the United States Patent and Trademark Office but he was not named as one of the inventors or a co-inventor on the patent application. On September 24, 2004, the Company was issued a patent entitled, "Laser Surgical Handpiece with Photon Trap." Because the Company did not list Dr. Spadafora as one of the inventors or a co-inventor on the patent, Dr. Spadafora is requesting in his complaint that a court order be entered declaring that he is the inventor or co-inventor of the patent and, as a result, is entitled to all or part of the royalties and profits that the Company earned or will earn from the sale of any product incorporating or using the improved handpiece, plus interest and attorney's fees. Formal discovery has commenced. The Company disputes the claims made by Dr. Spadafora and intends to vigorously defend against such action. The Company is not a party to any other material legal proceedings outside the ordinary course of its business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations. Completion of Settlement of Federal and State Class Action Lawsuits On August 26, 2005, the federal court entered an order and final judgment granting final approval of the settlement agreement reached on February 22, 2005 in the federal court class action lawsuit and dismissing the complaint filed in the lawsuit with prejudice as against the Company and its former executive officers, Thomas F. Motter, Mark R. Miehle and John W. Hemmer. In addition,

----- F-39 PARADIGM MEDICAL INDUSTRIES,



INC. Notes to Financial Statements Continued ----- 17.  
 Commitments and the court permanently enjoined class members in the Contingencies lawsuit and their successors and assigns from Continued instituting any other actions against the Company and its former executive officers that had been or could have been asserted by the class members against the Company and its former executive officers in the federal court class action lawsuit. Following the entry of the order and final judgment in the federal court class action lawsuit, there was a 30 days period to appeal the order and final judgment. The 30 day period lapsed and no appeal was made of the order and final judgment. Consequently, the order and final judgment entered by the federal court is non-appealable. Under the terms of settlement of the federal court class action lawsuit, U.S. Fire Insurance Company, which issued a Directors and Officers Liability and Company Reimbursement Policy to the Company for the period from July 10, 2002 to July 10, 2003, agreed to pay the sum of \$1,507,500 in cash to the class members that purchased securities of the Company during the period between April 17, 2002 and November 4, 2002. On August 23, 2005, the state court entered a final judgment and order of dismissal with prejudice, granting final approval of the terms of settlement reached on February 23, 2005 in the state court class action lawsuit, dismissing the state class action lawsuit and all claims contained therein against the Company and its former executive officers, and enjoining the class members in the lawsuit from prosecuting the settled claims against the Company and its former executive officers. Following the entry of the final judgment and order of dismissal with prejudice in the state court class action lawsuit, there was a 30 day period to appeal the final judgment and order. The 30 day period has now lapsed and no appeal was made of the final judgment and order. Consequently, the final judgment and order entered by the state court is nonappealable. Under the terms of settlement of the state court class action lawsuit, U.S. Fire agreed to pay the sum of \$625,000 in cash to the class members that purchased shares of Series E Convertible preferred stock on or about July 11, 2001. ----- F-40 PARADIGM

MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 17. Commitments and The federal court class action lawsuit was initially Contingencies filed on May 14, 2003 by Richard Meyer, individually and Continued on behalf of all others similarly situated, in the United States District Court for the District of Utah. The lawsuit was consolidated into a single action on June 28, 2004 with two other class action lawsuits -- the class action lawsuit filed by Michael Marone on June 2, 2003 and the class action lawsuit filed by Lidia Milian on July 11, 2003 against Paradigm Medical and its former executive officers in the same court. The consolidated action was captioned: In re: Paradigm Medical Industries Securities Litigation, with lead plaintiffs Rock Solid Investments of Miami, Inc., Brito & Brito Accounting, Inc. and Joseph Savanjo. The state court class action lawsuit was initially filed on October 14, 2003 by Albert Kinzinger, Jr., individually and on behalf of all others similarly situated, against Paradigm Medical and its former executive officers in the Third District Court for Salt Lake County, State of Utah. On February 22, 2005, the Company executed written settlement agreements to settle the federal and state court class action lawsuits. As a condition to the settlement agreements, the courts in such lawsuits must have entered orders granting final approval of the settlements reached in those respective actions, and such orders must have become final and nonappealable.  
 Royalty Agreements The Company has an amended exclusive patent license agreement with a company which owns the patent for the laser-probe used on the Photon machine. The agreement provides for the payment of a 1% royalty on all sales proceeds related directly or indirectly, to the Photon machine. The agreement expires when the United States patent rights expire in September 2004. Through December 31, 2003, no significant royalties have been paid under this agreement. The Company has cancelled a royalty agreement with another company that developed a promotional CD for the Company. Through the promotion of the CD, the Company hopes to increase sales in the Autoperimeter and assist doctors currently using the unit with the interpretation of visual fields. The royalty base is 50% each until the Company's share equals the production costs related to development of the disk. Thereafter, the developer will receive 70% and the Company will receive 30% of the royalty base. No royalties were accrued nor paid during the year relating to this agreement. ----- F-41 PARADIGM

MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 17. Commitments and Royalty Agreements - Continued Contingencies The Company entered into a Manufacturing and Continued Distribution agreement on October 25, 2004 with E-Technologies, Inc., a Iowa based developer of software and related technology for technical applications. Under the terms of the agreement, E-Technologies granted to the Company the exclusive right to manufacture, market, sell and distribute an ultrasound biomicroscope. Upon execution of the agreement, the Company

paid \$30,000 to E-Technologies for engineering costs associated with the development of the biomicroscope. Once the biomicroscope receives FDA approval, the Company agrees to pay E-Technologies an additional fee of \$45,000. The Company's financial instruments consist of cash, receivables, payables, and notes payable. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at market interest rates.

18. Recent In December 2004, FASB issued SFAS 153 "Exchanges of Accounting Nonmonetary Assets--an amendment of APB Opinion No. 29". Pronounce- The guidance in APB Opinion No. 29, Accounting for Nonmonetary Transactions, is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that Opinion, however, included certain exceptions to that principle. This Statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The Company does not believe adoption of SFAS 153 will have any impact on the Company's consolidated financial statements. In November 2004, the FASB issued SFAS 151 "Inventory Costs--an amendment of ARB No. 43". This Statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and re-handling costs may be so abnormal as to require treatment as current period charges. . . ." This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement

----- F-42 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 18. Recent shall be effective for inventory costs incurred during Accounting fiscal years beginning after June 15, 2005. The Company Pronounce- does not believe adoption of SFAS 151 will have any ments impact on the Company's consolidated financial Continued statements. In December 2004, the FASB issued FASB Statement No. 123 (revised 2004), "Shared-Based Payment." Statement 123(R) addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. Statement 123(R) requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised Statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates the intrinsic value method of accounting in APB Opinion No. 25, "Accounting for Stock Issued to Employees", which was permitted under Statement 123, as originally issued. The revised Statement requires entities to disclose information about the nature of the share-based payment transactions and the effects of those transactions on the financial statements. Statement 123(R) is effective for public companies that do not file as small business issuers as of the beginning of the first interim or annual reporting period that begins after June 15, 2005. For public companies that file as small business issuers, Statement 123(R) is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005 (i.e., first quarter 2006 for the Company). All public companies must

----- F-43 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 18. Recent use either the modified prospective or the modified Accounting retrospective transition method. Early adoption of this Pronounce- Statement for interim or annual periods for which ments financial statements or interim reports have not been Continued issued is encouraged. The Company believes that the adoption of this pronouncement may have a material impact on the Company's financial statements. In May 2005, the FASB issued SFAS no. 154, "Accounting Changes and Error Corrections." This statement replaces APB Opinion No. 20 and SFAS No 3. APB Opinion No 20 previously required that most voluntary changes in accounting principle be recognize by including the cumulative effect of changing to the new accounting principle in the net income of the period of the change. SFAS No 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. When it is

impracticable to determine the period-specific effects of an accounting change on one or more individual prior periods presented, this Statement requires that the accounting principle be applied to the balances of assets and liabilities as of the beginning of the earliest period for which retrospective application is practicable and that a corresponding adjustment be made to the opening balance of retained earnings for that period, rather than being reported in an income statement. The new standard will be effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The Company believes the adoption of new standard will not have a material effect on its financial position, results of operations, cash flows, or previously issued financial reports. 19. Subsequent Subsequent Events Events To obtain additional funding for the Company's ongoing operations, the Company entered into a second securities purchase agreement on February 28, 2006 with the same four accredited investors for the sale of (i) \$1,500,000 in callable secured convertible notes and (ii) warrants to purchase 12,000,000 shares of its common stock. The sale of the callable secured convertible notes and warrants is to occur in three tranches and the investors are obligated to provide the Company with an aggregate of \$1,500,000 as follows: o \$500,000 was disbursed on February 28, 2006; o \$500,000 will be disbursed after filing a registration statement that registers the shares of common stock underlying the callable secured convertible notes and the warrants; and

----- F-44 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 19. Subsequent o \$500,000 will be disbursed upon the effectiveness Events of the registration statement that registers the Continued shares of common stock underlying the callable secured convertible notes and the warrants. Each closing under the securities purchase agreement was subject to the following conditions: o The Company delivered to the investors duly executed callable secured convertible notes and warrants; o No litigation, statute, regulation or order had been commenced, enacted or entered by or in any court, governmental authority or any self-regulatory organization that prohibits consummation of the transactions contemplated by the securities purchase agreement; and o No event occurred that could reasonably be expected to have a material adverse effect on the Company's business. The Company also agreed not, without the prior written consent of a majority-in-interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning February 28, 2006 and ending on the later of (a) 270 days from February 28, 2006, or (b) 180 days from the date the registration statement is declared effective. In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning February 28, 2006 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the Securities Purchase Agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice.

----- F-45 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 19. Subsequent The callable secured convertible notes bear interest at Events 8% per annum from the date of issuance. Interest is Continued computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into our common stock at the selling stockholders' option, at the lower of (i) \$.02 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. The callable secured convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the

right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below \$.02 per share. An event of default includes the failure by the Company to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by the Company or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for ----- F-46

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 19. Subsequent prepayments occurring after the 60th day following the Events issue date of the notes. The warrants are exercisable Continued until five years from the date of issuance at a purchase price of \$.10 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, then the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the Securities Purchase Agreement. The selling stockholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the selling stockholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes. The Company is required to register the shares of its common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the February 28, 2006 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the callable secured convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at our option. As of April 14, 2006, the Company had 160,959,428 shares of its common stock issued and outstanding and \$2,411,439 callable secured convertible notes outstanding that may be converted into an estimated 335,000,000 shares of common stock at current market prices, and outstanding warrants to purchase 20,534,392 shares of its common stock. Additionally, the Company has an obligation to sell \$1,000,000 callable secured convertible notes that may be converted into an estimated 139,000,000 shares of common stock at current market prices and issue warrants to purchase 8,000,000

----- F-47 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued -----

19. Subsequent shares of common stock in the near future. In addition, Events the number of shares of common stock issuable upon Continued conversion of the outstanding callable secured convertible notes may increase if the market price of our stock declines. All the shares, including all of the shares issuable upon conversion of the notes and upon exercise of our warrants, may be sold without restriction. The sale of these shares may depress the market price of the Company's common stock. The Company's obligation to issue shares upon conversion of the callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of common stock that are issuable upon conversion of \$3,411,439 principal amount of callable secured convertible notes (excluding accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of April 13, 2006 of \$.012. % Below Price Per With 40% Number of % of Market Share Discount Shares Issuable Outstanding\* 25% \$.009 \$.0054 631,747,963 392.5% 50% \$.006 \$.0036 947,621,944 588.7% 75% \$.003 \$.0018 1,895,243,889 1,177.5% \*Based on 160,959,428 shares outstanding. As illustrated, the number of shares of common stock issuable upon conversion of the Company's callable secured convertible notes will increase if the market price of the Company's common stock declines, which will cause dilution to existing stockholders. The callable secured convertible notes are convertible into shares of the Company's common stock at a 40% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the noteholders convert and sell

material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The noteholders could sell common stock into the

----- F-48 PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued ----- 19.

Subsequent market in anticipation of covering the short sale by Events converting their securities, which could cause the Continued further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may have a depressive effect on the market price of the common stock. The issuance of shares upon conversion of callable secured convertible notes and exercise of warrants may result in substantial dissolution to the interests of other stockholders since the holders of the convertible notes may ultimately convert and sell the full amount issuable upon conversion. Although the noteholders may not convert their callable secured convertible notes and/or exercise their warrants if such conversion or exercise price would cause them to own more than 4.99% of the Company's outstanding common stock, this restriction does not prevent the noteholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the noteholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of the Company's common stock. On April 27, 2005, the Company entered into a securities purchase agreement for the sale of an aggregate of \$2,500,000 principal amount of callable secured convertible notes. On February 28, 2006, the Company entered into another securities purchase agreement for the sale of an aggregate of \$1,500,000 principal amount of callable secured convertible notes. These callable secured convertible notes are all due and payable, with 8% interest, three years from the date of issuance, unless sooner converted into shares of our common stock. Although the Company currently has \$2,411,439 in callable secured convertible notes outstanding, the noteholders are obligated to purchase additional callable secured convertible notes in the aggregate amount of \$1,000,000. Any event of default such as the Company's failure to repay the principal or interest when due on the notes, the Company's failure to issue shares of common stock upon conversion by the noteholders, the Company's breach of any covenant, representation or warranty in the securities purchase ----- F-49

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 19. Subsequent agreement or related convertible notes, the assignment Events or appointment of a receiver to control a substantial Continued part of our property or business, the filing of a money judgment, writ or similar process against the Company in excess of \$50,000, the commencement of a bankruptcy, insolvency, reorganization or liquidation proceeding against the Company, and the delisting of the Company's common stock could require the early repayment of the callable secured convertible notes, including a default interest rate of 15% on the outstanding principal balance of the notes if the default is not cured within the specified grace period. The Company anticipates that the full amount of callable secured convertible notes will be converted into shares of its common stock, in accordance with the terms of the callable secured convertible notes. If the Company is required to repay the callable secured convertible notes, it would be required to use its limited working capital and raise additional funds. If the Company were unable to repay the notes when required, the noteholders could commence legal action against the Company and foreclose on all of its assets to recover the amounts due. Any such action would require the Company to curtail or cease operations. Employment Agreement The Company entered into an employment agreement with Raymond P.L. Cannefax, which commenced on January 5, 2006 and expires on January 5, 2007. The employment agreement requires Mr. Cannefax to devote substantially all of his working time as the Company's President and Chief Executive Officer, providing that he may be terminated for "cause" (as provided in the agreement) and prohibits him from competing with the Company for two years following the termination of his employment agreement. The employment agreement provides for the payment of an initial base salary of \$125,000. The employment agreement also provides for salary increases and bonuses as shall be determined at the discretion of the Board of Directors, with the first review of the annual salary to be made as of June 30, 2006. The employment agreement further provides for the issuance of stock options to purchase 4,500,000 shares of the Company's common stock at \$.01 per share. The options vest in twelve equal monthly installments of 375,000 shares, beginning on February 5, 2006 until such shares are vested. In the event of a change of control of the Company, then all outstanding stock options granted to Mr. Yoon shall be immediately vested. A change of control shall be deemed to have occurred if (i) a tender offer shall be made and consummated for the ownership of more than 25% of the

Company's outstanding shares; (ii) the Company shall be merged or consolidated with another corporation and, as a result, less than 25% of the outstanding ----- F-50

PARADIGM MEDICAL INDUSTRIES, INC. Notes to Financial Statements Continued

----- 19. Subsequent common shares of the surviving corporation shall be Events owned in the aggregate by the Company's former Continued shareholders, as the same shall have listed prior to such merger or consolidation; (iii) the Company shall sell all or substantially all of its assets to another corporation that is not a wholly owned subsidiary or affiliate; (iv) as a result of any contested election for the Board of Directors, or any tender or exchange offer, merger of business combination or sale of assets, the persons who were directors of the Company before such a transaction shall cease to constitute a majority of the Board of Directors; or (v) a person other than an officer or director of the Company shall acquire more than 20% of the outstanding shares of common stock of the Company. During the first quarter of 2006, a total of \$127,000 in callable secured convertible notes have been converted into 64,371,200 shares of the Company's common stock pursuant to notices of conversion from The NIR Group. The dates of these notices of conversion, the amount of the notes converted, the conversion price of the notes converted, and the shares issued to the noteholders upon conversion were as follows: (See 10-K page 28). ----- F-51

PARADIGM MEDICAL INDUSTRIES, INC. FORM 10-QSB FOR THE QUARTER ENDED MARCH 31, 2006 INDEX PART I - FINANCIAL INFORMATION Item 1. Financial Statements..... 1 Condensed Balance

Sheet (unaudited) - March 31, 2006..... 1 Condensed Statements of Operations (unaudited) for the three months ended March 31, 2006 and March 31, 2005..... 2 Condensed Statements of Cash Flows (unaudited) for the three months ended March 31, 2006 and March 31, 2005 ..... 3 Notes to Condensed Financial Statements

(unaudited)..... 4 ii PARADIGM MEDICAL INDUSTRIES, INC. CONDENSED BALANCE SHEET

(UNAUDITED) March 31, 2006 ----- ASSETS Current Assets Cash and Cash Equivalents \$ 400,000 Receivables, Net 319,000 Inventory 820,000 Prepaid Expenses 61,000 ----- Total Current Assets 1,600,000

----- Intangibles, Net 339,000 Property and Equipment, Net 21,000 ----- Total Assets \$ 1,960,000

----- LIABILITIES AND STOCKHOLDERS' EQUITY Current Liabilities: Trade Accounts Payable \$ 432,000

Accrued Expenses 732,000 Current Portion of Long-term Debt 5,000 ----- Total Current Liabilities 1,169,000

Convertible Notes Payable 2,343,000 ----- Total Long-term Liabilities 2,343,000 ----- Total Liabilities 3,512,000

----- Stockholders' Equity: Preferred Stock, Authorized: 5,000,000 shares, \$.001 par value Series A

Authorized: 500,000 shares; issued and outstanding: 5,627 shares at March 31, 2006 - Series B Authorized: 500,000

shares; issued and outstanding: 8,986 shares at March 31, 2006 - Series C Authorized: 30,000 shares; issued and

outstanding: zero shares at March 31, 2006 - Series D Authorized: 1,140,000 shares; issued and outstanding: 5,000

shares at March 31, 2006 - Series E Authorized: 50,000 shares; issued and outstanding: 250 shares at March 31, 2006

- Series F Authorized: 50,000 shares; issued and outstanding: 4,598.75 shares at March 31, 2006 - Series G

Authorized: 2,000,000 shares; issued and outstanding: 588,235 shares at March 31, 2006 1,000 Common Stock,

Authorized: 250,000,000 shares, \$.001 par value; issued and outstanding: 160,800,324 at March 31, 2006 161,000

Additional Paid-in-capital 61,238,000 Accumulated Deficit (62,952,000) ----- Total Stockholders' Equity

(1,552,000) ----- Total Liabilities and Stockholders' Equity \$ 1,960,000 ----- The accompanying notes

are an integral part to these condensed financial statements 1 PARADIGM MEDICAL INDUSTRIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED) Three Months Ended March

31, 2006 2005 ----- Sales \$ 463,000 \$ 528,000 Cost of Sales 222,000 214,000 -----

Gross Profit 241,000 314,000 Operating Expenses: General and Administrative 250,000 258,000 Marketing and

Selling 78,000 180,000 Research, development and service 124,000 210,000 ----- Total Operating

Expenses 452,000 648,000 ----- Operating Income (Loss) (211,000) (334,000) -----

Other Income and (Expense): Other Income 2,000 15,000 Other Expense (3,000) - Interest Expense (544,000) (4,000)

----- Total Other Income (Expense) (545,000) 11,000 Net Income (Loss) Before Provision for

Income Taxes (756,000) (323,000) Provision for Income Taxes - - ----- Net Income (Loss) \$

(756,000) \$ (323,000) ----- Earnings (loss) Per Common Share - Basic \$ (0.01) \$ (0.01) -----

----- Earnings (loss) Per Common Share - Diluted \$ (0.01) \$ (0.01) ----- Weighted Average

Common Share - Basic 124,647,000 27,121,000 ----- Weighted Average Common Share - Diluted

124,647,000 27,121,000 ----- The accompanying notes are an integral part to these condensed

financial statements 2 PARADIGM MEDICAL INDUSTRIES, INC. CONDENSED CONSOLIDATED

STATEMENTS OF CASH FLOWS (UNAUDITED) Three Months Ended March 31, 2006 2005 -----  
 ----- Cash Flows from Operating Activities: ----- Net Loss \$ (756,000) \$ (323,000)  
 Adjustment to Reconcile Net Loss to Net Cash Used In Operating Activities: Depreciation and Amortization 16,000  
 23,000 Stock Option Valuation 23,000 52,000 Beneficial Conversion Interest 482,000 - Issuance of Stock Options and  
 Warrants for Services 18,000 - Provision for Losses on Receivables 1,000 (7,000) Provision for Losses on Inventory  
 25,000 - (Increase) Decrease from Changes in: Accounts Receivable 80,000 129,000 Inventories 8,000 (25,000)  
 Prepaid and Other Expenses (50,000) 22,000 Increase (Decrease) from Changes in: Trade Accounts Payable (27,000)  
 (7,000) Accrued Liabilities 28,000 (61,000) ----- Net Cash Used in Operating Activities (152,000)  
 (197,000) ----- Cash Flow from Investing Activities: ----- Acquisition of  
 Property and Equipment (5,000) - ----- Net Cash Provided by (Used in) Investing Activities (5,000)  
 - ----- Cash Flows from Financing Activities: ----- Principal Payments on  
 Notes Payable and Long-term Debt (9,000) (14,000) Proceeds from Issuance of Common Stock - 150,000 Proceeds  
 from Issuance of Convertible Notes 500,000 - ----- Net Cash (Used) Provided by Financing  
 Activities 491,000 (136,000) ----- Net Change in Cash 334,000 (61,000) Cash, Beginning of Period  
 66,000 131,000 ----- Cash, End of Period \$ 400,000 \$ 70,000 ----- Supplemental  
 Disclosure of Cash Flow Information: Cash Paid for Interest \$ 1,000 \$ 4,000 ----- Cash Paid for  
 Income Taxes \$ - \$ - ----- The accompanying notes are an integral part to these condensed financial  
 statements 3 PARADIGM MEDICAL INDUSTRIES, INC. NOTES TO FINANCIAL STATEMENTS

(UNAUDITED) Significant Accounting Policies ----- The accompanying condensed financial  
 statements of the Company have been prepared by the Company, without audit, pursuant to the rules and regulations  
 of the Securities and Exchange Commission. Certain information and disclosures normally included in financial  
 statements prepared in accordance with accounting principles generally accepted in the United States have been  
 condensed or omitted pursuant to such rules and regulations. These condensed financial statements reflect all  
 adjustments (consisting only of normal recurring adjustments) that, in the opinion of management, are necessary to  
 present fairly the results of operations of the Company for the periods presented. These condensed financial  
 statements should be read in conjunction with the financial statements and the notes thereto included in the Company's  
 Form 10-KSB for the year ended December 31, 2005. The results of operations for the three months ended March 31,  
 2006, are not necessarily indicative of the results that may be expected for the fiscal year ending December 31, 2006.  
 Going Concern ----- The accompanying financial statements have been prepared on a going concern basis,  
 which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business.  
 Historically, the Company has not demonstrated the ability to generate sufficient cash flows from operations to satisfy  
 its liabilities and sustain operations, and the Company has incurred significant losses. These factors raise substantial  
 doubt about the Company's ability to continue as a going concern. The Company's continuation as a going concern is  
 dependent on its ability to generate sufficient income and cash flow to meet its obligations on a timely basis and/or  
 obtain additional financing as may be required. The Company is actively seeking options to obtain additional capital  
 and financing. In addition, the Company has taken significant steps to reduce costs and increase operating efficiencies.  
 Specifically, the Company has significantly reduced the use of consultants, which has resulted in a large decrease in  
 expenses. In addition, the Company has reduced the number of its direct sales representatives, which has resulted in  
 less payroll, travel and other expenses. Although these cost savings have significantly reduced the Company's losses  
 and ongoing cash flow needs, if the Company is unable to obtain equity or debt financing, it may be unable to  
 continue development of its products and may be required to substantially curtail or cease operations. Net Loss Per  
 Share ----- Net loss per common share is computed on the weighted average number of common and  
 common equivalent shares outstanding during each period. Common stock equivalents consist of convertible preferred  
 stock, common stock options and warrants. Common equivalent shares are excluded from the computation when their  
 effect is anti-dilutive. Other common stock equivalents consisting of options and warrants to purchase 30,164,690 and  
 8,760,000 shares of common stock and preferred stock convertible into 909,000 and 2,047,000 shares of common  
 stock at March 31, 2006 and 2005, respectively, have not been included in loss periods because they are anti-dilutive.  
 For the three months ended March 31, 2006, the options and warrants to purchase 30,164,690 shares of common stock  
 were excluded because of the treasury stock method. The following table is a reconciliation of the net loss numerator  
 of basic and diluted net loss per common share for the three and nine month periods ended March 31, 2006 and March  
 31, 2005: 4 Three Months Ended March 31, 2006 2005 ----- ----- Basic weighted average shares outstanding

124,647,000 27,121,000 Common stock equivalents - convertible preferred stock 909,000 2,047,000 -----  
 ----- Diluted weighted average shares outstanding 125,556,000 29,168,000 ----- ----- Convertible Notes  
 ----- To obtain funding for the Company's ongoing operations, the Company entered into a securities purchase agreement with four accredited investors on April 27, 2005 for the sale of (i) \$2,500,000 in callable secured convertible notes and (ii) warrants to purchase 16,534,392 shares of its common stock. The sale of the callable secured convertible notes and warrants is to occur in three tranches and the investors are obligated to provide the Company with an aggregate of \$2,500,000 as follows: o \$850,000 was disbursed on April 27, 2005; o \$800,000 was disbursed on June 23, 2005 after the Company filed a registration statement that registered the shares of common stock underlying the callable secured convertible notes and the warrants; and o \$850,000 was disbursed on June 30, 2005, the effective date of the registration statement that registered the shares of common stock underlying the callable secured convertible notes and the warrants. Each closing under the securities purchase agreement was subject to the following conditions: o The Company delivered to the investors duly executed callable secured convertible notes and warrants; o No litigation, statute, regulation or order had been commenced, enacted or entered by or in any court, governmental authority or any self-regulatory organization that prohibits consummation of the transactions contemplated by the securities purchase agreement; and o No event occurred that could reasonably be expected to have a material adverse effect on the Company's business. The Company also agreed not, without the prior written consent of a majority-in-interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning April 27, 2005 and ending on the later of (a) 270 days from April 27, 2005, or (b) 180 days from the date the registration statement is declared effective. In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning April 27, 2005 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the Securities Purchase Agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice. The callable secured convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0945, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into our common stock at the selling stockholders' option, at the lower of (i) \$.09 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. 5 The callable secured convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below \$.09 per share. An event of default includes the failure by the Company to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by the Company or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$.20 per share. The investors may exercise the warrants on a cashless basis if the shares



of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, then the Company will not receive any proceeds therefrom. In addition, the exercise price of the warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the Securities Purchase Agreement. The selling stockholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and outstanding shares of common stock. However, the selling stockholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes. The Company is required to register the shares of its common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the April 27, 2005 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the callable secured convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at our option. The Company filed a registration statement with the Securities and Exchange Commission on June 22, 2005 to register the shares of common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement was declared effective on June 29, 2005. As of June 30, 2005, the average of the three lowest intraday trading prices of the Company's common stock during the preceding 20 trading days as reported on the OTC Bulletin Board was \$.05 and, therefore, the conversion price for the \$2,500,000 in callable secured convertible notes was \$.03. Based on this conversion price, the \$2,500,000 in callable secured convertible notes, excluding interest, were convertible into 83,333,333 shares of the Company's common stock. As of June 30, 2005, none of the callable secured convertible notes had been converted. Since June 30, 2005, a total of \$657,250 in callable secured convertible notes have been converted into 131,251,200 shares of the Company's common stock pursuant to conversion notices from The NIR Group. The dates of these conversion notices, the amount of the notes converted, the conversion price of the notes converted, and the shares issued to the noteholders upon conversion were as follows:

Amount of Notes	Conversion Price	Notes Converted	Conversion Date	Shares Issued
39,900	.0285	1,400,000	July 7, 2005	1,400,000
40,460	.0289	1,400,000	July 14, 2005	1,400,000
32,110	.0247	1,300,000	July 20, 2005	1,300,000
29,682	.0194	1,530,000	July 26, 2005	1,530,000
28,458	.0186	1,530,000	July 29, 2005	1,530,000
22,032	.0144	1,530,000	August 8, 2005	1,530,000
25,480	.014	1,820,000	August 16, 2005	1,820,000
22,386	.0123	1,820,000	August 22, 2005	1,820,000
16,898	.0119	1,420,000	August 26, 2005	1,420,000
4,760	.0119	400,000	August 27, 2005	400,000
20,600	.0103	2,000,000	September 2, 2005	2,000,000
16,380	.00819	2,000,000	September 12, 2005	2,000,000
13,800	.0069	2,000,000	September 16, 2005	2,000,000
11,580	.00579	2,000,000	September 22, 2005	2,000,000
11,628	.0051	2,280,000	September 28, 2005	2,280,000
7,157	.003139	2,280,000	October 3, 2005	2,280,000
7,157	.003139	2,280,000	October 10, 2005	2,280,000
6,840	.003	2,280,000	October 12, 2005	2,280,000
8,430	.003	2,810,000	October 19, 2005	2,810,000
8,430	.003	2,810,000	October 25, 2005	2,810,000
8,795	.00313	2,810,000	October 31, 2005	2,810,000
8,599	.00306	2,810,000	November 3, 2005	2,810,000
9,947	.00354	2,810,000	November 11, 2005	2,810,000
11,187	.0033	3,390,000	November 15, 2005	3,390,000
10,814	.00319	3,390,000	November 21, 2005	3,390,000
9,661	.00285	3,390,000	December 7, 2005	3,390,000
9,187	.00271	3,390,000	December 13, 2005	3,390,000
9,840	.00246	4,000,000	December 22, 2005	4,000,000
9,360	.00234	4,000,000	December 29, 2005	4,000,000
8,640	.00216	4,000,000	January 5, 2006	4,000,000
8,476	.002119	4,000,000	January 11, 2006	4,000,000
8,476	.002119	4,000,000	January 18, 2006	4,000,000
8,476	.002119	4,000,000	January 24, 2006	4,000,000
8,556	.002139	4,000,000	January 27, 2006	4,000,000
6,578	.0012	5,481,600	February 13, 2006	5,481,600
6,682	.001219	5,481,600	February 21, 2006	5,481,600
6,907	.00126	5,481,600	February 23, 2006	5,481,600
8,984	.001639	5,481,600	February 28, 2006	5,481,600
15,513	.00283	5,481,600	March 7, 2006	5,481,600
30,971	.00565	5,481,600	March 15, 2006	5,481,600
30,093	.00549	5,481,430	March 20, 2006	5,481,430
24,120	.00804	3,000,000	March 27, 2006	3,000,000
23,220	.00774	3,000,000	March 31, 2006	3,000,000
----- Total \$ 657,250 131,251,200				

To obtain additional funding for the Company's ongoing operations, the Company entered into a second securities purchase agreement on February 28, 2006 with the same four accredited investors for the sale of (i) \$1,500,000 in callable secured convertible notes and (ii) warrants to purchase 12,000,000 shares of its common stock. The sale of the callable secured convertible notes and warrants is to occur in three tranches and the investors are obligated to provide the Company with an aggregate of \$1,500,000 as follows: 7 o \$500,000 was disbursed on February 28, 2006; o \$500,000 will be disbursed after the Company files a registration statement that registers the shares of common stock underlying the callable secured

convertible notes and the warrants; and o \$500,000 will be disbursed upon the effectiveness of the registration statement the Company intends to file that registers the shares of common stock underlying the callable secured convertible notes and the warrants. Each closing under the securities purchase agreement is subject to the following conditions: o The Company delivers to the investors duly executed callable secured convertible notes and warrants; o No litigation, statute, regulation or order had been commenced, enacted or entered by or in any court, governmental authority or any self-regulatory organization that prohibits consummation of the transactions contemplated by the securities purchase agreement; and o No event occurred that could reasonably be expected to have a material adverse effect on the Company's business. The Company also agreed not, without the prior written consent of a majority-in-interest of the investors, to negotiate or contract with any party to obtain additional equity financing (including debt financing with an equity component) that involves (i) the issuance of common stock at a discount to the market price of the common stock on the date of issuance (taking into account the value of any warrants or options to acquire common stock in connection therewith), (ii) the issuance of convertible securities that are convertible into an indeterminate number of shares of common stock, or (iii) the issuance of warrants during the lock-up period beginning February 28, 2006 and ending on the later of (a) 270 days from February 28, 2006, or (b) 180 days from the date the registration statement is declared effective. In addition, the Company agreed not to conduct any equity financing (including debt financing with an equity component) during the period beginning February 28, 2006 and ending two years after the end of the above lock-up period unless it first provided each investor an option to purchase its pro-rata share (based on the ratio of each investor's purchase under the Securities Purchase Agreement) of the securities being offered in any proposed equity financing. Each investor must be provided written notice describing any proposed equity financing at least 20 business days prior to the closing of such proposed equity financing and the option must be extended to each investor during the 15-day period following delivery of such notice. The callable secured convertible notes bear interest at 8% per annum from the date of issuance. Interest is computed on the basis of a 365-day year and is payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0275, for each trading day during that month. Any amount of principal or interest on the callable secured convertible notes that is not paid when due will bear interest at the rate of 15% per annum from the date due thereof until such amount is paid. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into our common stock at the selling stockholders' option, at the lower of (i) \$.02 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 trading days before but not including the conversion date. Accordingly, there is no limit on the number of shares into which the notes may be converted. The callable secured convertible notes are secured by the Company's assets, including the Company's inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to prepay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the Company's stock is trading at or below \$.02 per share. An event of default includes the failure by the Company to pay the principal or interest on the callable secured convertible notes when due or to timely file a registration statement as required by the Company or obtain effectiveness with the Securities and Exchange Commission of the registration statement. Prepayment of the callable secured convertible notes is to be made in cash equal to either (a) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (b) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; or (c) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes. The warrants are exercisable until five years from the date of issuance at a purchase price of \$.10 per share. The investors may exercise the warrants on a cashless basis if the shares of common stock underlying the warrants are not then registered pursuant to an effective registration statement. In the event the investors exercise the warrants on a cashless basis, then the Company will not receive any proceeds therefrom. In addition, the exercise price of the 8 warrants will be adjusted in the event the Company issues common stock at a price below market, with the exception of any securities issued as of the date of the warrants or issued in connection with the callable secured convertible notes issued pursuant to the securities purchase agreement. The noteholders have agreed to restrict their ability to convert their callable secured convertible notes or exercise their warrants and receive shares of our common stock such that the number of shares of common stock held by them in the aggregate and their affiliates after such conversion or exercise does not exceed 4.99% of the then issued and

outstanding shares of common stock. However, the selling stockholders may repeatedly sell shares of common stock in order to reduce their ownership percentage, and subsequently convert additional callable secured convertible notes. The Company is required to register the shares of its common stock issuable upon the conversion of the callable secured convertible notes and the exercise of the warrants. The registration statement must be filed with the Securities and Exchange Commission within 60 days of the February 28, 2006 closing date and the effectiveness of the registration is to be within 135 days of such closing date. Penalties of 2% of the outstanding principal balance of the callable secured convertible notes plus accrued interest are to be applied for each month the registration is not effective within the required time. The penalty may be paid in cash or stock at our option. As of March 31, 2006, the Company had 160,959,424 shares of its common stock issued and outstanding and \$2,342,750 in callable secured convertible notes outstanding that may be converted into an estimated 390,000,000 shares of common stock at current market prices, and outstanding warrants to purchase 20,534,392 shares of its common stock. Additionally, the Company has an obligation to sell \$1,000,000 in callable secured convertible notes that may be converted into an estimated 167,000,000 shares of common stock at current market prices and issue warrants to purchase 8,000,000 shares of common stock in the near future. Furthermore, the number of shares of common stock issuable upon conversion of the outstanding callable secured convertible notes may increase if the market price of the Company's common stock declines. All the shares, including all of the shares issuable upon conversion of the notes and upon exercise of the warrants, may be sold without restriction. The sale of these shares may depress the market price of the Company's common stock. The Company's obligation to issue shares upon conversion of the callable secured convertible notes is essentially limitless. The following is an example of the amount of shares of common stock that are issuable upon conversion of \$3,342,750 principal amount of callable secured convertible notes (excluding accrued interest), based on market prices 25%, 50%, and 75% below the market price, as of May 9, 2006 of \$.0099.

% Below Price Per	With 40% Number of	% of Market Share	Discount	Shares Issuable	Outstanding*
25%	\$.0075	\$.0045	742,833,333	461.5%	50%
50%	\$.0050	\$.0030	1,114,250,000	692.3%	75%
75%	\$.0025	\$.0015	2,228,500,000	1,384.5%	

\*Based on 160,959,424 shares outstanding. As illustrated, the number of shares of common stock issuable upon conversion of the Company's callable secured convertible notes will increase if the market price of the Company's common stock declines, which will cause dilution to existing stockholders. The callable secured convertible notes are convertible into shares of the Company's common stock at a 40% discount to the trading price of the common stock prior to the conversion. The significant downward pressure on the price of the common stock as the noteholders convert and sell material amounts of common stock could encourage short sales by investors. This could place further downward pressure on the price of the common stock. The noteholders could sell common stock into the market in anticipation of covering the short sale by converting their securities, which could cause the further downward pressure on the stock price. In addition, not only the sale of shares issued upon conversion or exercise of notes, warrants and options, but also the mere perception that these sales could occur, may have a depressive effect on the market price of the common stock. The issuance of shares upon conversion of callable secured convertible notes and exercise of warrants may result in substantial dissolution to the interests of other stockholders since the holders of the convertible notes may ultimately convert and sell the full amount issuable upon conversion. Although 9 the noteholders may not convert their callable secured convertible notes and/or exercise their warrants if such conversion or exercise price would cause them to own more than 4.99% of the Company's outstanding common stock, this restriction does not prevent the noteholders from converting and/or exercising some of their holdings and then converting the rest of their holdings. In this way, the noteholders could sell more than this limit while never holding more than this limit. There is no upper limit on the number of shares that may be issued, which will have the effect of further diluting the proportionate equity interest and voting power of holders of the Company's common stock. The Company anticipates that the full amount of callable secured convertible notes will be converted into shares of its common stock, in accordance with the terms of the callable secured convertible notes. If the Company is required to repay the callable secured convertible notes, it would be required to use its limited working capital and raise additional funds. If the Company were unable to repay the notes when required, the noteholders could commence legal action against the Company and foreclose on all of its assets to recover the amounts due. Any such action would require the Company to curtail or cease operations.

**Preferred Stock Conversions**  
 ----- Under the Company's Certificate of Incorporation, holders of the Company's Class A and Class B preferred stock have the right to convert such stock into shares of the Company's common stock at the rate of 1.2 shares of common stock for each share of preferred stock. During the three months ended March 31, 2006, no shares

of Series A preferred stock and no shares of Series B preferred stock were converted to the Company's common stock. Holders of Series D preferred have the right to convert such stock into shares of the Company's common stock at the rate of one share of common stock for each share of preferred stock. During the three months ended March 31, 2006, no shares of Series D preferred stock were converted to the Company's common stock. Holders of Series E preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the three months ended March 31, 2006, no shares of Series E preferred stock were converted to the Company's common stock. Holders of Series F preferred have the right to convert such stock into shares of the Company's common stock at the rate of 53.3 shares of common stock for each share of preferred stock. During the three months ended March 31, 2006, no shares of Series F preferred stock were converted to shares of the Company's common stock. Holders of Series G preferred have the right to convert such stock into shares of the Company's common stock at the rate of one share of common stock for each share of preferred stock. During the three months ended March 31, 2006, no shares of Series G preferred stock were converted to shares of the Company's common stock.

Warrants ----- The fair value of warrants granted as described herein is estimated at the date of grant using the Black-Scholes option pricing model. The exercise price per share is reflective of the then current market value of the stock. No grant exercise price was established at a discount to market. All warrants are fully vested, exercisable and nonforfeitable as of the grant date. As a result of the financing the Company completed on April 27, 2005 involving the sale of \$2,500,000 in callable secured convertible notes, the Company granted warrants to the noteholders to purchase 16,534,392 shares of its common stock. The warrants have an exercise price of \$.20 per share and expire on April 27, 2010. As a result of the financing the Company completed on February 28, 2006 involving the sale of \$500,000 in callable secured convertible notes, the Company granted warrants to the noteholders to purchase 4,000,000 shares of its common stock. The warrants have an exercise price of \$.10 per share and expire on February 27, 2011.

Stock - Based Compensation ----- The Company has stock option plans that provide for stock-based employee compensation, including the granting of stock options, to certain key employees. Prior to January 1, 2006, the Company applied APB Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations in accounting for awards made under the Company's stock-based compensation plans. Under this method, compensation expense was recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. 10 During the periods presented in the accompanying financial statements, the Company has granted options under its Stock Option Plan. The Company has adopted the provisions of SFAS No. 123(R) using the modified-prospective transition method and the disclosures that follow are based on applying SFAS No. 123(R). Under this transition method, compensation expense recognized during the three months ended March 31, 2005 included: (a) compensation expense for all share-based awards granted prior to, but not yet vested as of January 1, 2006, and (b) compensation expense for all share-based awards granted on or after January 1, 2006. Accordingly, compensation cost of \$23,000 has been recognized for grants of options to employees and directors in the accompanying statements of operations with an associated recognized tax benefit of \$0 of which \$0 was capitalized as an asset for the period ended March 31, 2006. In accordance with the modified-prospective transition method, the Company's financial statements for the prior year have not been restated to reflect, and do not include, the impact of SFAS 123(R). Had compensation cost for the Company's stock option plans and agreements been determined based on the fair value at the grant date for awards in 2005 consistent with the provisions of SFAS No. 123(R), the Company's net loss and basic net loss per common share would have been increased to the pro forma amounts indicated below: Three Months Ended March 31, 2006 Net income (loss) - as reported \$ (756,000) Plus stock-based employee compensation expense included in reported net loss, net related tax effects Less stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects (78,000) ----- Pro forma net loss \$ (834,000) ----- Basic and diluted net loss per common share, as reported \$ (0.01) Basic net loss per share, pro forma \$ (0.01) Diluted net loss per share, pro forma \$ (0.01)

Related Party Transactions ----- Payments for legal services to the firm of which the Company's chairman of the board of directors is a partner were approximately \$33,000 and \$25,000 for the three months ended March 31, 2006 and 2005 respectively. Accrued Expenses ----- Accrued expenses consist of the following at March 31, 2006: Accrued consulting and litigation reserve \$ 543,000 Accrued payroll and employee benefits 34,000 Sales taxes payable 9,000 Customer deposits 19,000 Accrued royalties 2,000 Warranty and return allowance 119,000 Other accrued expenses 6,000 ----- Total \$732,000 -----

Stockholders' Equity ----- On January 14, 2005, the Company issued 2,000,000 shares of common stock to an accredited

investor through a private placement at a price of \$0.75 per share. The Company received a total of \$150,000 in cash from the private placement transaction and issued as a commission warrants to purchase 200,000 shares of the Company's common stock at \$.15 per share. 11 On February 1, 2005, the Company issued a total of 515,206 shares of common stock to two accredited investors that had purchased shares of the Company's Series G convertible preferred stock in a private placement transaction. Under the terms of the private offering, the Company was required to file a registration statement with the Securities and Exchange Commission to register the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. The 515,206 shares represented a penalty for the Company not having a registration statement declared effective within 120 days of the initial closing of the offering. The value of these shares was \$52,000. On April 7, 2005, the Company issued 250,000 registered shares of common stock to the law firm of Mackey Price Thompson & Ostler in payment of legal services that the law firm provided to the Company in the amount of \$22,500. 12 No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. This prospectus is an offer to sell only the shares 528,534,392 Common Stock offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

PARADIGM MEDICAL INDUSTRIES, INC. \_\_\_\_\_ TABLE OF  
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Where You Can Find More Information II-1 PART II INFORMATION NOT REQUIRED IN PROSPECTUS Item  
 24. Indemnification of Directors and Officers Section 145 of the General Corporation Law of the State of Delaware (the "Delaware Law") empowers a Delaware corporation to indemnify any person who is, or is threatened to be made, a party to any threatened, pending or completed legal action, suit or proceedings, whether civil, criminal, administrative or investigative (other than action by or in the right of such corporation), by reason of the fact that such person was an officer or director of such corporation, or is or was serving at the request of such corporation as a director, officer, employee or agent of another corporation or enterprise. The indemnity may include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with such action, suit or proceeding, provided that such officer or director acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the corporation's best interests, and, for criminal proceedings, had no reasonable cause to believe his or her conduct was illegal. A Delaware corporation may indemnify officers and directors in an action by or in the right of the corporation under the same conditions, except that no indemnification is permitted without judicial approval if the officer or director is adjudged to be liable to the corporation in the performance of his or her duty. Where an officer or director is successful on the merits or otherwise in the defense of any action referred to above, the corporation must indemnify him or her against the expenses which such officer or director actually and reasonably incurred. In accordance with the Delaware Law, the Certificate of Incorporation of the Company contains a provision to limit the personal liability of the directors of the Company for violations of their fiduciary duty. This provision eliminates each director's liability to the Registrant or its stockholders for monetary damages except (i) for any breach of the director's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware Law providing for liability of directors for unlawful payment of dividends or unlawful stock purchases or redemptions, or (iv) for any transaction from which a director derived an improper personal benefit. The effect of this provision is to eliminate the personal liability of directors for monetary damages for actions involving a breach of their fiduciary duty of care, including any such actions involving gross negligence. The Company may not indemnify an individual unless authorized and a determination is made in the specific case that indemnification of the individual is permissible in the circumstances because his or her conduct was in good faith, he or she reasonably believed that his or her conduct was in, or not opposed to, the Company's best interests and, in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful. The Company may not advance expenses to an individual to whom the Company may ultimately be responsible for indemnification unless authorized in the specific case after the individual furnishes the following to the Company: a

written affirmation of his or her good faith belief that his or her conduct was in good faith, that he or she reasonably believed that his or her conduct was in, or not opposed to, the Company's best interests and, in the case of any criminal proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful and (2) the individual furnishes to the Company a written undertaking, executed personally or on his or her behalf, to repay the advance if it is ultimately determined that he or she did not meet the standard of conduct referenced in part (1) of this sentence. In addition to the individual furnishing the aforementioned written affirmation and undertaking, in order for the Company to advance expenses, a determination must also be made that the facts then- known to those making the determination would not preclude indemnification. All determinations relative to indemnification must be made as follows: (1) by the Board of Directors of the Company by a majority vote of those present at a meeting at which a quorum is present, and only those directors not parties to the proceeding shall be counted in satisfying the quorum requirement; or (2) if a quorum cannot be obtained as contemplated in part (1) of this sentence, by a majority vote of a committee of the Board of Directors designated by the Board of Directors of the Company, which committee shall consist of two or more directors not parties to the proceeding, except that directors who are parties to the proceeding may participate in the designation of directors for the committee; or (3) by special legal counsel selected by the Board of Directors or its committee in the manner prescribed in part (1) or part (2) of this sentence (however, if a quorum of the Board of Directors cannot be obtained under part (1) of this sentence and a committee cannot be designated under part (2) of this sentence, then a special legal counsel shall be selected by a majority vote of the full board of directors, in which selection directors who are parties to the proceeding may participate); or (4) by the shareholders, by a majority of the votes entitled to be cast by holders of qualified shares present in person or by proxy at a meeting.

II-1 The Company has also entered into Indemnification Agreements with its executive officers and directors. These Indemnification Agreements are substantially similar in effect to the Bylaws and the provisions of our Certificate of Incorporation relative to providing indemnification to the maximum extent and in the manner permitted by the Delaware General Corporation Law. Additionally, such Indemnification Agreements contractually bind the Company with respect to indemnification and contain certain exceptions to indemnification, but do not limit the indemnification available pursuant to our Bylaws, our Certificate of Incorporation or the Delaware General Corporation Law.

Item 25. Other Expenses of Issuance and Distribution The following table sets forth the expenses payable by the Company in connection with the issuance and distribution of the securities being registered (all amounts except the Securities and Exchange Commission filing fee are estimated):

Filing fee -- Securities and Exchange Commission.....	\$ 1,257
Legal fees and expenses.....	25,000
Accounting fees and expenses.....	3,500
----- Total expenses.....	\$ 29,757

Item 26. Recent Sales of Unregistered Securities The following information is furnished with regard to all issuances of unregistered shares of our common stock during the past three years. These shares were issued, unless otherwise indicated, without registration in reliance upon the exemption provided by Section 4(2) of the Securities Act of 1933, as amended or, in the case of the exercise of warrants, the shares were registered pursuant to a registration statement in effect at the time of the warrant exercise.

I. Common Stock On June 26, 2003, the Company issued 51,000 shares of common stock to Paul L. Archambeau, M.D. for a cash investment in the amount of \$12,750 pursuant to the exercise of warrants at an exercise price of \$.25 per share. On June 30, 2003, the Company completed the sale of 845,266 shares of common stock to 14 accredited investors, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D thereunder at a price of \$.375 per share. The Company received a total of \$316,975 in cash in the private placement transaction and issued 82,526 shares of common stock in commissions and expenses. The accredited investors also received warrants to purchase 422,634 shares of common stock at an exercise price of \$.75 per share. On October 9, 2003, the Company issued 300,000 shares of common stock to John Charles Casebeer, M.D. in settlement of a lawsuit that Dr. Casebeer brought against the Company for services performed under a personal services contract. On January 14, 2005, the Company issued 2,000,000 shares of common stock to Dr. Endre Bodnar, an accredited investor, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D thereunder at a price of \$.075 per share. The Company received a total of \$150,000 in cash from the private placement transaction and issued as a commission warrants to purchase 200,000 shares of the Company's common stock at \$.15 per share. On February 1, 2005, the Company issued a total of 515,206 shares of common stock to Crescent International, Ltd. and Otape Investments, Ltd. that had purchased a total of 1,981,560 shares of the Company's Series G convertible preferred stock in a private

placement transaction, which was initially closed on September 29, 2003. Under the terms of the private offering, the Company was required to file a registration statement with the Securities and Exchange Commission to register the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. The 515,206 shares represented a penalty for the Company not having a registration statement declared effective within 120 days of the initial closing of the offering. On April 7, 2005, the Company issued 250,000 shares of common stock to the law firm of Mackey Price Thompson & Ostler for legal services rendered in the amount of \$22,500 pursuant to the terms of a stock purchase agreement dated II-2 April 7, 2005, between Mackey Price Thompson & Ostler and the Company. Randall A. Mackey, Chairman of the Company, is President and a shareholder of Mackey Price Thompson & Ostler. II. Series G Preferred Stock During the period from August 24, 2003 to September 15, 2003, the Company sold a total of 1,981,560 shares of Series G convertible preferred stock to two accredited investors, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Regulation D promulgated under the Securities Act of 1933 at a price of \$.17 per share. The Company received \$300,000 in cash as a result of the private placement transaction and paid \$30,000 in commissions and expenses. In addition, the Company issued warrants to purchase 88,236 shares of its common stock at an exercise price of \$.50 per share for commissions and expenses. The Series G convertible preferred stock is convertible into shares of common stock at a conversion price equal to one share of common stock for each share of Series G preferred stock. The accredited investors also received warrants to purchase a total of 382,353 shares of common stock at an exercise price of \$.50 per share. These shares of Series G convertible preferred stock were issued without registration in reliance upon Section 4(2) of the Securities Act of 1933 and Rule 506 of Regulation D promulgated thereunder. Moreover, the Company issued an additional 515,206 shares of common stock to the investors. Under the terms of the private offering, the Company was required to file a registration statement with the Securities and Exchange Commission to register the common shares issuable to the Series G preferred stockholders upon conversion of their Series G preferred shares and exercise of their warrants. If the registration statement was not declared effective within 120 days of the initial closing of the offering on August 29, 2003, there was a penalty of 2% per month payable to the investors in common shares (or 39,631 common shares per month) until the registration statement was declared effective. The registration Statement was declared effective on February 10, 2005. III. Callable Secured Convertible Notes During the period from April 27, 2005 to June 30, 2005, the Company sold a total of \$2,500,000 in callable secured convertible notes to four accredited investors, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Regulation D promulgated under the Securities Act of 1933. In addition, the Company issued warrants to purchase 16,534,392 shares of its common stock at an exercise price of \$.20 per share, exercisable through the period from April 27, 2010 to June 23, 2010. The \$2,500,000 in callable secured convertible notes bear interest at 8% per annum, payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0945, for each trading date during that month. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into common stock, at the noteholder's option, at the lower of (i) \$.09 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 days before but not including the conversion date. The \$2,500,000 in callable secured convertible notes are secured by the Company's assets, including its inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to repay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the common stock is trading at or below \$.09 per share. Prepayment of the callable secured convertible notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (ii) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; and (iii) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes. During the period from February 28, 2006 to June 28, 2006, the Company sold a total of \$1,000,000 in callable secured convertible notes to four accredited investors, as defined in Section 2(15) of the Securities Act of 1933 and Rule 501 of Regulation D thereunder, through a private placement under Regulation D promulgated under the Securities Act of 1933. In addition, the Company issued warrants to purchase 8,000,000 shares of its common stock at an exercise price of \$.10 per share, exercisable through the period from February 28, 2011 to June 28, 2011. II-3 The \$1,000,000 in

callable secured convertible notes bear interest at 8% per annum, payable quarterly in cash, with six months of interest payable up front. The interest rate resets to zero percent for any month in which the stock price is greater than 125% of the initial market price, or \$.0275, for each trading date during that month. The callable secured convertible notes mature in three years from the date of issuance, and are convertible into common stock, at the noteholder's option, at the lower of (i) \$.02 or (ii) 60% of the average of the three lowest intraday trading prices for the common stock on the OTC Bulletin Board for the 20 days before but not including the conversion date. The \$1,000,000 in callable secured convertible notes are secured by the Company's assets, including its inventory, accounts receivable and intellectual property. Moreover, the Company has a call option under the terms of the notes. The call option provides the Company with the right to repay all of the outstanding callable secured convertible notes at any time, provided there is no event of default by the Company and the common stock is trading at or below \$.02 per share. Prepayment of the callable secured convertible notes is to be made in cash equal to either (i) 125% of the outstanding principal and accrued interest for prepayments occurring within 30 days following the issue date of the notes; (ii) 130% of the outstanding principal and accrued interest for prepayments occurring between 31 and 60 days following the issue date of the notes; and (iii) 145% of the outstanding principal and accrued interest for prepayments occurring after the 60th day following the issue date of the notes. Item 27. Exhibits (a) Exhibits The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-B or are incorporated by reference to previous filings. Exhibit No. Document Description -----

2.1 Amended Agreement and Plan of Merger between Paradigm Medical Industries, Inc., a California corporation and Paradigm Medical Industries, Inc., a Delaware corporation(1) 3.1 Certificate of Incorporation(1) 3.2 Amended Certificate of Incorporation(8) 3.3 Bylaws(1) 4.1 Specimen Common Stock Certificate (2) 4.2 Specimen Class A Warrant Certificate(2) 4.3 Form of Class A Warrant Agreement(2) 4.4 Underwriter's Warrant with Kenneth Jerome & Co., Inc.(3) 4.5 Specimen Series C Convertible Preferred Stock Certificate(4) 4.6 Certificate of the Designations, Powers, Preferences and Rights of the Series C Convertible Preferred Stock(4) 4.7 Specimen Series D Convertible Preferred Stock Certificate (5) 4.8 Certificate of the Designations, Powers, Preferences and Rights of the Series D Convertible Preferred Stock (6) 4.9 Warrant to Purchase Common Stock with Dr. Michael B. Limberg (6) 4.10 Certificate of Designations, Powers, Preferences and Rights of the Series G Convertible Preferred Stock (7) 5.1 Opinion of Mackey Price Thompson & Ostler 10.1 Exclusive Patent License Agreement with PhotoMed(1) 10.2 Consulting Agreement with Dr. Daniel M. Eichenbaum(1) 10.3 1995 Stock Option Plan (1) 10.4 License Agreement with Sunnybrook Health Science Center(8) 10.5 Employment Agreement with John Y. Yoon(9) 10.6 Stock Purchase and Sale Agreement with William Ungar (10) 10.7 Employment Agreement with Aziz A. Mohabbat (11) 10.8 Investment Banking Agreement with Alpha Advisory Services, Inc. (12) 10.9 Manufacturing and Distribution Agreement with E-Technologies, Inc. (12) 10.10 Settlement Agreement with Innovative Optics, Inc., Barton Dietrich Investments, L.P. and United States Fire Insurance Company (13) 10.11 Stipulation and Agreement of Settlement (14) 10.12 Supplemental Agreement (14) 10.13 Stipulation of Settlement (14) II-4 10.14 Supplemental Agreement (14) 10.15 Securities Purchase Agreement with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLP (the "Purchasers")(15) 10.16 Form of Callable Secured Convertible Note with each purchaser(15) 10.17 Form of Stock Purchase Warrant with each purchaser(15) 10.18 Security Agreement with Purchasers(15) 10.19 Intellectual Property Security Agreement with Purchasers(15) 10.20 Registration Rights Agreement with Purchasers(15) 10.21 Stock Purchase Agreement with Mackey Price Thompson & Ostler(16) 10.22 Employment Agreement with Raymond P.L. Cannefax(17) 10.23 Securities Purchase Agreement with AJW Partners, LLC, AJW Offshore, Ltd., AJW Qualified Partners, LLC and New Millennium Capital Partners II, LLP(18) 10.24 Form of Callable Secured Convertible Note with each purchaser(18) 10.25 Form of Stock Purchase Warrant with each purchaser(18) 10.26 Security Agreement with Purchasers(18) 10.27 Intellectual Property Security Agreement with Purchasers(18) 10.28 Registration Rights Agreement with Purchasers(18) 10.29 Settlement Agreement with Dr. Joseph W. Spadafora(19) 10.30 Worldwide OEM Agreement with MEDA Co., Ltd.(20) 23.1 Consent of Mackey Price Thompson & Ostler 23.2 Consent of Chisholm, Bierwolf & Nilson, LLC 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 ----- (1) Incorporated by reference from Registration Statement on Form SB-2, as filed on March 19, 1996. (2) Incorporated by reference from Amendment



No. 1 to Registration Statement on Form SB-2, as filed on May 14, 1996. (3) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on June 3, 1996. (4) Incorporated by reference from Annual Report on Form 10-KSB, as filed on April 16, 1998. (5) Incorporated by reference from Registration Statement on Form SB-2, as filed on April 29, 1999. (6) Incorporated by reference from Report on Form 10-QSB, as filed on August 16, 2000. (7) Incorporated by reference from Report on Form 10-QSB, as filed on November 14, 2003. (8) Incorporated by reference from Amendment No. 2 to Registration Statement on Form SB-2, as filed on December 15, 2003. (9) Incorporated by reference from Current Report on Form 8-K, as filed on March 23, 2004. (10) Incorporated by reference from Quarterly Report on Form 10-QSB, as filed on August 16, 2004. (11) Incorporated by reference from Amendment No. 6 to Registration Statement on Form SB-2, as filed on October 20, 2004. (12) Incorporated by reference from Report on Form 10-QSB, as filed on November 15, 2004. (13) Incorporated by reference from Current Report on Form 8-K, as filed on January 27, 2005. (14) Incorporated by reference from Current Report on Form 8-K, as filed on February 23, 2005. (15) Incorporated by reference from Current Report on Form 8-K, as filed on May 18, 2005. (16) Incorporated by reference from Registration Statement on Form SB-2, as filed on June 22, 2005. (17) Incorporated by reference from Current Report on Form 8-K, as filed on January 18, 2006. (18) Incorporated by reference from Current Report on Form 8-K, as filed on March 1, 2006. (19) Incorporated by reference from Registration Statement on Form SB-2, as filed on June 15, 2006. (20) Incorporated by reference from Current Report on Form 8-K, as filed on June 19, 2006. II-5 (b) Reports on Form 8-K Current Report on Form 8-K, as filed on January 18, 2006. Current Report on Form 8-K, as filed on March 1, 2006. Current Report on Form 8-K, as filed on June 19, 2006. Item 28. Undertakings (a) The undersigned registrant hereby undertakes: (1) To file, during any period in which it offers or sells securities, a post-effective amendment to this registration statement: (i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933 (the "Securities Act"); (ii) To reflect in the prospectus any facts or events which, individually or together, represent a fundamental change in the information in the registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20% change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective registration statement; and (iii) To include any additional or changed material information on the plan of distribution. (2) That, for determining liability under the Securities Act, treat each post-effective amendment as a new registration statement of the securities offered, and the offering of the securities at that time to be the initial bona fide offering. (3) To file a post-effective amendment to remove from registration any of the securities that remain unsold at the end of the offering. (b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue. The undersigned registrant also undertakes that: (1) For purposes of determining any liability under the Securities Act, treat the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1), or (4) or Rule 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective. (2) For the purposes of determining any liability under the Securities Act, treat each post-effective amendment that contains a form of prospectus as a new registration statement for the securities offered in the registration statement, and the offering of the securities at that time as the initial bona fide offering of those securities. II-6 SIGNATURES In accordance with the requirements of the Securities Act of 1933, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements of filing on Form SB-2 and has duly caused this registration statement to be signed on its behalf by the undersigned, in Salt Lake City, State of Utah, this 12th day of

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July, 2006. PARADIGM MEDICAL INDUSTRIES, INC. By:/s/ Raymond P.L. Cannefax -----  
Raymond P.L. Cannefax Its: President and Chief Executive Officer Pursuant to the requirements of the Securities Act  
of 1933, this registration statement has been signed below by the following persons on behalf of the registrant and in  
the capacities and on the dates indicated: Signature Title Date /s/ Raymond P.L. Cannefax President and Chief  
Executive July 12, 2006 ----- Officer (Principal Executive Raymond P.L. Cannefax Officer) /s/  
Randall A. Mackey Chairman of the Board and July 12, 2006 ----- Secretary Randall A. Mackey /s/  
David M. Silver Director July 12, 2006 ----- David M. Silver /s/ Keith D. Ignatz Director July 12, 2006  
----- Keith D. Ignatz /s/ John C. Pingree Director July 12, 2006 ----- John C. Pingree /s/ Luis  
A. Mostacero Vice President of Finance, July 12, 2006 ----- Treasurer and Secretary Luis A. Mostacero  
(Principal Financial and Accounting Officer) \* By: \_\_\_\_\_ Raymond P.L. Cannefax as  
Attorney-in-Fact II-7