

## Directors

David J. Vitale, *Chairman*  
Nancy Lampton, *Vice Chairman*  
Stewart E. Conner  
Robert J. Genetski  
Philip R. McLoughlin  
Geraldine M. McNamara  
Eileen A. Moran  
Nathan I. Partain, CFA  
Christian H. Poindexter  
Carl F. Pollard

## Officers

Nathan I. Partain, CFA, *President & Chief Executive Officer*  
T. Brooks Beittel, CFA, *Secretary*  
Timothy M. Heaney, CFA, *Vice President & Chief Investment Officer*  
Lisa H. Leonard, *Vice President*  
Alan M. Meder, CFA, CPA, *Treasurer & Assistant Secretary*

Joyce B. Riegel, *Chief Compliance Officer*

## Investment Adviser

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## Administrator

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## Custodian

State Street Bank and Trust Company  
One Heritage Drive  
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## Transfer Agent

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Brooklyn, NY 11219  
Call toll free (800) 937-5449

## Independent Registered Public Accounting Firm

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233 South Wacker Drive  
Chicago, IL 60606

## Legal Counsel

Mayer Brown LLP  
71 South Wacker Drive  
Chicago, IL 60606

This report is for stockholder information.  
This is not a prospectus intended for use in  
the purchase or sale of Fund shares.

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# DTF Tax-Free Income Inc.

## Semi-Annual Report April 30, 2010



# LETTER TO SHAREHOLDERS

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June 18, 2010

Dear Fellow  
Shareholders,

## The Current Municipal Market Environment and Your Fund:

After a tumultuous 2008, its most difficult year in many decades, the municipal bond market has markedly improved. Driving this powerful rebound is the Build America Bond Program, the ability of issuers to access the capital markets at very favorable costs, and strong inflows of cash into municipal bond mutual funds. The high cash flows from fund investors have served to push interest rates lower and prices higher for all types of municipal bonds, especially those securities issued with lower credit ratings. With the prospect of higher taxes and investors looking to diversify their risk beyond the equity market, demand for tax-exempt bonds is expected to remain steady as we move through the year.

About the same time that investor interest in the municipal market began to recover, President Obama signed into law the American Recovery and Reinvestment Act of 2009 (also called the “Stimulus Act”). A very important feature of this act was the establishment of the Build America Bond program (known as BABs in the municipal bond market). BABs allow issuers an alternative to the tax-exempt market for financing infrastructure development. BABs are taxable municipal bonds, but the issuer receives a 35% subsidy for the cost of interest from the Federal Government. So, after factoring in the 35% interest cost subsidy to the issuer, the cost of capital for bonds issued to date has been well below what the issuers would have paid in the tax-exempt marketplace. So far, the program has generated over \$100 billion of issuance. The general effect of this program has been a demand driven overall improvement in the price of most municipal bonds, since this issuance would previously have come to the market as tax-exempt debt. Issuers are enjoying a much lower cost of capital on both BAB issues and tax-exempt issues due to the great success of this program. The BAB program is officially set to expire on December 31, 2010, but Congress is currently working on legislation to extend the program beyond 2010. Congress will need to weigh the benefits the program provides to municipalities and the economy through lower financing costs and job creation against the increasing costs to taxpayers. What the program will look like next year is now being debated. However, most industry observers believe the program will likely see a lower subsidy rate with an extension of the program for two to three additional years.

Despite the tailwinds the market has enjoyed over the past year, ongoing concerns persist over difficult state and local fiscal conditions. There is also added uncertainty surrounding the debt markets as several countries in Europe struggle with high levels of debt. As investors move through the balance of 2010, they will be closely monitoring the financial health of municipal issuers struggling with lower revenues due to declines in sales tax and income tax receipts as well as the prospect of lower federal and state financial support. Headline reports challenging the fiscal soundness of future retirement benefits along with sizable budget deficits still being reported throughout the country could derail the strong municipal valuation momentum, especially if fiscal conditions do not improve. The European debt crisis could also impact municipal bonds. To the extent the problems plaguing Greece and other Euro-zone economies, namely increasing debt costs and growing fiscal imbalances, spread to other European countries, the U.S. economic rebound could stall, thereby putting further strain on the municipal bond market. In addition to European fiscal challenges, factors that could influence the municipal bond market as we move forward into the second half of 2010 include: the possibility of further actions by the Federal Government, the ongoing health of the U.S. economy and its labor markets, potential changes to the Build America bond program, the performance of equity markets and potential changes to current tax laws.

In an effort to achieve the Fund's objective of providing our shareholders with a steady stream of tax-exempt income that is consistent with the preservation of the Fund's capital, we continue to emphasize higher quality bonds in a diversified portfolio in this volatile and still very uncertain market. The Fund currently has an average quality rating of AA, with approximately 68% of its issues rated AA or higher. The Fund is well diversified between many sectors with water and sewer, pre-refunded bonds and electric utility issues representing the Fund's largest exposures. Additionally, the Fund is well diversified geographically with exposure to 27 states and Puerto Rico. We continue to be fully invested along the entire yield curve in order to insulate the portfolio from potential changes in interest rates and the shape of the yield curve that may occur from future Federal Reserve actions.

## Fund Performance:

The following table compares the DTF Fund's total return, on an NAV and share price basis, to its Lipper peer group and the Barclays Capital Municipal Bond Index for one, three, five and ten year periods:

	ANNUALIZED TOTAL RETURN (04/30/10) <sup>1</sup>			
	One Year	Three Years	Five Years	Ten Years
DTF Fund (NAV) <sup>2</sup>	11.8%	4.6%	4.0%	6.3%
DTF Fund (Share Price) <sup>3</sup>	24.6	5.1	4.8	7.0
Lipper Peer Group Average Return (NAV) <sup>4</sup>	22.8	2.5	3.8	6.4
Barclays Capital Municipal Bond Index <sup>5</sup>	8.9	4.9	4.5	5.8

*1 Past performance is not indicative of future results. Current performance may be lower or higher than the performance in historical periods.*

*2 Source: Administrator of the Fund. Total return of the Fund represents the change in net asset value from the beginning of the period through the period ending date of 04/30/2010 and assumes the reinvestment of dividends and distributions.*

*3 Source: Administrator of the Fund. Shares of the Fund are traded on the New York Stock Exchange (NYSE) using the symbol DTF. Total return of the Fund represents the change in the DTF share price from the beginning of the period through the period ending date of 04/30/2010 and assumes the reinvestment of dividends and distributions in the Fund's dividend reinvestment plan.*

*4. Source: Lipper Inc. General Municipal Debt Funds (Leveraged) peer group average return.*

*5. Source: Barclays Capital.*

As of April 30, 2010, the fund was paying a 72-cent annualized dividend with a share price of \$15.09. The Fund has increased its monthly common dividend by 20% since March of 2009 despite the many challenges facing the municipal bond market. This higher monthly dividend translated into a taxable equivalent current yield of 7.34% for an individual in the 35% federal tax bracket on April 30, 2010. This was approximately 365 basis points higher than the yield that was available on a 10-year taxable U.S. Treasury note.

We continue to use Remarketed Preferred (RP) shares as a form of leverage to increase the tax-free income earning capability of the Fund. Despite the market illiquidity that has been impacting all closed-end fund RP shares since February 2008, common shareholders have benefited from an unusually steep municipal yield curve that has allowed the Fund to maintain its RP-based leverage at a very low rate while re-investing the proceeds into much higher-yielding longer-term bonds. In fact, the two dividend increases that were announced in 2009 were aided by the historically low cost of the Fund's RP leverage that persisted throughout the year. If this positive interest rate spread environment continues, the Board of Directors will consider further increases in our monthly dividend, balanced by the desire for a level of stability in the dividend being paid to our shareholders on an ongoing basis.

Unfortunately, we do not believe that the large positive interest rate spread that the Fund is now earning on its assets relative to the historically low cost of its leverage will continue indefinitely. Rather, we expect the benefits that the RP-based leverage is now providing to diminish as short term interest rates rise in response to a strengthening in overall economic activity.

On page nine of this Semi-Annual Report to Shareholders, undistributed net investment income is reflected in the footnote to the Statements of Changes in Net Assets. This tax-free income has been earned but has not yet been distributed to shareholders and can help to maintain a steady dividend stream for a period of time in the future despite an environment of rising leverage costs. The Board of Directors will continue to take these factors into consideration in determining a sustainable level of monthly dividends.

We continue to assess the developments that are shaping tax-free interest rates and investment conditions. Thank you for your investment in the DTF Tax-Free Income Fund.



Timothy M. Heaney, CFA  
Chief Investment Officer



Nathan I. Partain, CFA  
Director, President & CEO

## DTF TAX-FREE INCOME INC.

### Portfolio of Investments As of 4/30/2010 (Unaudited)

Principal Amount (000)	Description (a)	Value (Note 1)
<b>LONG-TERM INVESTMENTS—144.2%</b>		
<b>Arizona—1.6%</b>		
\$2,000	Arizona St. Trans Brd. Hwy. Rev., 5.00%, 7/1/30, Ser. B	\$ 2,135,220
<b>California—22.0%</b>		
2,000	Bay Area Toll Auth. Rev., 5.125%, 4/1/39, Ser. F-1	2,077,520
500	California St. Gen. Oblig., 5.50%, 3/1/26	527,275
1,000	6.00%, 4/1/38	1,088,470
500	5.50%, 3/1/40	518,020
2,000	California Statewide Communities Dev. Auth. Rev., 5.75%, 7/1/47, FGIC	2,032,780
2,000	Fresno Swr. Rev. 6.25%, 9/1/14, Ser. A-1, AMBAC	2,199,500
3,000	Golden State Tobacco Securitization Corp. Rev., 5.75%, 6/1/47, Ser. A-1	2,300,700
2,000	Los Angeles Wastewtr. Sys. Rev., 5.00%, 6/1/26, Ser. A, NRE	2,090,160
1,000	Los Angeles Dept. Wtr. & Pwr. Rev., 5.25%, 7/1/21, Ser. A-A-1, AGM	1,039,010
1,000	5.375%, 7/1/21, Ser. A-A-2, NRE	1,045,990
220(b)	Pomona Sngl. Fam. Mtge. Rev., 7.375%, 8/1/10, Ser. B, Escrowed to maturity	223,351
2,500(b)	Riverside Cnty. Sngl. Fam. Rev., 7.80%, 5/1/21, Ser. A, Escrowed to maturity	3,439,300
7,840(b)	San Bernardino Cnty. Residential Mtge. Rev., 9.60%, 9/1/15, Escrowed to maturity	10,868,514
1,040	Saratoga Unified Sch. Dist., Gen. Oblig. Zero Coupon, 9/1/20, Ser. A, FGIC / NRE	651,726
		<u>30,102,316</u>
<b>Connecticut—1.7%</b>		
1,000	Connecticut St. Health & Edl. Facs. Auth. Rev., 5.00%, 7/1/25, Ser. C, RAD	897,550
2,500(c)	Mashantucket Western Pequot Tribe Spl. Rev., 144A, 5.75%, 9/1/18, Ser. B	1,354,850
		<u>2,252,400</u>

Principal Amount (000)	Description (a)	Value (Note 1)
<b>District of Columbia—2.7%</b>		
\$1,000	District of Columbia Income Tax Rev., 5.00%, 12/1/31, Ser. A	\$ 1,064,340
1,500	District of Columbia Wtr. & Swr. Auth. Rev., 5.00%, 10/1/33, FGIC / NRE	1,541,865
1,000	Metropolitan Washington DC Airport 5.00%, 10/1/18, Ser. A, AGM / AMBAC	1,060,780
		<u>3,666,985</u>
<b>Florida—8.3%</b>		
1,500	Broward Cnty. Port Fac. Rev., 6.00%, 9/1/23, Ser. A	1,649,100
1,000	Escambia Cnty. Hlth. Fac. Auth. Rev., 6.00%, 8/15/36	1,000,650
2,210	Florida Mun. Ln. Council Rev., 5.375%, 8/1/20, Ser. B, NRE	2,393,894
2,000	Florida St. Bd. of Ed. Gen. Oblig., 5.00%, 6/1/21, Ser. A	2,196,420
70(b)	Highlands Cnty. Hlth. Fac. Auth. Rev., 5.125%, 11/15/32, Ser. G Prerefunded 11/15/16 @ \$100	81,346
1,930	5.125%, 11/15/32, Ser. G	1,932,606
2,000	Orlando and Orange Cnty. Expwy. Auth. Rev., 5.00%, 7/1/35, Ser. B, BHAC / AMBAC	2,026,160
		<u>11,280,176</u>
<b>Georgia—11.5%</b>		
2,385	Atlanta Wtr. & Wastewtr. Rev., Ser. A, 5.00%, 11/1/29, FGIC / NRE	2,326,972
715	5.00%, 11/1/38, FGIC / NRE	696,975
2,000	Fulton Cnty. Sch. Dist., Gen. Oblig. 5.375%, 1/1/16	2,330,860
145(b)	Georgia Mun. Elec. Auth. Pwr. Rev., Ser. Y, 6.40%, 1/1/13, Escrowed to maturity	157,047
2,440	6.40%, 1/1/13, AMBAC	2,625,074
30(b)	6.40%, 1/1/13 Prerefunded 1/1/11 @ \$100	31,222
5,500	Georgia Mun. Elec. Auth. Pwr. Rev., 6.50%, 1/1/20, Ser. X, AMBAC	6,502,320
1,000	Metro. Atlanta Rapid Tran. Auth. Rev., 5.00%, 7/1/39, Ser. 3	1,052,520
		<u>15,722,990</u>

See Notes to Financial Statements.

Principal Amount (000)	Description (a)	Value (Note 1)
<b>Idaho—0.2%</b>		
\$130	Idaho Hsg. Agcy., Sngl. Fam. Mtge. Sr., Rev., 6.65%, 7/1/14, Ser. B	\$ 134,128
93	6.60%, 7/1/27, Ser. B	93,565
		<u>227,693</u>
<b>Illinois—7.4%</b>		
1,000	Chicago Bd. of Ed. Gen. Oblig., 5.50%, 12/1/30, Ser. A, AMBAC	1,120,320
1,415	Chicago Gen. Oblig., 6.25%, 1/1/11, AMBAC	1,470,963
500	Chicago Multi-Family Hsg. Rev., 4.90%, 3/20/44, FHA	487,860
1,000	Chicago Park Dist., Gen. Oblig., 5.00%, 1/1/27, Ser. A, AMBAC	1,034,890
1,000(b)	Illinois Fin. Auth. Education Rev., 5.375%, 9/1/32, Ser. C, Prerefunded 9/1/17 @ \$100	1,189,140
1,000	Illinois Fin. Auth. Rev., 6.00%, 8/15/38, Ser. A	1,001,360
2,000	Illinois St. Gen. Oblig., 5.50%, 1/1/29	2,223,760
1,500	Illinois St. Toll Hwy. Auth. Rev., 5.50%, 1/1/33, Ser. B	1,629,705
		<u>10,157,998</u>
<b>Indiana—8.0%</b>		
1,000	Indiana Fin. Auth. Hospital Rev., 5.875%, 5/1/29, Ser. A	1,022,300
5,000	Indiana Mun. Pwr. Agcy., Pwr. Supply Sys. Rev., 6.00%, 1/1/13, Ser. B, NRE	5,575,300
2,100(b)	Indianapolis Local Pub. Impvt. Bond Bank Rev., 5.25%, 7/1/33, Ser. A Prerefunded 7/1/12 @ \$100	2,295,321
2,000	5.00%, 2/1/38, Ser. A	2,094,860
		<u>10,987,781</u>
<b>Kentucky—1.4%</b>		
1,895	Louisville & Jefferson Cnty. Met. Swr. Dist., Swr. & Drain Sys. Rev., 5.00%, 5/15/30, Ser. A, FGIC / NRE	1,895,834
<b>Maryland—1.6%</b>		
2,000	Maryland St. Trans. Auth. Rev., 5.00%, 7/1/37, AGM	2,116,660
<b>Massachusetts—9.6%</b>		
3,000	Massachusetts Bay Trans. Auth. Rev., 5.50%, 7/1/29, Ser. B, NRE	3,571,440
2,000	Massachusetts St. College Bldg. Auth. Rev., 5.00%, 5/1/40, Ser. B	2,091,320

Principal Amount (000)	Description (a)	Value (Note 1)
\$1,500	Massachusetts St. Dev. Finance Agency, Solid Waste Disp. Rev. 5.00%, 2/1/36	\$ 1,375,995
1,000	Massachusetts St. Gen. Oblig., 5.50%, 8/1/30, Ser. A, AMBAC	1,185,180
2,355	Massachusetts St. Tpk. Auth., Metro. Highway Sys. Rev., 5.125%, 1/1/23, Ser. B, NRE	2,359,404
2,500	4.75%, 1/1/34, Ser. A, AMBAC	2,504,325
		<u>13,087,664</u>
<b>Michigan—3.3%</b>		
500	Detroit Gen. Oblig., 5.25%, 11/1/35	500,000
2,000(b)	Detroit Wtr. Supply Sys. Rev., Ser. A, 5.50%, 7/1/24, Prerefunded 7/1/11 @ \$100	2,116,440
2,000	5.00%, 7/1/30, FGIC / NRE	1,950,240
		<u>4,566,680</u>
<b>Nebraska—3.2%</b>		
1,270(b)	Omaha Pub. Pwr. Dist., Elec. Rev., Ser. B, 6.15%, 2/1/12 Escrowed to maturity	1,352,398
2,500(b)	6.20%, 2/1/17 Escrowed to maturity	2,952,700
		<u>4,305,098</u>
<b>Nevada—2.6%</b>		
1,400	Las Vegas Valley Wtr. Dist., Gen. Oblig., 5.00%, 6/1/25, Ser. B, NRE	1,458,828
2,000	Nevada St. Gen. Oblig., 5.00%, 12/1/24, Ser. F, AGM	2,089,280
		<u>3,548,108</u>
<b>New Jersey—4.8%</b>		
1,025	New Jersey Econ. Dev. Auth. Rev., 4.95%, 3/1/47	917,283
2,000	New Jersey St. Gen. Oblig., 5.25%, 7/1/17, Ser. H	2,319,020
1,000	New Jersey St. Tpk. Auth. Rev., 5.00%, 1/1/36, Ser. H	1,030,430
2,000	New Jersey Trans. Trust Fund Auth. Rev., 5.25%, 12/15/22, Ser. A	2,212,540
		<u>6,479,273</u>
<b>New York—8.5%</b>		
1,000	Albany Industrial Dev. Agy. Rev., 5.00%, 4/1/32, Ser. A	852,910
800	Long Island Pwr. Auth. Elec. Sys. Rev., 5.00%, 12/1/35, Ser. B	812,968
1,000	Metro. Trans. Auth. Rev., 5.25%, 11/15/31, Ser. A, FGIC / NRE	1,021,170

See Notes to Financial Statements.

Principal Amount (000)	Description (a)	Value (Note 1)
	New York City Mun. Wtr. Fin. Auth., Wtr. & Swr. Sys. Rev.,	
\$5,000(b)	5.00%, 6/15/29, Ser. B	
	Prerefunded 6/15/10 @ \$100	\$ 5,029,500
	New York St. Dorm. Auth. Rev., Sch. Dist. Rev. Bond Financing Program	
1,500	7.25%, 10/1/28, Ser. C	1,780,575
	New York St. Dorm. Auth. Rev., State Personal Inc. Tax Rev.	
2,000	5.00%, 3/15/30, Ser. F	2,085,000
		<u>11,582,123</u>
	<b>Ohio—5.9%</b>	
	Buckeye Tobacco Settlement Financing Auth. Rev.,	
3,000	6.50%, 6/1/47, Ser. A-2	2,461,920
750	Deerfield Twp. Tax Increment Rev., 5.00%, 12/1/25	750,412
1,000	Hamilton Elec. Sys. Rev. 4.60%, 10/15/20, Ser. A, AGM	1,059,720
750	Ohio St. Air Quality Dev. Auth. Rev., 5.70%, 2/1/14, Ser. A	811,350
2,445	Ohio St. Wtr. Dev. Auth. Rev., 5.50%, 6/1/20, Ser. B, AGM	2,950,577
		<u>8,033,979</u>
	<b>Pennsylvania—3.8%</b>	
2,000	Delaware Cnty. Auth. Rev., 5.00%, 6/1/21, Ser. A, RAD	2,024,980
1,000	East Stroudsburg Area Sch. Dist., Gen. Oblig. 7.75%, 9/1/27, Ser. A, FGIC / NRE	1,215,010
1,000	Pennsylvania Economic Dev. Fin. Auth. Res. Recov. Rev., 4.625%, 12/1/18, Ser. F, AMBAC	872,530
1,020	Pennsylvania St. Tpk. Comm. Oil Franchise Tax Rev., 5.00%, 12/1/23, Ser. A-2, AGT	1,109,158
		<u>5,221,678</u>
	<b>Puerto Rico—0.7%</b>	
1,000	Puerto Rico Elec. Pwr. Auth. Rev., 5.00%, 7/1/25, Ser. PP, FGIC / NRE	1,016,090
	<b>South Carolina—1.3%</b>	
1,500(b)	Spartanburg Waterworks Rev., 5.25%, 6/1/28	
	Prerefunded 6/1/14 @ \$100	<u>1,721,790</u>
	<b>Tennessee—1.8%</b>	
1,500	Tennessee Energy Acquisition Corp. Rev., Ser. A, 5.25%, 9/1/20	1,488,090
1,000	5.25%, 9/1/21	987,330
		<u>2,475,420</u>

Principal Amount (000)	Description (a)	Value (Note 1)
	<b>Texas—18.3%</b>	
\$1,000	Alliance Airport Auth. Inc. Rev., 4.85%, 4/1/21	\$ 987,460
2,500	Bexar Met. Wtr. Dist. Waterworks Sys. Rev., 5.00%, 5/1/25, NRE	2,501,225
4,000	Coastal Wtr. Auth. Contract Rev., 5.00%, 12/15/25, AGM	4,003,400
1,000	Dallas Area Rapid Transit Rev., 5.25%, 12/1/48	1,046,940
2,000	Dallas Gen. Oblig. 4.50%, 2/15/23	2,031,140
1,555	El Paso Wtr. & Swr. Rev., 5.50%, 3/1/12, Ser. A, AGM	1,685,666
1,000	Everman Indep. Sch. Dist. Gen. Oblig., 5.00%, 2/15/36, PSF	1,050,380
1,650	Harris Cnty. Gen. Oblig., 7.00%, 8/15/10, Ser. A	1,681,944
1,500(b)	Houston Wtr. & Swr. Sys. Rev., 5.25%, 12/1/23, Ser. B	
	Prerefunded 12/1/10 @ \$100	1,542,900
1,000	Klein Indep. Sch. Dist. Gen. Oblig., 5.00%, 8/1/38, Ser. A, PSF	1,055,250
2,000	Lower Colorado River Auth. Rev., 5.00%, 5/15/31, AGM	2,010,640
2,000	McLennan Cnty. Pub. Fac. Corp. Proj. Rev., 6.625%, 6/1/35	2,184,980
1,975	Pharr-San Juan-Alamo Indep. Sch. Dist. Gen. Oblig., 5.50%, 2/1/33, PSF	2,138,945
1,000	Spring Branch Indep. Sch. Dist. Gen. Oblig., 5.25%, 2/1/38, PSF	1,063,530
		<u>24,984,400</u>
	<b>Virginia—4.4%</b>	
2,000	Virginia College Bldg. Auth. Rev., 5.00%, 2/1/23, Ser. E-1	2,315,080
1,500	Virginia St. Hsg. Dev. Auth. Rev., 4.55%, 1/1/24	1,471,770
2,050	Virginia St. Pub. Bldg. Auth. Rev., 5.00%, 8/1/29, Ser. B	2,226,936
		<u>6,013,786</u>
	<b>Washington—2.2%</b>	
500	Energy Northwest Wind Proj. Rev., 4.75%, 7/1/21, NRE	513,470
2,500	King Cnty. Swr. Rev., 5.00%, 1/1/31, FGIC / NRE	2,536,200
		<u>3,049,670</u>
	<b>West Virginia—1.0%</b>	
1,500	Monongalia Cnty. Building Commission Hospital Rev. 5.00%, 7/1/30, Ser. A	1,430,250

See Notes to Financial Statements.

Principal Amount (000)	Description (a)	Value (Note 1)
	<b>Wisconsin—3.1%</b>	
\$2,000	Wisconsin St. Gen. Rev., 6.00%, 5/1/33, Ser. A . . . . .	\$ 2,229,460
2,000	Wisconsin St. Health & Edl. Facs. Auth. Rev., 6.50%, 4/15/33 . . . . .	2,047,300
		<u>4,276,760</u>
	<b>Wyoming—3.3%</b>	
4,000	Wyoming St. Farm Loan Brd. Cap. Facs. Rev., 5.75%, 10/1/20 . . . . .	4,547,600
	Total long-term investments (cost \$186,107,154) . . . . .	<u>196,886,422</u>
<b>Shares</b>		
	<b>SHORT-TERM INVESTMENT—1.2%</b>	
1,678,257	State Street Institutional Tax-Free Money Market Fund (cost \$1,678,257) . . . . .	1,678,257
	<b>Total Investments—145.4%</b> (cost \$187,785,411) . . . . .	198,564,679
	Other assets in excess of liabilities—2.2% . . . . .	2,963,869
	Liquidation value of Remarketed Preferred Stock—(47.6%) . . . . .	<u>(65,000,000)</u>
	<b>Net Assets Applicable to Common Stock—100.0%</b> . . . . .	<u>\$136,528,548</u>
	Net asset value per share of common stock (\$136,528,485/8,507,456) . . . . .	<u>\$ 16.05</u>

- (a) The following abbreviations are used in portfolio descriptions to indicate providers of credit support, in whole or in part:
- AMBAC—Ambac Assurance Corporation.
  - AGM—Assured Guaranty Municipal Corporation.
  - AGT—Assured Guaranty Corp.
  - BHAC—Berkshire Hathaway Assurance Corporation.
  - FGIC—Financial Guaranty Insurance Company.
  - FHA—Federal Housing Authority.
  - NRE—National Public Finance Guarantee Corporation.
  - PSF—Texas Permanent School Fund.
  - RAD—Radian Asset Assurance Inc.
- (b) Prerefunded and escrowed to maturity issues are secured by escrowed cash, government obligations, or other securities.
- (c) Security is not registered under the Securities Act of 1933. These securities may be resold in transactions in accordance with Rule 144A to qualified institutional buyers. At April 30, 2010, these securities amounted to a value of \$1,354,850 or 1.0% of net assets applicable to common stock.

## Notes

The Fund's investments are carried at fair value which is defined as the price that the Fund would receive upon selling an investment in a timely transaction to an independent buyer in the principal or most advantageous market of the investment. The three-tier hierarchy of inputs established to classify fair value measurements for disclosure purposes is summarized in the three broad levels listed below.

- Level 1—quoted prices in active markets for identical securities
- Level 2—other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risks, etc.)
- Level 3—significant unobservable inputs (including the Fund's own assumptions in determining fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in these securities. The following is a summary of the inputs used to value each of the Fund's investments as of April 30, 2010:

Valuations	Level 1	Level 2	Level 3
<b>Description</b>			
Assets:			
Municipal Bonds . . . . .	\$ —	\$196,886,422	\$—
Money Market Fund . . . . .	1,678,257	—	—
Total . . . . .	<u>\$1,678,257</u>	<u>\$196,886,422</u>	<u>\$—</u>

### Summary of Ratings as a Percentage of Long-Term Investments (Unaudited)

As of April 30, 2010

Rating *	%
AAA . . . . .	20.6
AA . . . . .	45.0
A . . . . .	23.8
BBB . . . . .	8.2
BB . . . . .	1.7
B . . . . .	0.0
CCC . . . . .	0.7
	<u>100.0</u>

\* Prerefunded bonds that are rated AAA by Standard & Poor's Financial Services, LLC or Aaa by Moody's Investors Service, Inc. are included in the AAA classification in the above table. Otherwise, ratings are based on the lowest rating of Standard & Poor's Financial Services, LLC or Moody's Investors Service, Inc. If not rated by either service, a rating from Fitch Ratings Ltd. is used, if available.

See Notes to Financial Statements.

Summary of State Diversification as a Percentage of Net Assets Applicable to Common Shareholders (Unaudited)

As of April 30, 2010

State	%
California	22.0
Texas	18.3
Georgia	11.5
Massachusetts	9.6
New York	8.5
Florida	8.3
Indiana	8.0
Illinois	7.4
Ohio	5.9
New Jersey	4.8
Virginia	4.4
Pennsylvania	3.8
Michigan	3.3
Wyoming	3.3
Nebraska	3.2
Wisconsin	3.1
District of Columbia	2.7
Nevada	2.6
Washington	2.2
Tennessee	1.8
Connecticut	1.7
Arizona	1.6
Maryland	1.6
Kentucky	1.4
South Carolina	1.3
West Virginia	1.0
Puerto Rico	0.7
Idaho	0.2
Short-Term Investment	1.2
	<u>145.4</u>
Other assets in excess of liabilities	2.2
Liquidation value of remarketed preferred stock	(47.6)
	<u>100.0%</u>

**DTF TAX-FREE INCOME INC.**  
**Statement of Assets and Liabilities**  
**April 30, 2010**  
**(Unaudited)**

**Assets**

Investments, at value (cost \$187,785,411)	\$198,564,679
Interest receivable	3,103,926
Other assets	<u>2,369</u>
Total assets	<u>201,670,974</u>

**Liabilities**

Investment advisory fee payable (Note 2)	82,358
Administrative fee payable (Note 2)	16,694
Dividends payable to preferred shareholders	481
Accrued expenses	<u>42,893</u>
Total liabilities	<u>142,426</u>

Remarketed preferred stock (\$.01 par value; 1,300 shares issued and outstanding, liquidation preference \$50,000 per share) (Note 6)	<u>65,000,000</u>
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**Net Assets Applicable to Common Stock**

\$136,528,548

**Capital**

Common stock, \$.01 par value; 599,998,700 shares authorized, 8,507,456 issued and outstanding (Note 5)	\$ 85,075
Additional paid-in capital	120,440,442
Undistributed net investment income	4,934,068
Accumulated net realized gain on investment transactions	289,695
Net unrealized appreciation on investments	<u>10,779,268</u>
Net assets applicable to common stock	<u>\$136,528,548</u>
Net assets applicable to common stock (\$136,528,548 / 8,507,456 shares of common stock issued and outstanding)	<u>\$ 16.05</u>

See Notes to Financial Statements.

**DTF TAX-FREE INCOME INC.**  
**Statement of Operations**  
**For the Six Months Ended April 30, 2010**  
**(Unaudited)**

**Investment Income**

Interest income . . . . .	\$4,904,720
Expenses	
Investment advisory fees (Note 2) . . . . .	497,237
Administrative fees (Note 2) . . . . .	100,822
Directors' fees and expenses . . . . .	66,770
Remarketing fees . . . . .	62,012
Professional fees . . . . .	53,870
Custodian fees and expenses . . . . .	26,161
Reports to shareholders . . . . .	19,558
Transfer agent fees and expenses . . . . .	12,275
Registration fees . . . . .	11,777
Other . . . . .	<u>9,038</u>
Total expenses . . . . .	<u>859,520</u>
Net investment income . . . . .	<u>4,045,200</u>

**Realized and Unrealized Gain/(Loss) on Investments**

Net realized gain on investment transactions . . . . .	438,187
Net change in unrealized appreciation on investments . . . . .	<u>1,516,243</u>
Net realized and unrealized gain on investments . . . . .	<u>1,954,430</u>

**Dividends and Distributions on Remarketed Preferred Stock From:**

Net investment income . . . . .	<u>(59,011)</u>
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**Net Increase in Net Assets Resulting from Operations**

\$5,940,619

**DTF TAX-FREE INCOME INC.**  
**Statements of Changes**  
**In Net Assets**

	Six Months Ended April 30, 2010 (Unaudited)	For the Year Ended October 31, 2009
Operations		
Net investment income . . . . .	\$ 4,045,200	\$ 8,323,712
Net realized gain on investment transactions . . . . .	438,187	188,204
Net change in unrealized appreciation on investments . . . . .	1,516,243	12,450,452
Dividends and distributions on remarketed preferred stock from net investment income . . . . .	<u>(59,011)</u>	<u>(318,939)</u>
Net increase in net assets resulting from operations . . . . .	<u>5,940,619</u>	<u>20,643,429</u>
Dividends and distributions on common stock from net investment income . . . . .	<u>(3,367,872)</u>	<u>(5,444,772)</u>
Total dividends and distributions on common stock . . . . .	<u>(3,367,872)</u>	<u>(5,444,772)</u>
Total increase in net assets . . . . .	2,572,747	15,198,657

**Net Assets Applicable to Common Stock**

Beginning of period . . . . .	<u>133,955,801</u>	<u>118,757,144</u>
End of period(a) . . . . .	<u>\$136,528,548</u>	<u>\$133,955,801</u>

(a) includes undistributed net investment income of . . . . . \$ 4,934,068 \$ 4,315,751

See Notes to Financial Statements.

**DTF TAX-FREE INCOME INC.****Financial Highlights**

	Six Months Ended April 30, 2010 (Unaudited)	For the Year Ended October 31,				
		2009	2008	2007	2006	2005
<b>PER SHARE OPERATING PERFORMANCE</b>						
Net asset value, beginning of period	\$ 15.75	\$ 13.96	\$ 15.88	\$ 16.37	\$ 16.32	\$ 17.14
Net investment income <sup>(1)</sup>	0.48	0.98	0.97	0.95	0.95	0.94
Net realized and unrealized gain/(loss) on investment transactions	0.23	1.49	(2.05)	(0.49)	0.14	(0.63)
Dividends and distributions on remarketed preferred stock from:						
Net investment income	(0.01)	(0.04)	(0.24)	(0.29)	(0.26)	(0.16)
Net realized gains	—	—	—	—	—	(0.01)
Net increase/(decrease) from investment operations	0.70	2.43	(1.32)	0.17	0.83	0.14
Dividends and distributions on common stock from:						
Net investment income	(0.40)	(0.64)	(0.60)	(0.66)	(0.78)	(0.85)
Net realized gains	—	—	—	—	—	(0.11)
Total dividends and distributions on common stock	(0.40)	(0.64)	(0.60)	(0.66)	(0.78)	(0.96)
Net asset value, end of period	\$ 16.05	\$ 15.75	\$ 13.96	\$ 15.88	\$ 16.37	\$ 16.32
Per share market value, end of period	\$ 15.09	\$ 14.10	\$ 11.25	\$ 13.97	\$ 15.01	\$ 14.74
<b>TOTAL INVESTMENT RETURN ON COMMON STOCK<sup>(2)</sup></b>	9.92%	31.62%	(15.78)%	(2.69)%	7.30%	(3.25)%
<b>RATIOS TO AVERAGE NET ASSETS APPLICABLE TO COMMON STOCK:<sup>(3)</sup></b>						
Operating expenses	1.28% <sup>(4)</sup>	1.32%	1.35%	1.42%	1.43%	1.40%
Net investment income	6.03% <sup>(4)</sup>	6.52%	6.28%	5.95%	5.88%	5.58%
<b>SUPPLEMENTAL DATA</b>						
Portfolio turnover rate	5%	26%	5%	13%	7%	11%
Net assets applicable to common stock, end of period (000)	\$136,529	\$133,956	\$118,757	\$135,098	\$139,296	\$138,837
Asset coverage per share of preferred stock, end of the period	\$155,022	\$153,043	\$141,352	\$153,921	\$157,151	\$156,798
Preferred stock outstanding (000)	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000	\$ 65,000

<sup>(1)</sup> Based on average number of shares of common stock outstanding.

<sup>(2)</sup> Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each year reported. Dividends are assumed, for purposes of this calculation, to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Brokerage commissions are not reflected.

<sup>(3)</sup> Ratios calculated on the basis of income and expenses applicable to both the common and preferred stock relative to the average net assets applicable to common stock. Ratios do not reflect the effect of dividend and distributions on remarketed preferred stock.

<sup>(4)</sup> Annualized.

See Notes to Financial Statements.

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## DTF TAX-FREE INCOME INC.

### Notes to Financial Statements (Unaudited)

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DTF Tax-Free Income Inc. (the "Fund") was organized in Maryland on September 24, 1991 as a diversified, closed-end management investment company. The Fund had no operations until November 20, 1991 when it sold 8,000 shares of common stock for \$112,400 to Duff & Phelps Corporation. Investment operations commenced on November 29, 1991.

The Fund's investment objective is current income exempt from regular federal income tax consistent with preservation of capital. The Fund seeks to achieve its investment objective by investing primarily (at least 80% of its total assets) in a diversified portfolio of investment-grade tax-exempt obligations. The Fund may not invest more than 25% of its total assets (taken at market value at the time of each investment) in the securities of issuers in a single industry; provided that, for purposes of this restriction, tax-exempt securities of issuers that are states, municipalities or their political subdivisions are not considered to be the securities of issuers in any single industry. The ability of the issuers of the securities held by the Fund to meet their obligations may be affected by economic developments in a specific state, industry or region.

#### Note 1. Significant Accounting Policies

financial statements.

The following is a summary of significant accounting policies followed by the Fund in the preparation of its

*Securities Valuation:* The Fund values its fixed income securities by using market quotations, prices provided by market makers or estimates of market values obtained from yield data relating to instruments or securities with similar characteristics in accordance with procedures established by the Board of Directors of the Fund. The relative liquidity of some securities in the Fund's portfolio may adversely affect the ability of the Fund to accurately value such securities. Any securities or other assets for which such current market quotations are not readily available are valued at fair value as determined in good faith under procedures established by and under the general supervision and responsibility of the Fund's Board of Directors. Short-term investments having a maturity of 60 days or less at the time of purchase are valued on an amortized cost basis, which approximates market value.

Investments in mutual funds are valued at their net asset value as of the close of the New York Stock Exchange on the date of valuation.

*Securities Transactions and Investment Income:* Securities transactions are recorded on the trade date. Realized gains and losses on sales of securities are calculated on the identified cost basis. Interest income is recorded on the accrual basis. The Fund amortizes premiums and accretes discounts on securities using the effective interest method.

*Federal Income Taxes:* It is the Fund's intention to meet the requirements of Subchapter M of the Internal Revenue Code applicable to regulated investment companies and to distribute sufficient net income and capital gains to shareholders to qualify as a regulated investment company. Therefore, no provision for federal income tax or excise tax is required. Management of the Fund has concluded that there are no significant uncertain tax positions that would require recognition in the financial statements. Since tax authorities can examine previously filed tax returns, the Fund's tax returns for each of the four years in the period ended October 31, 2009 are subject to such review.

*Dividends and Distributions:* The Fund will declare and pay dividends on its common stock monthly from net investment income. Net long-term capital gains, if any, in excess of loss carryforwards are expected to be distributed annually. The Fund will make a determination at the end of its fiscal year as to whether to retain or distribute such gains. Dividends and distributions are recorded on the ex-dividend date. Dividends on the Fund's preferred stock are accrued and paid on a weekly basis and are determined as described in Note 6.

Income distributions and capital gain distributions are determined in accordance with income tax regulations, which may differ from investment income and capital gains recorded in accordance with U.S. generally accepted accounting principles.

*Recent Accounting Pronouncements:* On January 21, 2010, the FASB issued an Accounting Standards Update, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* which provides guidance on how investment assets and liabilities are to be valued and disclosed. Specifically, the amendment requires reporting entities to disclose i) the input and valuation techniques used to measure fair value for both recurring and non-recurring fair value measurements, for Level 2 or Level 3 positions ii) transfers between all levels (including Level 1 and Level 2) will be required to be disclosed on a gross basis (i.e. transfers out must be disclosed separately from transfers in) as well as the reason(s) for the transfer and iii) purchases, sales, issuances and settlements must be shown on a gross basis in the Level 3 rollforward rather than as one net number. The effective date of the amendment is for interim and annual

periods beginning after December 15, 2009 however, the requirement to provide the Level 3 activity for purchases, sales, issuances and settlements on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. At this time the Fund is evaluating the implications of the amendment to ASC 820 and the impact to the financial statements.

*Use of Estimates:* The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

## Note 2. Agreements

The Fund has an Advisory Agreement with Duff & Phelps Investment Management Co. (the "Adviser"), a subsidiary of Virtus Investment Partners, Inc. ("Virtus"), and an Administration Agreement with Princeton Administrators, LLC ("Princeton").

The investment advisory fee is computed weekly and payable monthly at an annual rate of 0.50% of the Fund's average weekly managed assets, which is defined as the average weekly value of the total assets of the Fund minus the sum of all accrued liabilities of the Fund (other than the aggregate amount of any outstanding borrowings or other indebtedness constituting financial leverage).

The administration fee paid to Princeton is computed weekly and payable monthly at an annual rate of 0.15% of the Fund's average weekly net assets, which is defined as the average weekly value of the total assets of the Fund minus the sum of all accrued liabilities of the Fund (including aggregate amount of any outstanding borrowings or other indebtedness constituting financial leverage).

Pursuant to the Advisory Agreement, the Adviser provides continuous supervision of the investment portfolio and pays the compensation of officers of the Fund who are affiliated persons of the Adviser. Pursuant to the Administration Agreement, Princeton provides administration services that include oversight of the Fund's books and records and preparation of financial statements and other regulatory filings. The Fund bears all other costs and expenses.

## Note 3. Portfolio Securities

Purchases and sales of investment securities, other than short-term investments, for the six months ended April 30, 2010 aggregated \$12,398,848 and \$9,941,125, respectively.

The United States federal income tax basis of the Fund's investments and the net unrealized appreciation as of April 30, 2010 were as follows:

<u>Tax Basis of Investments</u>	<u>Appreciation</u>	<u>Depreciation</u>	<u>Net Unrealized Appreciation</u>
\$187,524,788	\$12,926,505	\$1,886,614	\$11,039,891

As of October 31, 2009 the Fund had a capital loss carryforward of \$148,492, which expires in 2016.

## Note 4. Capital

There are 600 million shares of \$0.01 par value stock authorized.

For the six months ended April 30, 2010, and the fiscal year ended October 31, 2009, the Fund did not issue any shares of common stock in connection with the reinvestment of dividends.

## Note 5. Remarketed Preferred Stock

The Fund's Charter authorizes the issuance of Remarketed Preferred Stock ("RP"). Accordingly, the Fund issued 1,300 shares of RP on February 4, 1992. The RP has a liquidation value of \$50,000 per share plus any accumulated but unpaid dividends.

Dividends on shares of RP are cumulative from their date of original issue and payable on each dividend payment date. Dividend rates ranged from 0.110% to 0.286% during the six months ended April 30, 2010.

Under the Investment Company Act of 1940, the Fund may not declare dividends or make other distributions on shares of common stock or purchase any such shares if, at the time of the declaration, distribution or purchase, asset coverage with respect to the outstanding preferred stock would be less than 200%.

The RP is redeemable at the option of the Fund, in whole or in part, on any dividend payment date at \$50,000 per share plus any accumulated or unpaid dividends, whether or not declared. The RP is also subject to a mandatory redemption at \$50,000 per share plus any accumulated or unpaid dividends, whether or not declared, if certain requirements relating to the composition of the assets and liabilities of the Fund as set forth in the Fund's Charter are not satisfied.

The holders of RP have voting rights equal to the holders of common stock (one vote per share) and will vote together with holders of common stock as a single class. However, holders of RP are also entitled to elect two of the Fund's directors. In addition, the Investment Company Act of 1940 requires that along with approval by shareholders that might otherwise be required, the approval of the holders of a majority of any outstanding shares of preferred stock, voting separately as a

class, would be required to (a) adopt any plan of reorganization that would adversely affect the preferred stock, and (b) take certain actions requiring a vote of security holders, including, among other things, changes in the Fund's subclassification as a closed-end investment company or changes in its fundamental investment restrictions.

Since February 2008, the short-term auction and remarketed preferred stock market has been ineffective at matching buyers with sellers. This has impacted the Fund's RP shares. The RP shares dividend rate was reset to the maximum applicable rate which ranged from 0.110% to 4.005%, between February 14, 2008 and the date of this report. A failed remarketing is not an event of default for the Fund, but it is a liquidity event for the holders of its RP shares. Recent auction and RP market liquidity problems have triggered numerous failed auctions and remarketings for many closed-end funds. A failed remarketing occurs when there are more sellers of RP shares than buyers. It is impossible to predict how long this imbalance will last. A successful remarketing of the Fund's RP shares may not occur for a long period of time, if ever. Even if the RP market becomes more liquid, the holders of the Fund's RP shares may not have the amount of liquidity they desire or the ability to sell the RP shares at par.

**Note 6. Subsequent Events** Subsequent to April 30, 2010, dividends declared and paid on preferred stock totaled \$24,635 through June 18, 2010. A dividend of \$0.06 per share of common stock was paid on May 28, 2010, to common shareholders of record on May 14, 2010. The board of directors has also declared a dividend of \$0.06 per share of common stock to be paid on June 30, 2010, to common shareholders of record on June 15, 2010.

Princeton has elected to terminate its service agreement under the terms of its agreement with the Fund. The Board has approved a successor administrator, J.J.B. Hilliard, W.L. Lyons LLC, to provide administrative services to the Fund. A transition process has commenced to complete this change in administrative service providers and the transition is expected to be completed by August 31, 2010.

### **Note 7. Indemnifications**

Under the Fund's organizational documents, its Officers and Directors are indemnified against certain liabilities arising out of the performance of their duties to the Fund. In addition, in the normal course of business, the Fund enters into contracts that provide general indemnifications to other parties. The Fund's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Fund that have not yet occurred. However, the Fund has not had prior claims or losses pursuant to these contracts and believes the risk of loss to be remote.

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## RENEWAL OF INVESTMENT ADVISORY AGREEMENT (Unaudited)

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Under Section 15(c) of the Investment Company Act of 1940 (the “1940 Act”), the terms of the Fund’s investment advisory agreement must be reviewed and approved at least annually by the Board of Directors of the Fund (the “Board”), including a majority of the Directors who are not “interested persons” of the Fund, as defined in the 1940 Act (the “Independent Directors”). Section 15(c) of the 1940 Act also requires the Fund’s Directors to request and evaluate, and the Fund’s investment adviser to furnish, such information as may reasonably be necessary to evaluate the terms of the investment advisory agreement. The Board has a Contracts Committee, composed entirely of Independent Directors, which, assisted by the advice of independent legal counsel, conducts an annual review of the terms of the Fund’s contractual arrangements, including the Fund’s investment advisory agreement with Duff & Phelps Investment Management Co., the Fund’s investment adviser (the “Adviser”). In the course of that review, the members of the Contracts Committee considered all of the information they deemed appropriate, including informational materials furnished by the Adviser in response to a request made by the Committee. In arriving at its recommendation that continuation of the investment advisory agreement was in the best interests of the Fund and its shareholders, the Contracts Committee took into account all factors that it deemed relevant, without identifying any single factor or group of factors as all-important or controlling. Among the factors considered by the Contracts Committee, and the conclusion reached with respect to each, were the following:

**Nature, extent, and quality of services.** The Committee considered the nature, extent and quality of the services provided to the Fund by the Adviser. Among other materials, the Adviser furnished the Committee with a copy of its most recent investment adviser registration form (“Form ADV”). In evaluating the quality of the Adviser’s services, the Committee considered the investment experience and length of service of the individual portfolio managers who provide services to the Fund. The Committee noted the various complexities involved in the operations of the Fund, such as the use of leverage in the form of the Fund’s remarketed preferred stock. The Committee also acknowledged the unprecedented disruption of the credit and capital markets during the past year and the commendable skill shown by the Adviser and its personnel in managing the Fund’s portfolio in the face of such extraordinary challenges. The Committee also took into account its evaluation, conducted earlier in the year, of the Adviser’s compliance program, code of ethics and conflict of interest policies. In light of the foregoing, the Committee concluded that it was generally satisfied with the nature, extent and quality of the services provided to the Fund by the Adviser.

**Investment performance of the Fund and the Adviser.** The Adviser provided the Committee with performance information for the Fund for various periods, measured against two benchmarks: the Barclays Capital Municipal Bond Index and the Lipper Leveraged Municipal Debt Funds Average. The Committee noted that the Fund’s performance generally compared favorably with the benchmarks.

**Costs of services and profits realized.** The Committee considered the reasonableness of the compensation paid to the Adviser, in both absolute and comparative terms, and also the profits realized by the Adviser and its affiliates from their relationship with the Fund. To facilitate the Committee’s analysis, the Adviser furnished the Committee with information from Lipper Analytical Services Inc., an independent provider of investment company data, comparing the Fund’s advisory and other expenses to the similar expenses of other leveraged municipal debt funds. The comparative data indicated that the Fund’s advisory fees did not differ significantly from the median of similar fees incurred by other leveraged municipal debt funds.

Included in the Adviser’s Form ADV furnished to the Committee was comparative information from the Adviser with respect to the fees it charges to its investment advisory clients other than the Fund. However, the Committee concluded that the services rendered to other institutional investor clients were not sufficiently comparable to the services rendered to the Fund for a direct comparison of advisory fees to be meaningful.

The Adviser also furnished the Committee with copies of its financial statements. In reviewing those financial statements, the Committee examined the profitability of the investment advisory agreement to the Adviser and determined that the profitability of that contract was within the range that courts had found reasonable. The Committee considered that the Adviser must be able to compensate its employees at competitive levels in order to attract and retain high-quality personnel to provide high-quality services to the Fund. The Committee concluded that the investment advisory fee was the product of arm’s length bargaining and that it was fair and reasonable to the Fund.

**Economies of scale.** The Committee considered whether the Fund has appropriately benefited from any economies of scale. The Committee concluded that currently the Fund is not sufficiently large to realize benefits from economies of scale with fee breakpoints. However, the Committee encouraged the Adviser to continue to work towards reducing costs by leveraging relationships with service providers across the complex of funds advised by the Adviser.

**Indirect benefits.** The Committee considered possible sources of indirect benefits to the Adviser from its relationship to the Fund. As a fixed-income fund, the Fund does not generate soft dollars. The Committee also noted that the Fund does not utilize affiliates of the Adviser for brokerage purposes.

The Contracts Committee concluded, based upon its evaluation of all material factors, including the foregoing, and assisted by the advice of independent legal counsel, that the existing advisory fee structure is fair and reasonable, and recommended the continuation of the investment advisory agreement as being in the best interests of the Fund and its shareholders. On November 5, 2009, the Committee presented its recommendation, and the criteria on which it was based, to the full Board, whereupon the Board, including the Independent Directors, accepted the Committee's recommendation and approved the continuation of the Fund's investment advisory agreement for an additional one-year term ending November 30, 2010. On February 22, 2010, in order to align the Fund's contract renewal date with the renewal date for the investment advisory agreements of the other two closed-end funds advised by the Adviser, the Committee recommended, and the Board approved, on the same basis as described above, the continuation of the Fund's investment advisory agreement until April 30, 2011.

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## **ADDITIONAL INFORMATION (Unaudited)**

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

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## **PROXY VOTING POLICY AND PROCEDURES (Unaudited)**

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Although the Fund does not typically hold voting securities, the Fund's Board of Directors has adopted proxy voting procedures whereby the Adviser would review any proxy solicitation materials on a case-by-case basis and would vote any such securities in accordance with the Adviser's good faith belief as to the best interests of the Fund and its shareholders. These proxy voting procedures may be changed at any time or from time to time by the Fund's Board of Directors. A description of the policies and procedures that the Fund uses to determine how to vote proxies relating to portfolio securities during the most recent 12-month period ended June 30 are available without charge, upon request, by calling toll free (800) 243-4361 ext. 4941 and on the Securities Exchange Commission's (SEC) website at [www.sec.gov](http://www.sec.gov).

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## **AVAILABILITY OF QUARTERLY SCHEDULE OF INVESTMENTS (Unaudited)**

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The Fund files its complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The Fund's Forms N-Q are available on the SEC's website at [www.sec.gov](http://www.sec.gov). The Fund's Forms N-Q may also be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling (202) 551-8090. The Fund's Form N-Q is also available, without charge, upon request, by calling toll free (800) 243-4361 ext. 4941.