PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form DEFC14A
March 24, 2011

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 [ ]
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Check the appropriate box: [ ] Preliminary Proxy Statement
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[X] Definitive Proxy Statement
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Putnam Municipal Opportunties Trust ("PMO")

(Name of Registrant as Specified In Its Charter)

Karpus Management, Inc., d/b/a Karpus Investment Management

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

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

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1) Title of Each class of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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ANNUAL MEETING OF SHAREHOLDERS
OF
PUTNAM MUNICIPAL OPPORTUNITIES TRUST

PROXY STATEMENT
OF
KARPUS MANAGEMENT, INC.
D/B/A KARPUS INVESTMENT MANAGEMENT

Fellow shareholders:

This Proxy Statement and the enclosed GREEN proxy card are being furnished to you, the shareholders of Putnam Municipal Opportunities Trust ("PMO" or the "Fund"), in connection with the solicitation of proxies by Karpus Management, Inc. d/b/a Karpus Investment Management ("Karpus"), long-term shareholders of the Fund since 2005, for use at the at the 2011 Annual Meeting of shareholders of the Fund scheduled to be held at 10:00 a.m. E.S.T. on Wednesday, May 25, 2011 at the principal offices of the Fund on the 8th floor of One Post Office Square, Boston, Massachusetts 02109, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof (the "Meeting"). This proxy statement and the enclosed GREEN proxy card are first being furnished to shareholders on or about March 21, 2011.

Only the Fund's shareholders of record on February 28, 2011 ("Record Date") will be entitled to receive notice of and to vote at the Meeting. The Meeting is being held for the following purposes:

Item 1: To elect the following as Trustees of the Fund:

a. To be elected by the common and preferred shareholders voting together as a class: Donald Chapman, Glen T. Insley, CFA, Jeffrey P. Lessard, Ph.D., CFA, Thomas M. McDonald, Brad Orvieto, Dwight A. Pike, CFA, Arthur Charles Regan, G. William Schwert, Ph.D., Douglas Skinner, Ph.D., and Gerard J. Wenzke.

b. To be elected by the preferred shareholders voting separately as a class: Richard W. Cohen and Phillip Goldstein.

Item 2: To consider a shareholder proposal recommending that investment management agreement between the Fund and Putnam Investment Management, LLC (the "Manager") shall be terminated;

Item 3: To consider a shareholder proposal recommending that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage; and

To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

If you have already sent a proxy card furnished by the Fund's management to the Fund, you have every right to change your vote by signing, dating and returning the enclosed GREEN proxy card or by following the instructions for telephone or Internet voting detailed thereon. Only your latest dated proxy card counts!

We are soliciting a proxy to vote or, under circumstances specified herein, not vote your shares in connection with the Annual Meeting of Shareholders of the Fund. **Please refer to the Fund's proxy soliciting material (when available) for additional information concerning the Meeting and the matters to be considered by shareholders.** It is anticipated that this Proxy Statement and the attached form of proxy will first be mailed to shareholders on or about March 21, 2011.

Please refer to *Appendix A - Information Concerning the Annual Meeting* and the Fund's proxy materials for additional information concerning the Annual Meeting, including voting and proxy procedures, votes required for approval of the proposals and the solicitation of proxies.

If you have any questions or require assistance voting your shares, please contact Regan & Associates, Inc., at 505 Eighth Avenue, Suite 800, New York, New York 10018 or 1-800-737-3426.

PLEASE BE ADVISED:

We believe that:

*Reactive versus proactive management is not acceptable.

*Denying all shareholders the ability to receive full value for their shares is not acceptable. Additionally, due to this "wisdom" of delaying the merger of the Fund into an open-end fund, shareholders have not had one day which they have had the ability to receive the net asset value for their shares. In fact, shares of the Fund have not traded at net asset value since ***September 14, 2004***.

*Our Board is not adequately fulfilling its duties as the agent of the Fund's shareholders.

*The Fund's manager, Putnam Investment Management, LLC has provided poor advice to the Fund's Board and should be terminated.

*All outstanding auction market preferred shares of the Fund should be redeemed at par and the Fund should take all steps necessary to cause the Fund to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

BACKGROUND

Karpus represents beneficial ownership of 6,743,296 common shares, or 15.7% of the outstanding common shares, and 286 auction rate preferred shares or 4% of the total outstanding auction rate preferred shares ("ARPS"). Such calculations are based on the aggregate amount of 7,154 outstanding auction rate preferred shares (3,417 shares of Series B Preferred Shares and 3,737 Series C Preferred Shares) and 42,871,374 common shares outstanding, as indicated on PMO's proxy statement filed with the U.S. Securities and Exchange Commission. In the Fund's original press release dated September 12, 2008, the Board approved in principle a plan to merge PMO into an open-end fund. The press release highlighted the following 4 specific benefits for shareholders if the proposed merger was approved: (1) the ability to invest in an open-end fund with similar investment objectives; (2) the elimination of the Fund's discount; (3) the ability to redeem shares at their net asset value on a daily basis; and (4) the choice of timing any recognition of taxable gains or losses by the redemption of shares. Further, the Funds also acknowledged on October 30, 2008 that lowered overall expenses were expected as a result of the additional assets in connection with the merger. ***All of these benefits are still applicable and desirable for shareholders today.***

Nine months later, in a press release dated June 26, 2009, the Board reversed course and determined that the proposed merger would not be in the best interest of common shareholders, and authorized Putnam to suspend further efforts to implement the merger. As the largest shareholder of the Fund, we fully disagree with the Board's decision. The merger proposal continues to provide shareholders with the benefits originally stated. We feel that the Trustees decision was driven by Putnam Investment Management rather than the shareholders to whom the Trustees have a fiduciary duty to represent. By suspending the merger, Putnam Investment Management benefits by continuing to collect fees on the captive and levered assets of the closed-end Fund, while the Trustees continue to be well compensated for their "oversight."

One additional fact for preferred shareholders that must be considered is that preferred shareholders have not had the opportunity to duly elect the two trustees they are statutorily entitled to elect since May 8, 2008.

Given the events as they have unfolded, we feel that the Board's actions have proven to be reactive rather than proactive and we therefore feel that:

1. Each class of shareholders should have more adequate and independent representation;
2. The Fund's investment manager should be terminated for the "advice" they offered to the Fund's Board to the detriment of both the common and preferred shareholders of the Fund; and
3. The Board of Trustees should take all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

SHOW YOUR FUND YOUR DISSATISFACTION WITH YOUR TRUSTEES AND FUND MANAGEMENT WITH YOUR VOTE. VOTE FOR ALL OF KARPUS' TRUSTEE NOMINEES AND FOR KARPUS' SHAREHOLDER PROPOSALS MORE FULLY DESCRIBED BELOW.

PROPOSAL NO. 1: ELECTION OF TRUSTEES

We are soliciting a proxy to vote, or, under specified conditions, not to vote your shares, FOR the election of the Karpus nominees indicated below. The following information sets forth our trustee nominees (the "Nominees"), a brief biography, and their relevant qualifications. As each nominees' experiences below indicate, we feel that each nominee is uniquely qualified to provide representation that shareholders should be receiving. Karpus does not believe that any of the Nominees are "interested persons" of PMO as defined in the Investment Company Act of 1940 and as such are independent trustee nominees. Each nominee below has consented to be nominated as a trustee and intends on serving if elected.

THE NOMINEES

*Donald Chapman; Age: 68; Date of Birth: December 7, 1942; Business Address: None/Retired; Residence Address: 788 Admiralty Way, Webster, New York 14580; Nationality: U.S. Citizen; Share Ownership: 3,725 common shares, 0 preferred shares; Professional Experience: Presently retired, Private Practice Accountant, grew private practice with emphasis on manufacturing and construction/real estate, 1970-2005, KPMG, Staff Accountant, 1967-1970, United States Army, 1960-1963; Education: University of Rochester, Accounting (1967); Directorships/Other: International Accounting Agency Member, Stone Construction Co., Inc., Board Member, 1990-2005, Ultrafab, Inc., Board Member, 1994-2004, New York State Society of Certified Public Accountants, Board of Directors, 1984-1987, President Rochester Chapter of New York State Society of Certified Public Accountants, 1982-1983.

**Richard W. Cohen; Age: 56; Date of Birth: June 23, 1954; Business Address: c/o Lowey Dannenberg Cohen & Hart, P.C., White Plains Plaza, One North Broadway, White Plains, New York 10601-2310; Residence Address: 1304 Colonial Court, Mamaroneck, New York 10543; Nationality: U.S. Citizen; Share Ownership: 3,152 common shares, 1 preferred share; Professional Experience: Presently President of Lowey Dannenberg Cohen & Hart P.C., a law firm which devotes a substantial amount of its practice to representation of investors in public companies. Admitted to practice in New York and Pennsylvania, and the bars of the U.S. Courts of Appeals for the 1st, 2nd, 3rd, 6th and 11th Circuits; and the U.S. District Courts for the Southern and Eastern Districts of New York, the Eastern District of Michigan and the Eastern District of Pennsylvania; Education: Graduate of Georgetown University (A.B. 1977) and the New York University School of Law (J.D. 1980); Directorships/Other: N/A.

**Phillip Goldstein; 65, (born 1945); Park 80 West, Plaza Two, 250 Pehle Avenue, Suite 708, Saddle Brook, NJ 07663. Since 1992, Mr. Goldstein has been an investment advisor and a principal of the general partner of six investment partnerships in the Bulldog Investors group of private funds. Since 2009, he has been a principal of Brooklyn Capital Management, the investment adviser to Special Opportunities Fund. He is a director of the following closed-end funds: Mexico Equity and Income Fund since 2000, Brantley Capital Corporation since 2001, ASA Ltd since 2008, Special Opportunities Fund since 2009 and Korea Equity Fund since 2010.

*Glen T. Insley, CFA; Age: 64; Date of Birth: July 7, 1946; Business Address: None; Residence Address: 47 Blue Heron Road, Georgetown, South Carolina 29440; Nationality: U.S. Citizen; Share Ownership: 17,370 common shares, 0 preferred shares; Professional Experience: Presently retired, formerly, Evergreen Investments, Senior Vice-President/Managing Director Investment Risk Management (2000-2007 (retired)), Senior Vice-President/Managing Director of Fixed Income (1993-2000); Education: Obtained Chartered Financial Analyst Designation (1980), Trinity College, B.A. (major in government, minor in economics) (1968); Directorships/Other: Chairman of Valuation Committee, Evergreen Funds (2004-2007), Chairman of Board, Vestaur Securities Corp. (a then AMEX listed closed-end fund that reorganized into an open-end fund in 2005) (1998-2005), Finance Committee Member, HUM Group Inc./Healthcare Underwriters Mutual Insurance (1995-2002).

*Jeffrey P. Lessard, Ph.D., CFA; Age: 58; Date of Birth: February 2, 1952; Business Address: 12 - A 317 RIT College of Business, Department of Finance and Accounting, Rochester, New York 14623; Residence Address: 72 Kirklees Road, Pittsford, New York 14534; Share Ownership: 0 common shares, 0 preferred shares; Professional Experience: Presently, Academic Director of Consumer Finance, Associate Director of the center for Consumer Financial Services and professor of Finance at the Rochester Institute of Technology; Education/Other: Ph.D., Finance, University of Arkansas; M.A., Financial Economics, University of Arkansas, M.B.A., Accounting, Plymouth State College of the University of New Hampshire; B.S. Marketing, Political Science, University of New Hampshire; Directorships/Other: Obtained Chartered Financial Analyst designation and is a member of the Disciplinary Review Committee of the Chartered Financial Analysts Institute. Dr. Lessard's primary teaching interests are in the areas of wealth management, investment analysis and portfolio performance. Dr. Lessard has published in a wide variety of journals such as the American Business Review, Akron Business and Economic Review, New York Business and Economic Review, Business Insights, Journal of Financial Education, Journal of Global Business and Southern Business Review. Dr. Lessard's current scholarly interests are in the areas of corporate valuation, performance and presentation standards in the investments industry and the influence of the board of directors upon the creation of shareholder value.

*Thomas M. McDonald; Age: 60; Date of Birth: November 1, 1950; Business Address: c/o Craven Thompson & Associates, Inc., 3563 N.W. 53rd Street, Fort Lauderdale, Florida 33309; Residence Address: 7630 Marblehead Lane, Parkland, Florida 33067; Nationality: U.S. Citizen; Share Ownership: 5,000 common shares, 0 preferred shares; Professional Experience: Presently, Craven Thompson & Associates, Inc., President (1979-present); Education: Bowling Green State University, B.S. Business Administration, major in accounting (1976); Directorships/Other: Board Member, Legacy Bank of Florida (2007-present), Chairman and President, Boys and Girls Clubs of Broward County (2008-2010).

*Brad Orvieto; Age: 53; Date of Birth: January 11, 1957; Business Address: c/o Strategic Asset Management Group, 800 South Andrews Avenue, Suite 204, Fort Lauderdale, Florida 33316; Residence Address: 10824 NW 2nd Street, Plantation, Florida 33324; Nationality: U.S. Citizen; Share Ownership: 500 common shares, 0 preferred shares; Professional Experience: Presently, Founded Horizon Financial Group, a Financial Planning and Investment Advisory firm, 1985. Horizon Financial Group merged with Strategic Asset Management Group, 1997; Education: University of Miami School of Business (B.B.A, (1979), International Finance and Marketing; Directorships/Other: Certified Financial Planner; Board of Directors, Equus II Inc. (EQS), 2010 Chairman of Broward County Housing Finance Authority, Steering Committee for the Incorporation of the City of Weston, McDonald Family Foundation-Trustee, City of Plantation Comprehensive Planning Board, Anti-defamation League Civil Rights Committee, Broward County Tourist Related Program Grant Panel, Broward County Cultural Arts Grant Panel, Broward County Art in Public Places Steering Committee, Board of Directors-Temple Kol Ami, Corporate Board - Broward County Boys & Girls Club.

*Dwight A. Pike, CFA; Age: 56; Date of Birth: February 2, 1954; Business Address: 5 Holly Lane, Pinehurst, North Carolina 28374; Residence Address: 5 Holly Lane, Pinehurst, North Carolina 28374; Nationality: U.S. Citizen; Share Ownership: 0 common shares, 0 preferred shares; Professional Experience: Presently owner of Pike's Financial Services, LLC, 2000-present, a company specializing in providing accounting, tax, payroll and investment services to individuals and small businesses; Unquowa Partners, 1995-2000, Founding Partner of institutional brokerage business specializing in generating research on small cap companies for institutional clients; Knights of Columbus, 1988-1995 and 1980-1986, Vice-President of Investments managing equity portfolio; Cowen Asset Management, 1986-1988, Vice-President of Portfolio Management before returning to the Knights of Columbus; Mid-Continent Telephone Corporation (predecessor to Alltel), 1978-1980, Financial Analyst; Education/Other: Obtained CFA Designation; College of Wooster, Economics (B.A., 1976) and University of Connecticut (M.B.A., 1977); Directorships/Other: N/A.

*Arthur Charles Regan; Age: 48; Date of Birth: January 24, 1963; Business Address: 505 Eighth Avenue, Suite 800, New York, New York 10018; Residence Address: 1350 N. Jasmine Avenue, Tarpon Springs, Florida 34689; Nationality: U.S. Citizen; Share Ownership: 0 common shares, 0 preferred shares; Professional Experience: Mr. Regan is presently the President & CEO of Regan & Associates, Inc. a NY, NY based proxy solicitation/shareholder services firm founded by him in 1991 and has had numerous articles published on shareholder related matters. He was previously the President of David Francis & Co., Inc. and a Vice President at Morrow & Co, Inc., also proxy solicitation firms; Education/Other: BS in Management & Organizational Behavior from NYU (1984); Directorships/Other: He also formerly served as an outside director and Corporate Secretary for US Wats, Inc. a Bala-Cynwyd, PA based publicly held telecommunications firm until that firm was merged out of existence. Mr. Regan also manages his own investment portfolio and has since 1984.

*G. William Schwert, Ph.D.; Age: 60; Date of Birth: January 26, 1950; Business Address: William E. Simon Graduate School of Business Administration, University of Rochester, Rochester, New York 14627; Residence Address: 71 Knollwood Drive, Rochester, New York 14618; Nationality: U.S. Citizen; Share Ownership: 0 common shares, 0 preferred shares; Professional Experience: Distinguished University Professor of Finance and Statistics, University of Rochester (1998-present), Research Associate, National Bureau of Economic Research, Asset Pricing Group (1988-present), Senior Research Associate, Rochester Center for Economic Research, Department of Economics, University of Rochester (1984-present); Education/Other: Ph.D., University of Chicago, (Economics, Finance, Econometrics) (1975), M.B.A., University of Chicago (1973), A.B. with Honors (Economics), Trinity College (Hartford, Connecticut) (1971); Directorships/Other: Journal of Financial Economics, Managing Editor (1995-present) (Advisory Editor, 1986-89; Editor, 1979-86 and 1989-95; Associate Editor, 1977-78), Journal of Finance, Associate Editor (1983-2000), Journal of Monetary Economics, Associate Editor, 1984-95; Advisory Editor (1995-present), Journal of Accounting and Economics, Associate Editor (1978-87), Abstracts of Working Papers in Economics, Associate Editor (1987-present), Journal of Financial Abstracts, Associate Editor, 1994-98; Editor, Series C, Capital Markets, 1998-present; Co-editor, Series B, Banking and Financial Institutions (1998-present), Advisory Board, Chase Financial Quarterly, 1981-82; Midland Corporate Finance Journal, 1982-87; Journal of Applied Corporate Finance (1988-present), Advisory Committee of Economists to the Inter-University Consortium for Political and Social Research (1990-present), University of Rochester Budget Committee (1990-present), American Economics Association (1973-present), American Finance Association (1975-present (life member)), Econometric Society (1973-95), American Statistical Association (1973-95), Financial Management Association (1989-2006), and Society for Financial Studies (1989-present).

*Douglas Skinner, Ph.D. ; Age: 49; Date of Birth: November 16, 1961; Business Address: John P. and Lillian A. Gould Professor of Accounting, The University of Chicago, Booth School of Business, 5087 South Woodlawn Avenue, Chicago, Illinois 60637; Residence Address: 222 North Columbus Drive, #3004, Chicago, Illinois 60601; Nationality: U.S. Citizen and Australian Citizen; Share Ownership: 0 common shares, 0 preferred shares; Professional Experience: University of Chicago, Booth School of Business, John P. and Lillian A. Gould Professor of Accounting (2006-present), University of Michigan Business School, KPMG Professor of Accounting (1998-2005); Education/Other:, Ph.D., Accounting (major area), Finance (minor area), University of Rochester, (1989), M.S., Applied Economics, University of Rochester (1988), B.Ec. (First Class Honours), Accounting/Finance, Macquarie University, (1985); Directorships/Other: Journal of Accounting Research, Co-Editor (2006-present), Journal of Accounting & Economics, Associate Editor (1994-2000), Editor (2000-2005), and Asia-Pacific Journal of Accounting & Economics, Associate Editor

(1999-present).

*Gerard J. Wenzke; Age: 58; Date of Birth: June 14, 1952; Business Address: 17 Surrey Hill Lane, Pittsford, New York 14534; Residence Address: 34 Clarke's Crossing, Fairport, New York 14450; Nationality: U.S. Citizen; Share Ownership: 62,835 common shares, 0 preferred shares; Professional Experience: Founder and Consultant, Distinctive Strategies LLC (2009-present), Chief Executive Officer, First Niagara Risk Management (2005-2008); Education/Other: University of Pennsylvania, Wharton School, Chubb/Wharton Executive Leadership Development Program (2001-2004), American College, Bryn Mawr Pa., Chartered Life Underwriter (1982) and Chartered Financial Consultant (1984), State University of New York College at Brockport, B.S. (Business Administration (1978); Directorships/Other: Sigma Marketing Group, Board of Directors, member (2010-present), Klein Steel Service, Board of Advisors, member (2009-Present), First Niagara Risk Management, Board of Directors, member (2005-2008), Hatch-Leonard Naples, Board of Directors, member (1987-2005) and Assurex Global, Inc., Board of Directors, member (2001-2004).

*Director nominee for election by vote of the common and preferred shareholders voting together
**Director nominee for election by vote of the preferred shareholders of the Fund voting separately as a class.

The table below briefly discusses some of the experiences, qualifications and skills of each of our Board members that support the conclusion that they should serve on the Fund's Board:

Nominee	Experience, Qualifications and Skills
Donald Chapman	Mr. Chapman is a career accountant with vast experience in the accounting field. He has served on several boards, including Stone Construction Co, Ultrafab, Inc., & New York State Society of Certified Public Accountants. He was previously president of the Rochester Chapter of New York State Society of Certified public Accountants (1982-1983).
Richard W. Cohen	Mr. Cohen is currently President of Lowey Dannenberg Cohen & Hart, a law firm that devotes a substantial amount of its practice to representation of investors in public companies. He is a graduate of Georgetown University and New York University School of Law (J.D. 1980).
Phillip Goldstein	Mr. Goldstein is an investment advisor and principal of six investment partnerships in the Bulldog Investors group of private funds and principal of Brooklyn Capital Management. He is director of several closed-end funds, including: Mexico Equity and Income Fund (since 2000), Brantley Capital Corporation (since 2001), ASA Ltd (since 2008), Special Opportunities Fund (since 2009) and Korea Equity Fund (since 2010).
Glen T. Insley, CFA	Mr. Insley is retired after a successful career in finance and investments. He was most recently Senior Vice-President/Managing Director of Investment Risk Management at Evergreen Securities (retired 2007). He has served as Chairman of Valuation Committee at Evergreen Funds (2004-2007), as well as Chairman of the Board of Vestaur Securities Corp. (a then AMEX listed closed-end fund). He has obtained Charter Financial Analyst Designation (CFA).
Jeffrey P. Lessard, Ph.D, CFA	Dr. Lessard is presently Academic Director of Consumer Finance, Associate Director of the center for Consumer Financial Services and professor of Finance at the Rochester Institute of Technology. He has obtained the Chartered Financial Analyst Designation (CFA) and is a member of the Disciplinary Review Committee of the CFA Institute.
Thomas M. McDonald	Mr. McDonald is currently President of Craven Thompson & Associates, Inc. (since 1979). He is currently on the Board of Legacy Bank of Florida, and has also served on numerous other Boards of Directors, including Elderly Interest Fund Inc., Broward County Planning Council, and Broward County Housing Finance Authority.
Brad Orvieto	Mr. Orvieto is founder of Horizon Financial Group, a Financial Planning and Investment Advisory firm. He has extensive board and directorship experience including Board of Directors of Equus II, Inc. (EQS), and was 2010 Chairman of Broward County Housing Finance Authority. He is a Certified Financial Planner.
Dwight A. Pike, CFA	Mr. Pike is presently owner of Pike s Financial Services, LLC (2000-present), a company specializing in providing accounting, tax, payroll, and investment services to individuals and small businesses. He was Founding Partner of institutional brokerage business for Unquowa Partners (1995-2000), Vice-President of Investments for Knights of Columbus (1988-1995), and Vice-President of Portfolio Management at Cowen Asset Management (1986-1988). He has obtained the Chartered Financial Designation (CFA).
Arthur Charles Regan	Mr. Regan has vast experience with shareholder relations. He is presently President & CEO of Regan & Associates, Inc., a NY based proxy solicitation/shareholder services firm founded by him in 1991. He was a former outside director and Corporate Secretary for US Wats, Inc. a PA based publicly held telecommunications firm until that firm was merged out of existence.
G. William Schwert, Ph.D	

	Dr. Schwert is presently Distinguished University Professor of Finance and Statistics at the University of Rochester (1998-present). He has conducted extensive research across many areas of finance and economics, and has been widely published on these topics. He received his Ph.D. from University of Chicago, (Economic, Finance, Econometrics) (1975), M.B.A, University of Chicago (1973), and A.B with Honors, Trinity College (1971).
Douglas Skinner, Ph.D.	Dr. Skinner is presently University of Chicago, Booth School of Business, John P. and Lillian A. Gould Professor of accounting. (2006-present). He was previously University of Michigan Business School, KPMG Professor of Accounting (1998-2005). He has been widely published and recognized for his research in accounting, finance, and economics. He received his Ph.D. in accounting from University of Rochester (1989), and M.S., Applied Economics, University of Rochester (1988).
Gerard J. Wenzke	Mr. Wenzke is Founder and Consultant of Distinctive Strategies LLC (2009-present). He was previously Chief Executive Officer, First Niagara Risk Management (2005-2008). He has served on several boards/directorships including Sigma Marketing Group, Klein Steel service, First Niagara Risk Management, Hatch-Leonard Naples, and Assurex Global, Inc.

Our incumbent Trustees' actions have indicated to us that their interests are aligned with Putnam Investment Management and not the shareholders that they have a fiduciary duty to represent. As your fellow long-term shareholder, we therefore feel that now is time for a change and we submit the above, well-qualified nominees for your consideration.

There can be no assurance that the election of our Nominees will improve the Fund's business or otherwise enhance shareholder value. If you are a common shareholder, your vote to elect the Nominees will have the legal effect of replacing twelve incumbent trustees of the Fund to be elected by the common and preferred shareholders voting together as a class and if you are an ARPS shareholder, your vote to elect all Nominees will have the legal effect of replacing twelve incumbent trustees of the Fund (2 of which preferred shareholders are entitled to elect as preferred shareholders of the Fund voting separately as a class and 10 of which preferred shareholders are entitled to elect by voting together with the common shareholders) with our Nominees.

As your fellow shareholder, Karpus therefore recommends that you vote FOR all of our nominees on the GREEN proxy card, so that shareholders' best interests can be represented on the Board.

For additional information concerning our Nominees, see *Appendix B - Information Concerning the Nominees.*

<u>Please note:</u> **If you give us your proxy, we will take all steps necessary and lawful to obtain truly independent representation on the Board of the Fund. Due to the complexities of corporate law, under certain circumstances, if a quorum (50% of the outstanding shares of the Fund) is created, and if management has votes for its nominees of more than half of the shares present, such a situation could result in management's nominees being elected. As such, voting your shares at all, even if voted FOR Karpus nominees, could help create a quorum which could allow management's nominees to be elected. If Karpus believes that voting the proxies it receives would cause there to be a quorum and that the Karpus proposals would thereby not be approved, we may not attend the Meeting and may withhold all proxies in order to attempt to defeat management's Trustee nominees.**

If we are not able to obtain truly independent representation on the Board of the Fund, we may not attend the Meeting, we may not vote your shares, and your shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or if you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy. If Karpus does attend the Meeting, unless you indicate otherwise, your shares will be voted FOR all of the Karpus nominees and FOR Karpus' shareholder proposal to terminate the investment management agreement between the Fund and Putnam Investment Management, LLC and FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage.

<u>Please refer to management's proxy statement for information regarding the names, qualifications and background of the Fund's nominees.</u>

YOU ARE URGED TO VOTE FOR THE ELECTION OF KARPUS' NOMINEES ON THE ENCLOSED GREEN PROXY CARD.

Voting Requirement

The holders of the preferred shares, voting separately as a class are entitled to elect 2 nominees as Trustees. Both the Board and Karpus have proposed 2 nominees for these Trustee positions. Messrs. Goldstein and Cohen are Karpus' proposed nominees to fill these two preferred share Trustee positions.

If a quorum is present at the meeting, the two nominees for election by the holders of the preferred shares voting separately as a class, who receive the greatest number of votes cast by the holders of the preferred shares will be elected as Trustees.

In addition, the Board has proposed 10 additional nominees as Trustees for 10 other Trustee positions, to be elected by both the common and preferred shareholders voting together as a class, and Karpus has proposed 10 additional nominees, Messrs. Chapman, Insley, Lessard, McDonald, Orvieto, Pike, Regan, Schwert, Skinner and Wenzke, for those Trustee positions.

If a quorum is present at the Meeting, 10 nominees for the election as Trustees, out of 20 total, will be elected by the holders of the preferred shares and common shares voting together as a single class. The winners will be the 10 nominees who receive the greatest number of votes cast by the holders of the preferred shares and common shares voting together as a single class.

Additionally, if a quorum is present at the Meeting, 2 nominees for the election as Trustees, out of 4 total, will be elected solely by the holders of the preferred shares.

Each preferred shareholder and each common shareholder will be entitled to one vote for each share held.

ITEM 2 - SHAREHOLDER PROPOSAL

TO TERMINATE THE INVESTMENT MANANAGEMENT AGREEMENT

At the Meeting, Karpus intends to submit the following proposal:

RESOLVED: The investment management agreement between the Fund and Putnam Investment Management, LLC (the "Manager") shall be terminated.

SUPPORTING STATEMENT

As both common and preferred shareholders of PMO, we are greatly concerned with the quality of the management of our Fund. Specifically, we are most concerned with the Fund's performance as well as the "advice" the Manager has offered to the detriment of Fund shareholders and to the benefit of the Manager and the Fund's Board of Trustees.

With respect to performance, PMO has only been mediocre across multiple time periods within its stated peer group, the Lipper General Muni Debt Leveraged category. Specifically, PMO's performance falls in the 50th percentile for one year performance, and below average for longer 3, 5, and 10-year periods (Source: Putnam, as of 7/31/2010). Additionally, it should also be noted that while the Fund's discount is narrow relative to its historic average, it remains wide relative to its Lipper leveraged closed-end fund category peers (Source: Lipper).

Next, with respect to "advice" offered to the Board, we feel that the Manager has failed miserably. According to multiple press releases for the Fund, the Manager advised the Board of Trustees to delay a proposed merger of the Fund into an open-end fund and then ultimately advised the Board to indefinitely suspend the proposed mergers. Due to this "advice," all classes of PMO's shareholders were denied the ability to realize the intrinsic value of their shares. Further, in our opinion, shareholders were also misled into believing they would be able to receive net asset value for their shares and added to their positions based on the "advice" offered by our Fund's manager.

In the current market environment, many closed-end fund municipal bond shareholders have been able to receive net asset value for their common shares and par value for their preferred shares. This has simply not been the case with our Fund despite the fact that all four original reasons cited for merging PMO into an open-end fund are still valid to this day. Our Manager's apparent advice to our Board is to continue to lock in both common and preferred shareholders and deny them the ability to receive the intrinsic value of their shares. This is not acceptable.

Our Fund has been plagued by poor management long enough. To address our concerns, we believe that an immediate change is necessary and that Putnam Investment Management, LLC must be terminated as our Fund's investment manager.

END OF PROPOSAL

To update you with additional data since we submitted the above-proposal in September 2010, the discount of our Fund remains wider than both its Lipper peers and its 10-year average (Source: Bloomberg). Our Fund has remained at a discount every day since the proposed merger with an open-end fund, thus preventing shareholders any opportunities to realize the full value of their shares. Further, shares of the Fund have not traded at net asset value since ***September 14, 2004***.

As such, we feel that it is imperative that all shareholders vote FOR Karpus' proposal to terminate the investment management agreement between the Fund and Putnam Investment Management, LLC and strongly urge you to vote for our proposal on the GREEN proxy card. Should the shareholders approve Proposal 2, the Board of Trustees would maintain the fiduciary duty to secure the most suitable investment manager available in consideration of the Fund's objective/mandate. There can be no assurance that any future manager will improve the Fund's business or otherwise enhance shareholder value.

Please note: If you give us your proxy, we will take all steps necessary and lawful to obtain truly independent representation on the Board of the Fund. Due to the complexities of corporate law, under certain circumstances, if a quorum (50% of the outstanding shares of the Fund) is created, and if management has votes for its nominees of more than half of the shares present, such a situation could result in management's nominees being elected. As such, voting your shares at all, even if voted FOR Karpus nominees, could help create a quorum which could allow management's nominees to be elected. If Karpus believes that voting the proxies it receives would cause there to be a quorum and that the Karpus proposals would thereby not be approved, we may not attend the Meeting and may withhold all proxies in order to attempt to defeat management's Trustee nominees.

If we are not able to obtain truly independent representation on the Board of the Fund, we may not attend the Meeting, we may not vote your shares, and your shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or if you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy. If Karpus does attend

the Meeting, unless you indicate otherwise, your shares will be voted FOR all of the Karpus nominees and FOR Karpus' shareholder proposal to terminate the investment management agreement between the Fund and Putnam Investment Management, LLC and FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage.

Voting Requirement

Approval of the termination of the investment management agreement requires the affirmative vote of a "majority of the outstanding voting securities" of the Fund. Under the Investment Company Act of 1940, as amended ("1940 Act"), the vote of a "majority of the outstanding voting securities" means the affirmative vote of the lesser of (a) 67% or more of the shares present at the meeting or represented by proxy if the holders of 50% of the outstanding shares are present or represented by proxy or (b) more than 50% of the outstanding voting shares. The Fund's common shareholders and preferred shareholders will vote together as a single class on this proposal. Each preferred shareholder and each common shareholder will be entitled to one vote for each share held.

ITEM 3 - SHAREHOLDER PROPOSAL

TO REQUEST THAT THE BOARD OF TRUSTEES OF PMO CONSIDER TAKING ALL STEPS NECESSARY TO CAUSE PMO TO REDEEM ALL OUTSTANDING AUCTION RATE PREFERRED SHARES AT PAR AND TO UTILIZE MUNICIPAL TERM PREFERRED SECURITIES (MTPS), VARIABLE RATE DEMAND PREFERRED SECURITIES (VRDPS) AND/OR TENDER OPTION BONDS (TOBS) AS ALTERNATE SOURCES OF LEVERAGE

At the Meeting, Karpus intends to submit the following proposal:

BE IT RESOLVED, that the Board of Trustees of Putnam Municipal Opportunities Trust ("PMO" or the "Fund") consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

SUPPORTING STATEMENT

When PMO holds its 2011 Annual Shareholder meeting, it will have been more than three years since the last auction process for PMO's auction rate preferred shares ("ARPS") took place. ARPS holders' investments are frozen, with no liquidity. The Fund has held ARPS shareholders' capital hostage long enough and we feel that it is time for the Fund to act in a proactive fashion by redeeming all remaining outstanding ARPS at par. Some alternative forms of leverage provided by other funds to replace AMPS are Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs).

In a presentation last year, the Fund stated that "the Independent Trustees have acted in shareholders' best interests since the auction rate-securities market collapsed." We disagree. If the Fund had truly wanted to act in the interests of both common and preferred shareholders, it would have either: (1) merged the Fund into the an open-end fund as previously announced; or (2) replaced all outstanding auction rate preferred shares at par with the above-stated alternate forms of leverage.

To address the first action, if the Fund had followed through on its own recommendation in a timely fashion (rather than delaying and then suspending), **all** shareholders would have benefitted by receiving full value for their shares. Additionally, we feel that it is important to note that in the current market environment, many closed-end fund municipal bond shareholders have been able to receive net asset value for their common shares and par value for their preferred shares. This has not been the case with our Fund, despite the fact that all four original reasons cited for merging PMO into an open-end fund are still valid to this day.

Addressing the second action, if the Fund would have taken steps to complete the replacement of all outstanding ARPS, the Fund could benefit existing ARPS shareholders by providing liquidity at par and also could benefit common shareholders by taking advantage of low interest rate vehicles while simultaneously mitigating the risk of a significant increase in the cost of leverage should short-term interest rates rise.

Shareholders deserve a definitive plan from their Fund and Trustees. To our knowledge, no solutions beyond the auction rate preferred redemptions completed in anticipation of the merger of PMO into the stated open-end fund have been announced. **This is not acceptable**. ARPS holders must be able to receive the intrinsic value of their shares and common shareholders must be protected from a potentially higher cost of leverage should short-term interest rates rise.

END OF PROPOSAL

For the reasons stated above, we feel that it is imperative that all shareholders vote FOR Karpus' proposal to request that the Board of Trustees consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize MTPS, VRDPS and/or TOBs as alternate sources of leverage.

Please note: If you give us your proxy, we will take all steps necessary and lawful to obtain truly independent representation on the Board of the Fund. Due to the complexities of corporate law, under certain circumstances, if a quorum (50% of the outstanding shares of the Fund) is created, and if management has votes for its nominees of more than half of the shares present, such a situation could result in management's nominees being elected. As such, voting your shares at all, even if voted FOR Karpus nominees, could help create a quorum which could allow management's nominees to be elected. If Karpus believes that voting the proxies it receives would cause there to be a quorum and that the Karpus proposals would thereby not be approved, we may not attend the Meeting and may withhold all proxies in order to attempt to defeat management's Trustee nominees.

If we are not able to obtain truly independent representation on the Board of the Fund, we may not attend the Meeting, we may not vote your shares, and your shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or if you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy. If Karpus does attend the Meeting, unless you indicate otherwise, your shares will be voted FOR all of the Karpus nominees and FOR Karpus' shareholder

proposal to terminate the investment management agreement between the Fund and Putnam Investment Management, LLC and FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage.

Voting Requirement

Provided a quorum is present, approval of this proposal requires the affirmative vote of a majority of the votes cast at the Annual Meeting on the proposal. The Fund may choose not to adopt this proposal even if shareholders approve of the proposal at the Annual Meeting.

VOTING AND PROXY PROCEDURES

According to the Fund, as of the record date, there were 42,871,374 shares of common stock outstanding (the "Common Shares") and 7,154 shares of auction rate preferred shares outstanding (3,417 shares of Series B Preferred Shares and 3,737 Serices C Prefered Shares ("ARPS").

The Fund has set the close of business on February 28, 2011 as the record date for determining shareholders entitled to notice of and to vote at the Annual Meeting (the "Record Date"). Shareholders of record at the close of business on the Record Date will be entitled to vote at the Annual Meeting.

VOTES REQUIRED FOR APPROVAL

The holders of the preferred shares, voting separately as a class are entitled to elect 2 nominees as Trustees. Both the Board and Karpus have proposed 2 nominees for these Trustee positions. Messrs. Goldstein and Cohen are Karpus' proposed nominees to fill these two preferred share Trustee positions.

If a quorum is present at the meeting, the two nominees for election by the holders of the preferred shares voting separately as a class, who receive the greatest number of votes cast by the holders of the preferred shares will be elected as Trustees.

In addition, the Board has proposed 10 additional nominees as Trustees for 10 other Trustee positions, to be elected by both the common and preferred shareholders voting together as a class, and Karpus has proposed 10 additional nominees, Messrs. Chapman, Insley, Lessard, McDonald, Orvieto, Pike, Regan, Schwert, Skinner and Wenzke, for those Trustee positions.

If a quorum is present at the Meeting, 10 nominees for the election as Trustees, out of 20 total, will be elected by the holders of the preferred shares and common shares voting together as a single class. The winners will be the 10 nominees who receive the greatest number of votes cast by the holders of the preferred shares and common shares voting together as a single class.

Additionally, if a quorum is present at the Meeting, 2 nominees for the election as Trustees, out of 4 total, will be elected solely by the holders of the preferred shares.

Each preferred shareholder and each common shareholder will be entitled to one vote for each share held.

Approval of the termination of the investment management agreement requires the affirmative vote of a "majority of the outstanding voting securities" of the Fund. Under the Investment Company Act of 1940, as amended ("1940 Act"), the vote of a "majority of the outstanding voting securities" means the affirmative vote of the lesser of (a) 67% or more of the shares present at the meeting or represented by proxy if the holders of 50% of the outstanding shares are present or represented by proxy or (b) more than 50% of the outstanding voting shares. The Fund's common shareholders and preferred shareholders will vote together as a single class on this proposal. Each preferred shareholder and each common shareholder will be entitled to one vote for each share held.

Provided a quorum is present, approval of the proposal requesting the Board of Trustees to consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize MTPS, VRDPS and/or TOBs as alternate sources of leverage requires the affirmative vote of a majority of the votes cast at the Annual Meeting on the proposal. The Fund may choose not to adopt this proposal even if shareholders approve of the proposal at the Annual Meeting.

The information set forth above regarding the votes required for approval of the proposals is based on information contained in the Fund's proxy statement. The incorporation of this information in this proxy statement should not be construed as an admission by us that such process and procedures are legal, valid or binding.

ABSTENTIONS

Abstentions will be counted for the purpose of determining whether a quorum is present. Abstentions will not be counted as votes cast on any proposal set forth in this proxy statement. Accordingly, abstentions will have the effect of a vote against (1) Karpus' Nominees; (2) Karpus' proposal recommending that the investment management agreement between the Fund and the Manager shall be terminated; and (3) Karpus' proposal recommending that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

DISCRETIONARY VOTING

Shares held in "street name" and held of record by banks, brokers or nominees may not be voted by such banks, brokers or nominees unless the beneficial owners of such Shares provide them with instructions on how to vote.

For additional and related information concerning the voting and proxy procedures for the Annual Meeting, see *Appendix A - Information Concerning the Annual Meeting.*

IF YOU WISH TO VOTE FOR THE ELECTION OF OUR NOMINEES TO THE BOARD OR FOR OUR SHAREHOLDER PROPOSALS, PLEASE VOTE YOUR SHARES BY TELEPHONE OR INTERNET, AS DESCRIBED IN THE ENCLOSED GREEN PROXY CARD, OR BY SIGNING, DATING AND RETURNING PROMPTLY THE ENCLOSED GREEN PROXY CARD, IN THE POSTAGE-PAID ENVELOPE PROVIDED.

SPECIAL RULE FOR PROPORTIONAL VOTING

For funds listed on the New York Stock Exchange that have outstanding preferred shares, in accordance with the rules of the exchange, brokerage firms may vote for (or against) a proposal, on behalf of their clients who beneficially own the remarketed or auction rate preferred shares and from whom they have not received voting instructions, in the same proportion as votes for (and against) such proposal have been received from holders of preferred shares if (i) the holders of a minimum of 30% of the outstanding preferred shares have been voted by the holders of preferred shares, (ii) holders of less than 10% of the outstanding preferred shares have voted against such proposal and (iii) the holders of the common shares have approved such proposal.

PROCEDURES

For the proxy solicited hereby to be voted or, under the circumstances specified herein, not voted, the enclosed GREEN proxy card must be signed, dated and returned to:

Karpus Management, Inc., d/b/a Karpus Investment Management
c/o Regan & Associates, Inc.
505 Eighth Avenue, Suite 800
New York, New York 10018

in the enclosed envelope, in time to be voted at the Meeting. If you wish to vote in accordance with our recommendations, you must submit the enclosed GREEN proxy card and must not subsequently submit the Fund's proxy card. **IF YOU HAVE ALREADY RETURNED THE FUND'S PROXY CARD, YOU HAVE THE RIGHT TO REVOKE IT AND ALL MATTERS COVERED THEREBY AND MAY DO SO BY SUBSEQUENTLY SIGNING, DATING AND MAILING THE ENCLOSED GREEN PROXY CARD. ONLY YOUR LATEST PROXY WILL COUNT AT THE MEETING**. Execution of a GREEN proxy card will not affect your right to attend the Meeting and to vote in person.

REVOCATION OF PROXIES

Any proxy may be revoked as to all matters covered thereby at any time prior to the time a vote is taken by: (i) submitting to the Fund or to us a later dated written revocation or a duly executed proxy; or (ii) attending and voting at the Meeting in person (mere attendance at the Meeting will not in and of itself constitute a revocation).

Although a revocation of a proxy solicited by the Fund will be effective only if delivered to the Fund, we request that either the original or a copy of all revocations be mailed to Karpus Management, Inc., d/b/a Karpus Investment Management, c/o Regan & Associates, Inc., 505 Eighth Avenue, Suite 800, New York, New York 10018, so that we will be aware of all revocations and can more accurately determine if and when the requisite proxies have been received.

BROKER VOTES

For all matters to be voted upon, an abstention or broker non-vote will not be considered a vote cast. Abstentions will be counted and broker non-votes, if any, will be considered not present for the purpose of determining the presence of a quorum.

"Broker non-votes" occur when a broker has not received voting instructions from the beneficial owner of the shares and either declines to exercise its discretionary voting authority or is barred from doing so because the proposal is contested. Broker non-votes cannot be voted on non-routine matters submitted to a vote without direction of the beneficial owner.

If any of your shares were held in the name of a brokerage firm, bank nominee, or other institution on the Record Date, only that institution can vote your shares and only upon receipt of your specific instructions. Accordingly, please promptly contact the person responsible for your account at such institution and instruct that person to execute and return the GREEN proxy card on your behalf. You should also promptly sign, date, and mail the voting instructions form (or GREEN proxy card) that your broker or bank sends you. Please do this for each account you maintain to ensure that all of your shares are voted. If any of your shares were held in the name of a brokerage firm, bank, bank nominee, or other institution on the Record Date, to revoke your proxy you will need to give appropriate instructions to such institution. IF YOU DO NOT GIVE INSTRUCTIONS TO YOUR BROKER OR OTHER NOMINEE, YOUR SHARES WILL NOT BE VOTED.

HOW SHARES WILL BE VOTED

As stated previously, a majority of the shares entitled to vote constitutes a quorum for the transaction of business with respect to any proposal at the Meeting, except that, where the preferred shares or common shares shall vote as separate classes, then a majority of the aggregate number of shares of each class shall be necessary to constitute a quorum for the transaction of business by that class. Votes cast by proxy or in person at the Meeting will be counted by persons appointed as inspectors for the Meeting. The inspectors will count the total number of votes cast "for" approval of a proposal for purposes of determining whether sufficient affirmative votes have been cast. For all matters to be voted upon, an abstention or broker non-vote will not be considered a vote cast. Abstentions will be counted and broker non-votes (i.e. shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owners or the persons entitled to vote and (ii) the broker or nominee does not have the discretionary voting power on a particular matter), if any, will be considered not present for the purpose of determining the presence of a quorum at the Meeting.

Please note: If you give us your proxy, we will take all steps necessary and lawful to obtain truly independent representation on the Board of the Fund. Due to the complexities of corporate law, under certain circumstances, if a quorum (50% of the outstanding shares of the Fund) is created, and if management has votes for its nominees of more than half of the shares present, such a situation could result in management's nominees being elected. As such, voting your shares at all, even if voted FOR Karpus nominees, could help create a quorum which could allow management's nominees to be elected. If Karpus believes that voting the proxies it receives would cause there to be a quorum and that the Karpus proposals would thereby not be approved, we may not attend the Meeting and may withhold all proxies in order to attempt to defeat management's Trustee nominees.

If we are not able to obtain truly independent representation on the Board of the Fund, we may not attend the Meeting, we may not vote your shares, and your shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or if you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy. If Karpus does attend the Meeting, unless you indicate otherwise, your shares will be voted FOR all of the Karpus nominees and FOR Karpus' shareholder proposal to terminate the investment management agreement between the Fund and Putnam Investment Management, LLC and FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage.

Unless we decide, under the conditions specified above, not to attend the Meeting in order to defeat a quorum, shares represented by a GREEN proxy card where no specification has been made will be voted:

1. FOR all of Karpus' nominees;
2. FOR Karpus' proposal to terminate the investment management agreement;
3. FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage.

And to transact such other business as may properly come before the Meeting, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof.

OTHER MATTERS, PARTICIPANT AND ADDITIONAL INFORMATION

Karpus is unaware of any other matters to be considered at the Annual Meeting. However, should other matters, which Karpus is not aware of a reasonable time before this solicitation, be brought before the Annual Meeting, the persons named as proxies on the enclosed GREEN proxy card will vote on such matters in their discretion.

We are asking you to vote FOR the election of our Nominees, FOR our proposal to terminate the Fund's investment advisory agreement, and FOR our proposal requesting that the Board of Trustees of the Fund consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

The enclosed GREEN card may only be voted for our Nominees and does not confer voting power with respect to the Fund's nominees. We intend to vote all of our Shares for the election of our Nominees and for both of our proposals outlined above and will not vote our Shares in favor of any of the Fund's director nominees.

Karpus has omitted from this proxy statement certain disclosures that we anticipate will be included in the Fund's proxy statement. These disclosures include, among other things, biographical information on the Fund's trustees and executive officers, the dollar range of Shares owned by trustees of the Fund and information on committees of the Board. Shareholders should refer to the Fund's proxy statement in order to review these disclosures.

According to the Fund's last proxy statement, the Fund's investment manager is Putnam Investment Management, LLC, with headquarters at One Post Office Square, Boston, Massachusetts 02109.

For additional information concerning the participants in the Solicitation, see *Appendix C - Participant Information.*

See *Appendix E* of this proxy statement for information regarding persons who beneficially own more than 5% of the Shares of the Fund.

The information concerning the Fund contained in this proxy statement and the appendices attached hereto has been taken from, or is based upon, publicly available information.

KARPUS INVESTMENT MANAGEMENT

MARCH 2011

THIS SOLICITATION IS BEING MADE BY KARPUS AND NOT ON BEHALF OF THE BOARD OF TRUSTEES OR MANAGEMENT OF THE FUND. KARPUS IS NOT AWARE OF ANY OTHER MATTERS TO BE BROUGHT BEFORE THE ANNUAL MEETING. SHOULD OTHER MATTERS, WHICH KARPUS IS NOT AWARE OF WITHIN A REASONABLE TIME BEFORE THIS SOLICITATION, BE BROUGHT BEFORE THE ANNUAL MEETING, THE PERSONS NAMED AS PROXIES IN THE ENCLOSED **GREEN** PROXY CARD WILL VOTE ON SUCH MATTERS IN THEIR DISCRETION.

KARPUS URGES YOU TO VOTE IN FAVOR OF THE ELECTION OF KARPUS' NOMINEES AND FOR BOTH OF THE ABOVE-DESCRIBED PROPOSALS, EITHER BY TELEPHONE OR BY INTERNET AS DESCRIBED IN THE ENCLOSED **GREEN** PROXY CARD OR BY SIGNING, DATING AND RETURNING THE ENCLOSED **GREEN** PROXY CARD TODAY.

**APPENDIX TO PROXY STATEMENT FILED BY
KARPUS MANAGEMENT, INC., D/B/A KARPUS INVESTMENT MANAGEMENT
RELATING TO THE 2011 ANNUAL MEETING OF SHAREHOLDERS OF
PUTNAM MUNICIPAL OPPORTUNITIES TRUST[1]**

1 Capitalized terms used and not defined herein shall have the meanings assigned to such terms in the Proxy Statement.

APPENDIX A

ADDITIONAL INFORMATION CONCERNING THE ANNUAL MEETING

The proxy statement relates to the 2011 Annual Meeting of Shareholders of Putnam Municipal Opportunities Trust ("PMO" or the "Fund"). Putnam Investment Management, LLC is the Fund's investment manager and administrator. The address of the principal executive offices of the Fund is One Post Office Square, 8th Floor, Boston, Massachusetts 02109. The Fund's Secretary may be contacted c/o the Putnam Funds, One Post Office Square, 8th Floor, Boston, Massachusetts 02109.

VOTING AND PROXY PROCEDURES

Shareholders, including those who expect to attend the Annual Meeting, are urged to vote their Shares today by following the instructions for Internet voting detailed on the enclosed GREEN proxy card, by calling the toll-free number contained therein, or by signing, dating and mailing the enclosed GREEN proxy card in the enclosed return envelope to Karpus Investment Management, c/o Regan & Associates, Inc., in the enclosed postage-paid envelope.

Authorized proxies will be voted at the annual meeting as marked and, in the absence of specific instructions, will be voted FOR all of Karpus' nominees; FOR Karpus' proposal to terminate the investment management agreement; FOR Karpus' shareholder proposal to request that the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding Auction Rate Preferred Shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBS) as alternate sources of leverage; and to transact such other business as may properly come before the Meeting, including any adjournments or postponements thereof and any meeting which may be called in lieu thereof.

QUORUM

In order to conduct any business at the Annual Meeting, a quorum must be present in person or represented by valid proxies. The presence in person or by proxy of shareholders entitled to cast a majority of the votes entitled to be cast at the Annual Meeting constitutes a quorum. All Shares that are voted "FOR", "AGAINST" or "ABSTAIN" (or "WITHHOLD" in the case of election of trustees) on any matter will count for purposes of establishing a quorum and will be treated as Shares entitled to be voted at the Annual Meeting.

The fund has indicated that shareholders who object to any proposal in the proxy statement will not be entitled under Massachusetts law or the Fund's agreement and declaration of trust to demand payment for, or an appraisal of, their shares.

ABSTENTIONS

For all matters to be voted upon, an abstention or broker non-vote will not be considered a vote cast. Abstentions will be counted and broker non-votes, if any, will be considered not present for the purpose of determining the presence of a quorum at the Meeting.

DISCRETIONARY VOTING

Shares held in "street name" and held of record by banks, brokers or nominees may not be voted by such banks, brokers or nominees unless the beneficial owners of such Shares provide them with instructions on how to vote.

REVOCATION OF PROXIES

Any proxy may be revoked as to all matters covered thereby at any time prior to the time a vote is taken by: (i) submitting to the Fund or to us a later dated written revocation or a duly executed proxy; or (ii) attending and voting at the Meeting in person (mere attendance at the Meeting will not in and of itself constitute a revocation).

Although a revocation of a proxy solicited by the Fund will be effective only if delivered to the Fund, we request that either the original or a copy of all revocations be mailed to Karpus Management, Inc., d/b/a Karpus Investment Management, c/o Regan & Associates, Inc., 505 Eighth Avenue, Suite 800, New York, New York 10018, so that we will be aware of all revocations and can more accurately determine if and when the requisite proxies have been received.

Shareholders of the Fund may revoke their proxies at any time prior to exercise by attending the Annual Meeting and voting in person (although attendance at the annual meeting will not in and of itself constitute revocation of a proxy), by delivering a later-dated proxy by Internet, by telephone or by mail, or by delivering a written notice of revocation. The delivery of a later-dated proxy which is properly completed will constitute a revocation of any earlier proxy. The revocation may be delivered either to Karpus in care of Regan & Associates, Inc. at the address set forth on the back cover of this proxy statement or to the Fund's Executive Vice President, Treasurer, Principal Executive Officer and

Compliance Liaison, Jonathan S. Horwitz, c/o The Putnam Funds, One Post Office Square, Boston, Massachusetts 02109, or to any other address provided by the Fund.

Although a revocation is effective if delivered to the Fund, Karpus requests that either the original or photostatic copies of all revocations be mailed to Karpus in care of Regan & Associates, Inc. at the address set forth on the back cover of this proxy statement so that Karpus will be aware of all revocations and can more accurately determine if and when proxies have been received from the holders of record on the record date of a majority of the outstanding Shares. If you hold your shares in street name, please check your voting instruction form or contact your bank, broker or nominee for instructions on how to change or revoke your vote. Additionally, Regan & Associates, Inc. may use this information to contact shareholders who have revoked their proxies in order to solicit later-dated proxies for the election of the Nominees and approval of other proposals described herein.

SOLICITATION OF PROXIES

The solicitation of proxies pursuant to this proxy statement is being made by Karpus. Proxies may be solicited by mail, facsimile, telephone, Internet, in person and by advertisements.

Karpus has entered into an agreement with Regan & Associates, Inc. for solicitation and advisory services in connection with this solicitation, for which Regan & Associates, Inc. will receive a fee not to exceed $50,000, together with reimbursement for its reasonable out-of-pocket expenses, and will be indemnified against certain liabilities and expenses, including certain liabilities under the federal securities laws. Karpus and Regan & Associates, Inc. will solicit proxies from individuals, brokers, banks, bank nominees and other institutional holders. Karpus has requested banks, brokerage houses and other custodians, nominees and fiduciaries to forward all solicitation materials to the beneficial owners of the Shares they hold of record. Karpus will reimburse these record holders for their reasonable out-of-pocket expenses in so doing. It is anticipated that Karpus will utilize approximately 10 persons and Regan & Associates, Inc. will employ approximately 10 persons to solicit the Fund's shareholders for the Annual Meeting.

The entire expense of soliciting proxies is being borne by Karpus. Because Karpus believes that the Fund's shareholders will benefit from the Solicitation, Karpus intends to seek reimbursement from the Fund, to the fullest extent permitted by law, of all expenses it incurs in connection with the Solicitation. Karpus does not intend to submit the question of such reimbursement to a vote of security holders of the Fund unless otherwise required by law. Costs of the Solicitation of proxies are currently estimated to be approximately $250,000. Karpus estimates that through the date hereof, its expenses in connection with the Solicitation are approximately $75,000.

SHAREHOLDER PROPOSALS

According to the Fund's proxy statement, the Fund has established advance notice requirements pursuant to its Amended and Restated Bylaws (the "Bylaws").

The Fund has indicated that its next annual meeting of shareholders will be held in April 2012. The Trustees of PMO have also indicated the right to set an earlier or later date for an annual meeting of the Fund. Based on the Fund's proxy statement, for shareholder proposals to be included in the proxy statement for the 2012 meeting, such proposals must be received by PMO on or before November 16, 2011. In order for a shareholder proposal to be included in the proxy statement, both the submitting shareholder and the proposal itself must satisfy the requirements set forth in Rule 14a-8 under the 1934 Act. Additionally, Shareholders who wish to make a proposal at the annual meeting for the 2011-2012 fiscal year - other than one that will be included in the Fund's proxy materials - should notify the Fund no later than January 30, 2012. Shareholders who wish to propose one or more nominees for election as Trustees, or to make a proposal fixing the number of Trustees, at the 2012 annual meeting must provide written notice to the Fund (including all required information) so that such notice is received in good order by the fund no earlier than February 25, 2012 and no later than March 26, 2012.

APPENDIX B

ADDITIONAL INFORMATION ABOUT THE NOMINEES

Karpus has nominated twelve (12) highly qualified individuals for nomination as trustees at the Annual Meeting. Messrs. Cohen and Goldstein are being nominated to be elected by the vote of the preferred shareholders voting separately as a class, and Messrs. Chapman, Insley, Lessard, McDonald, Orvieto, Pike, Regan, Schwert, Skinner and Wenzke are being nominated to be elected by the vote of the common and preferred shareholders voting together as a class (each, individually, a "Nominee" and, collectively, the "Nominees"). For more information on the Fund's nominees, including share ownership, if any, please refer to the Fund's proxy materials for such additional information.

As of the Record Date, the dollar range of Shares of the Fund beneficially owned by each Nominee is as follows:

Nominee Share Ownership Summary

Name of Karpus Nominee	$ Range of PMO Common Shares Owned	Common Shares Owned	$ Range of PMO Preferred Shares Own	
*Donald Chapman	$10,001-$50,000	3,725	$0	0
**Richard W. Cohen	$10,001-$50,000	3,152	$10,001-$50,000	1
**Phillip Goldstein	$0	0	$0	0
*Glen T. Insley, CFA	>$100,000	17,370	$0	0
*Jeffrey P. Lessard, Ph.D., CFA	$0	0	$0	0
*Thomas M. McDonald	$50,001-$100,000	5,000	$0	0
*Brad Orvieto	$1-$10,000	500	$0	0
*Dwight A. Pike, CFA	$0	0	$0	0
*Arthur Charles Regan	$0	0	$0	0
*G. William Schwert, Ph.D.	$0	0	$0	0
*Douglas Skinner, Ph.D.	$0	0	$0	0
*Gerard J. Wenzke	>$100,000	62,835	$0	0

*Director nominee for election by vote of the common and preferred shareholders voting together as a class
**Director nominee for election solely by vote of the preferred shareholders of the Fund.
***Dollar Range of Ownership based on a price of $10.73 per share based on the closing price of the common shares on March 16, 2011.

Further, except as set forth herein or in any appendix hereto, to the best of Karpus' knowledge:

None of the Nominees, their affiliates or any other related persons, has, during the past 5 years, held any position, including as an officer, employee, director or general partner, with (i) the Fund, (ii) any investment company, or any person that would be an investment company but for the exclusions provided by Sections 3(c)(1) and (c)(7) of the 1940 Act, having the same investment adviser, principal underwriter or Sponsoring Insurance Company (as such item is defined in the 1940 Act) or under the control of such investment adviser, principal underwriter or Sponsoring Insurance Company, as the Fund, (iii) the Fund's investment adviser, principal underwriter or Sponsoring Insurance Company and (iv) any person, directly or indirectly controlling, controlled by, or under common control of the Fund's investment adviser, principal underwriter, or Sponsoring Insurance Company.

Since the beginning of the Fund's last two completed fiscal years, no officer of an investment adviser, principal underwriter, or Sponsoring Insurance Company, of the Fund, or of a person directly or indirectly controlling, controlled by, or under common control thereby, serves, or has served, on the board of directors of a company of which a Nominee or any of his Immediate Family Members (as such term is defined in Schedule 14A of the Securities Exchange Act of 1934, as amended) is or was an officer.

Since the beginning of the Fund's last two completed fiscal years, no Nominee or any of his Immediate Family Members was a party to any transaction, or series of similar transactions or is a party to any currently proposed transaction, or series of similar transactions, in which the amount involved exceeded or is to exceed $120,000 or has or has had any direct or indirect relationship, in which the amount involved exceeded or is to exceed $120,000, to which (i) the Fund, (ii) any of its officers, (iii) any investment company, or officer thereof, or any person, or officer thereof, that would be an investment company but for the exclusions provided by Sections 3(c)(1) and (c)(7) of the 1940 Act, having the same investment adviser, principal underwriter or Sponsoring Insurance Company or under the control of such investment adviser, principal underwriter or Sponsoring Insurance Company, as the Fund, (iv) the Fund's investment adviser, principal underwriter or Sponsoring Insurance Company, or officer thereof, or (v) any person, or officer thereof, directly or indirectly controlling, controlled by, or under common control of the Fund's investment adviser, principal underwriter, or Sponsoring Insurance Company, was or is to be a party.

No Nominee or any of his Immediate Family Members has or has had any direct or indirect interest, the value of which exceeded or is to exceed $120,000, during the past five years, in (i) the Fund's investment adviser, principal underwriter or Sponsoring Insurance

Company; or (ii) any person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with the Fund's investment adviser, principal underwriter, or Sponsoring Insurance Company.

No Nominee or any of his Immediate Family Members owns beneficially or of record any class of securities in (i) the Fund's investment adviser, principal underwriter or Sponsoring Insurance Company; or (ii) any person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with the Fund's investment adviser, principal underwriter, or Sponsoring Insurance Company.

None of the Nominees or any of their Immediate Family Members has, or has had since the beginning of the Company's last two completed fiscal years, or has currently proposed, any direct or indirect relationship, in which the amount involved exceeds $120,000, with any of the persons specified in paragraphs (b)(8)(i) through (b)(8)(viii) of Item 22 of Schedule 14A.

The Nominees are citizens of the United States of America and Mr. Skinner is also a citizen of Australia.

Other than as stated in the proxy statement, including the appendices attached thereto, the Nominees will not receive any compensation from Karpus for their services as trustees of the Fund, nor are there any arrangements or understandings between Karpus and any of the Nominees or any other person or persons pursuant to which the nomination described herein is to be made, other than the consent by each of the Nominees to be named in the proxy statement and to serve as a director of the Fund if elected as such at the Annual Meeting. Additionally, other than as stated in the proxy statement, none of the Nominees is a party adverse to the Fund or any of its subsidiaries or has a material interest adverse to the Fund or any of its subsidiaries in any material pending legal proceedings.

Mr. Goldstein, a nominee to be elected by the vote of the ARPS shareholders voting separately as a class, has indicated the following pertaining to outstanding litigation to which he is a party: On January 31, 2007 the Acting Director of the Securities Division of the Massachusetts Secretary of State filed a complaint against Mr. Goldstein and certain related parties (the Bulldog Parties) alleging that they violated Massachusetts law by making truthful information about certain unregistered investments available on a website and by sending an e-mail containing truthful material about such investments to an individual who requested it. On March 23, 2007 the Bulldog Parties filed a lawsuit in the Massachusetts Superior Court against the Secretary alleging that the enforcement action violated 42 U.S.C. § 1983 because, among other things, it violated their First Amendment rights. On October 17, 2007 the Secretary issued an "obey the law" cease and desist order (the Order) and fined the Bulldog Parties $25,000. On November 15, 2007 the Bulldog Parties filed an appeal of the Order in the Massachusetts Superior Court. On February 12, 2009 the Massachusetts Superior Court upheld the Order. The Bulldog Parties further appealed the Order to the Massachusetts Appeals Court. On October 21, 2009 the Massachusetts Supreme Judicial Court (the SJC), the state's highest court, unilaterally transferred the case to itself. On July 2, 2010 the SJC upheld the Order except for the Bulldog Parties' First Amendment claim which it ruled must be decided in the appeal of the aforementioned § 1983 lawsuit which Massachusetts Superior Court decided in the Secretary's favor on September 26, 2009. The Bulldog Parties filed an appeal of the September 26, 2009 decision in the § 1983 lawsuit in the Massachusetts Appeals Court. On July 23, 2010, the SJC unilaterally transferred the appeal of the § 1983 lawsuit to itself and the SJC will decide the appeal. Oral argument was scheduled for January 6, 2011.

Karpus does not expect that the Nominees will be unable to stand for election, but, in the event that such persons are unable to serve or for good cause will not serve, the Shares represented by the enclosed **GREEN** proxy card will be voted for substitute nominees. In addition, Karpus reserves the right to nominate substitute persons if the Fund makes or announces any changes to its Bylaws or takes or announces any other action that has, or if consummated would have, the effect of disqualifying the Nominees. In any such case, Shares represented by the **GREEN** proxy card will be voted for such substitute nominees. Karpus reserves the right to nominate additional persons if the Fund increases the size of the Board above its existing size, increases the number of trustees whose terms expire at the Annual Meeting or calls a meeting to fill any vacancies on the Board. Additional nominations made pursuant to the preceding sentence are without prejudice to the position of Karpus that any attempt to increase the size of the current Board or to reconstitute or reconfigure the classes on which the current trustees serve constitutes an unlawful manipulation of the Fund's corporate machinery.

APPENDIX C

ADDITIONAL INFORMATION CONCERNING THE PARTICIPANTS

Karpus Management, Inc., d/b/a Karpus Investment Management ("Karpus") is deemed to be the sole Participant. Karpus was founded in 1986 by George Karpus and Jo Ann Van Degriff. George W. Karpus is the President, CEO and Controlling Stockholder and Jo Ann Van Degriff is Partner Emeritus. Karpus' principal business and occupation is an independent registered Investment Adviser and provides investment management for individuals, pension plans, profit sharing plans, corporations, endowments, trusts and others. Karpus' principal business address is: 183 Sully's Trail, Pittsford, New York 14534 (a suburb of Rochester). During the past ten (10) years, none of the principals or Karpus has been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors).

Karpus represents beneficial ownership of 6,743,296 common shares of PMO, or 15.7% of the outstanding common shares, and 286 auction rate preferred shares of PMO or 4% of the total outstanding auction rate preferred shares ("ARPS"). Such calculations are based on the aggregate amount of 7,154 outstanding auction rate preferred shares (3,417 shares of Series B Preferred Shares and 3,737 Series C Preferred Shares) and 42,871,374 common shares outstanding, as indicated on PMO's proxy statement filed with the U.S. Securities and Exchange Commission.

Except as set forth elsewhere in this Proxy Statement (including all exhibits and appendices attached thereto), to the best of Karpus' knowledge: (i) no participant in this Solicitation is, or within the past year was, a party to any contract, arrangements or understandings with any person with respect to any securities of the Fund, including, but not limited to, joint ventures, loan or option arrangements, puts or calls, guarantees against loss or guarantees of profit, division of losses or profits, or the giving or withholding of proxies; (ii) no associate of any participant in this Solicitation owns beneficially, directly or indirectly, any securities of the Fund; (iii) no participant in this Solicitation owns beneficially, directly or indirectly, any securities of any parent or subsidiary of the Fund; (iii) no participant in this Solicitation or any of his/her/its associates was a party to any transaction, or series of similar transactions, since the beginning of the Fund's last fiscal year, or is a party to any currently proposed transaction, or series of similar transactions, to which the Fund or any of its subsidiaries was or is to be a party, in which the amount involved exceeds $120,000; (iv) no participant in this Solicitation or any of his/her/its associates has any arrangement or understanding with any person with respect to any future employment by the Fund or its affiliates, or with respect to any future transactions to which the Fund or any of its affiliates will or may be a party; and (v) no part of the purchase price or market value of the securities of the Fund owned by any participant in this Solicitation is represented by funds borrowed or otherwise obtained for the purpose of acquiring or holding such securities; (vi) no participant in this Solicitation has entered into any derivative instrument, swap, option, warrant, short interest, hedge or profit interest or other transaction by or on behalf of such participant, or any shareholder associated person, with respect to shares of the Fund; (vii) no participant in this Solicitation has entered into any other transaction, agreement, arrangement or understanding (including any short position or any borrowing or lending of shares) by or on behalf of such participant, or any shareholder associated person, the effect or intent of any of the foregoing being to mitigate loss to, or to manage risk or benefit of stock price changes for, such person, or any shareholder associated person, or to increase or decrease the voting power or pecuniary or economic interest of such person, or any shareholder associated person, with respect to shares; (viii) there are no agreements, arrangements, or understandings (whether written or oral) between or among participants to this Solicitation, or any shareholder associated person, and any other person or persons in connection with the proposal of such business and any material interest of such person or any shareholder associated person, in such business, including any anticipated benefit therefrom to such person, or any shareholder associated person; and (iv) there are no material proceedings to which any of the participants or any of their associates is a party adverse to the Fund or any of its subsidiaries or has a material interest adverse to the Fund or any of its subsidiaries. With respect to each of the participants, none of the events enumerated in Item 401(f)(1)-(8) of Regulation S-K of the Securities Exchange Act of 1934, as amended, occurred during the past five years.

A shareholder proposal intended to be presented at a future meeting of shareholders of a Fund must be received at the offices of the Fund, One Post Office Square, Boston, Massachusetts 02109, in accordance with the timing requirements set forth below. Timely submission of a proposal does not guarantee that such proposal will be included in a proxy statement.

The Fund has indicated that its next annual meeting of shareholders will be held in April 2012. The Trustees of PMO have also indicated the right to set an earlier or later date for an annual meeting of the Fund. Based on the Fund's proxy statement, for shareholder proposals to be included in the proxy statement for the 2012 meeting, such proposals must be received by PMO on or before November 16, 2011. In order for a shareholder proposal to be included in the proxy statement, both the submitting shareholder and the proposal itself must satisfy the requirements set forth in Rule 14a-8 under the 1934 Act. Additionally, Shareholders who wish to make a proposal at the annual meeting for the 2011-2012 fiscal year - other than one that will be included in the Fund's proxy materials - should notify the Fund no later than January 30, 2012. Shareholders who wish to propose one or more nominees for election as Trustees, or to make a proposal fixing the number of Trustees, at the 2012 annual meeting must provide written notice to the Fund (including all required information) so that such notice is received in good order by the fund no earlier than February 25, 2012 and no later than March 26, 2012.

APPENDIX D

PURCHASES AND SALES OF KARPUS IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	1/9/2009	1,800	$ 9.20
sl	1/9/2009	3,900	$ 9.22
by	1/12/2009	2,000	$ 9.22
sl	1/12/2009	103	$ 9.25
by	1/14/2009	48,400	$ 9.11
by	1/15/2009	5,000	$ 9.09
by	1/16/2009	3,000	$ 9.14
sl	1/20/2009	1,080	$ 9.25
by	1/21/2009	6,600	$ 9.24
by	1/23/2009	49,500	$ 9.00
sl	1/27/2009	46	$ 9.10
by	1/28/2009	9,500	$ 9.27
sl	1/28/2009	1,275	$ 9.32
by	1/30/2009	30,381	$ 9.29
sl	2/2/2009	3,105	$ 9.37
by	2/4/2009	375	$ 9.32
by	2/5/2009	18,500	$ 9.27
sl	2/6/2009	1,025	$ 9.30
by	2/9/2009	2,509	$ 9.26
by	2/10/2009	14,600	$ 9.24
by	2/11/2009	5,350	$ 9.28
by	2/12/2009	14,300	$ 9.28
by	2/13/2009	33,325	$ 9.33
sl	2/13/2009	2,025	$ 9.32
by	2/17/2009	83,400	$ 9.26
sl	2/17/2009	913	$ 9.24
by	2/18/2009	23,250	$ 9.20
sl	2/18/2009	9	$ 9.19
by	2/19/2009	20,300	$ 9.18
by	2/20/2009	16,700	$ 9.06
by	2/23/2009	13,800	$ 8.96
by	2/24/2009	13,600	$ 8.96
sl	2/24/2009	5,392	$ 8.91
by	2/25/2009	9,200	$ 9.01
sl	2/25/2009	200	$ 9.00
by	2/26/2009	17,900	$ 9.07
sl	2/26/2009	13,988	$ 9.06
by	2/27/2009	21,875	$ 9.10
by	3/2/2009	18,000	$ 9.09
by	3/3/2009	300	$ 9.07
by	3/3/2009	5,000	$ 9.07
by	3/4/2009	7,743	$ 9.13
sl	3/4/2009	2,300	$ 9.11
by	3/5/2009	14,205	$ 9.06
by	3/6/2009	7,600	$ 9.07
sl	3/6/2009	210	$ 9.08
by	3/9/2009	9,700	$ 9.02
sl	3/9/2009	2,600	$ 9.04
by	3/10/2009	7,635	$ 9.04
by	3/11/2009	6,500	$ 9.04
by	3/12/2009	2,000	$ 9.03
by	3/13/2009	8,921	$ 9.01
by	3/16/2009	5,500	$ 9.10
by	3/17/2009	11,200	$ 9.09
sl	3/17/2009	1,994	$ 9.07
by	3/19/2009	29,487	$ 9.09

sl	3/19/2009	1,847	$ 9.06
by	3/20/2009	33,830	$ 9.01
by	3/23/2009	18,900	$ 9.11
by	3/24/2009	6,759	$ 9.14
by	3/25/2009	14,600	$ 9.20
by	3/26/2009	1,100	$ 9.25
sl	3/26/2009	5,050	$ 9.24
by	3/27/2009	1,100	$ 9.28
by	3/30/2009	47,857	$ 9.25
sl	3/30/2009	835	$ 9.26
by	3/31/2009	59,559	$ 9.32
by	4/1/2009	5,620	$ 9.33
sl	4/1/2009	3,753	$ 9.33
by	4/2/2009	6,000	$ 9.42
by	4/3/2009	4,700	$ 9.36
sl	4/3/2009	417	$ 9.40
by	4/6/2009	3,500	$ 9.36
by	4/7/2009	15,366	$ 9.36
sl	4/7/2009	191	$ 9.36
by	4/8/2009	1,987	$ 9.40
by	4/9/2009	11,741	$ 9.43
by	4/13/2009	100	$ 9.44
by	4/14/2009	54,500	$ 9.47
by	4/16/2009	10,418	$ 9.56
by	4/17/2009	4,000	$ 9.63
by	4/20/2009	4,416	$ 9.71
sl	4/20/2009	1,086	$ 9.67
by	4/23/2009	500	$ 9.76
by	4/24/2009	2,240	$ 9.75
by	4/27/2009	9,550	$ 9.72
by	4/28/2009	400	$ 9.74
by	4/29/2009	250	$ 9.73
sl	4/29/2009	16	$ 9.72
by	4/30/2009	3,325	$ 9.73
sl	5/6/2009	250	$ 9.77
by	5/7/2009	2,500	$ 9.83
sl	5/7/2009	2,600	$ 9.84
by	5/11/2009	20,988	$ 9.95
by	5/12/2009	48,532	$ 9.98
by	5/13/2009	16,000	$ 10.01
by	5/14/2009	3,500	$ 10.03
by	5/19/2009	43,286	$ 10.18
sl	5/19/2009	29,500	$ 10.17
by	5/21/2009	30,956	$ 10.19
by	5/22/2009	5,000	$ 10.19
by	5/26/2009	14,262	$ 10.12
by	5/27/2009	10,000	$ 10.08
sl	5/27/2009	20	$ 10.12
by	5/28/2009	35,200	$ 10.05
sl	5/28/2009	706	$ 10.04
by	5/29/2009	5,000	$ 10.02
by	6/1/2009	10,000	$ 10.00
by	6/2/2009	113,398	$ 10.10
sl	6/2/2009	70	$ 10.11
by	6/4/2009	2,500	$ 10.12
by	6/5/2009	31,154	$ 10.11
sl	6/5/2009	20,200	$ 10.10
by	6/9/2009	16,847	$ 10.15
by	6/10/2009	31,939	$ 10.10
by	6/11/2009	2,600	$ 10.10
by	6/12/2009	14,477	$ 10.05
by	6/15/2009	17,396	$ 10.02

sl	6/15/2009	75	$ 9.98
by	6/16/2009	20,313	$ 10.03
by	6/17/2009	11,142	$ 10.02
sl	6/17/2009	131	$ 10.01
by	6/18/2009	22,391	$ 10.08
sl	6/18/2009	7,602	$ 10.06
by	6/19/2009	24,800	$ 10.09
by	6/22/2009	16,339	$ 10.03
by	6/23/2009	15,100	$ 10.02
sl	6/23/2009	4,500	$ 10.02
by	6/24/2009	9,300	$ 10.04
sl	6/24/2009	9,211	$ 10.06
by	6/25/2009	28,672	$ 10.05
by	6/26/2009	1,604	$ 10.08
by	6/29/2009	12,770	$ 9.90
by	6/30/2009	13,900	$ 9.83
sl	6/30/2009	2,075	$ 9.81
by	7/17/2009	20,293	$ 10.07
by	7/20/2009	23,959	$ 10.10
by	7/21/2009	21,145	$ 10.15
by	7/22/2009	29,533	$ 10.11
by	7/23/2009	36,100	$ 10.13
sl	7/23/2009	85	$ 10.12
by	7/24/2009	6,976	$ 10.13
by	7/27/2009	14,423	$ 10.15
by	7/28/2009	38,397	$ 10.16
by	7/29/2009	823	$ 10.17
by	7/30/2009	95,260	$ 10.21
sl	7/30/2009	9,000	$ 10.21
sl	7/31/2009	388	$ 10.24
by	8/3/2009	22,392	$ 10.33
by	8/4/2009	2,000	$ 10.30
by	8/6/2009	11,602	$ 10.32
by	8/7/2009	16,324	$ 10.31
by	8/10/2009	8,700	$ 10.31
by	8/11/2009	12,756	$ 10.32
by	8/13/2009	3,058	$ 10.32
sl	8/13/2009	400	$ 10.32
by	8/14/2009	2,000	$ 10.33
by	8/17/2009	8,565	$ 10.36
by	8/18/2009	1,100	$ 10.35
by	8/19/2009	8,550	$ 10.46
by	8/20/2009	14,701	$ 10.46
by	8/24/2009	13,558	$ 10.50
by	8/25/2009	12,225	$ 10.52
by	8/26/2009	11,186	$ 10.53
by	8/27/2009	5,477	$ 10.53
by	8/28/2009	1,150	$ 10.54
by	8/31/2009	17,457	$ 10.55
by	9/1/2009	2,000	$ 10.57
by	9/2/2009	10,400	$ 10.59
by	9/3/2009	29,100	$ 10.68
by	9/4/2009	500	$ 10.65
by	9/8/2009	21,100	$ 10.83
by	9/9/2009	35,338	$ 10.92
by	9/10/2009	5,500	$ 10.92
by	9/11/2009	15,000	$ 11.00
by	9/14/2009	1,000	$ 11.03
sl	9/16/2009	4,100	$ 11.21
by	9/17/2009	18,053	$ 11.24
by	9/18/2009	1,000	$ 11.30
by	9/21/2009	5,212	$ 11.31

by	9/22/2009	1,000	$ 11.29
by	9/23/2009	20,968	$ 11.33
by	9/24/2009	70,000	$ 11.33
sl	9/24/2009	600	$ 11.35
by	9/25/2009	23,492	$ 11.34
by	9/28/2009	70,700	$ 11.38
by	9/29/2009	25,660	$ 11.40
by	9/30/2009	71,600	$ 11.44
sl	9/30/2009	7,582	$ 11.45
by	10/1/2009	37,574	$ 11.43
sl	10/1/2009	104	$ 11.46
by	10/2/2009	48,764	$ 11.44
sl	10/2/2009	3,834	$ 11.47
by	10/5/2009	13,873	$ 11.51
sl	10/5/2009	37	$ 11.50
by	10/6/2009	6,772	$ 11.54
by	10/7/2009	2,214	$ 11.50
by	10/8/2009	13,087	$ 11.47
by	10/9/2009	84,400	$ 11.36
by	10/12/2009	83,700	$ 11.24
by	10/13/2009	15,857	$ 11.24
sl	10/13/2009	1,285	$ 11.27
by	10/14/2009	102,813	$ 11.20
by	10/15/2009	72,422	$ 11.04
by	10/16/2009	45,100	$ 11.06
by	10/20/2009	17,359	$ 11.16
by	10/21/2009	48,670	$ 11.10
by	10/22/2009	178,249	$ 11.09
by	10/23/2009	4,905	$ 11.10
by	10/26/2009	2,600	$ 11.12
by	10/27/2009	1,800	$ 11.17
by	10/29/2009	14,162	$ 11.10
sl	10/29/2009	306	$ 11.10
by	10/30/2009	22,075	$ 10.96
by	11/2/2009	48,300	$ 10.99
by	11/3/2009	4,900	$ 11.01
by	11/4/2009	5,000	$ 11.04
sl	11/4/2009	100	$ 11.22
by	11/5/2009	6,169	$ 11.03
by	11/6/2009	6,500	$ 11.04
by	11/9/2009	6,100	$ 11.06
by	11/10/2009	11,458	$ 11.05
by	11/11/2009	6,842	$ 11.03
by	11/12/2009	18,812	$ 11.00
by	11/13/2009	3,400	$ 10.98
by	11/18/2009	14,211	$ 10.97
sl	11/18/2009	400	$ 11.00
by	11/19/2009	9,300	$ 10.88
sl	11/19/2009	6,200	$ 10.87
by	11/20/2009	6,247	$ 10.88
by	11/23/2009	19,897	$ 10.90
sl	11/24/2009	290	$ 10.88
sl	11/25/2009	100	$ 10.93
by	11/27/2009	4,900	$ 10.85
sl	12/4/2009	3,300	$ 11.11
by	12/9/2009	3	$ 11.17
sl	12/9/2009	9,400	$ 11.15
sl	12/11/2009	317	$ 11.18
sl	12/15/2009	2,990	$ 11.12
by	12/24/2009	1,100	$ 11.00
by	12/29/2009	12,586	$ 11.04
by	12/30/2009	2,500	$ 11.08

by	12/31/2009	18,800	$ 11.12
sl	1/4/2010	10	$ 11.15
by	1/6/2010	2,200	$ 11.15
by	1/7/2010	2,500	$ 11.21
by	1/13/2010	5,000	$ 11.24
by	1/14/2010	7,600	$ 11.24
by	1/15/2010	2,000	$ 11.24
sl	1/26/2010	357	$ 11.18
sl	2/2/2010	1,100	$ 11.21
sl	2/5/2010	936	$ 11.22
sl	2/10/2010	185	$ 11.25
by	2/25/2010	11,300	$ 11.25
by	3/1/2010	325	$ 11.26
by	3/2/2010	54,324	$ 11.31
by	3/3/2010	33,700	$ 11.36
by	3/5/2010	21,000	$ 11.43
by	3/10/2010	100	$ 11.38
by	3/11/2010	20,602	$ 11.40
by	3/12/2010	19,468	$ 11.41
sl	3/12/2010	6,863	$ 11.40
by	3/15/2010	4,400	$ 11.41
by	3/16/2010	11,473	$ 11.37
by	3/18/2010	4,200	$ 11.39
by	3/19/2010	2,200	$ 11.41
sl	3/29/2010	3,000	$ 11.45
sl	4/7/2010	1,100	$ 11.45
sl	4/20/2010	1,909	$ 11.51
by	4/29/2010	3,400	$ 11.43
by	4/30/2010	9,200	$ 11.44
by	5/4/2010	19,000	$ 11.42
by	5/5/2010	335	$ 11.40
by	5/6/2010	19,900	$ 11.32
by	5/7/2010	4,800	$ 11.29
sl	5/10/2010	200	$ 11.41
sl	5/11/2010	5,000	$ 11.42
sl	5/12/2010	6,400	$ 11.47
sl	5/13/2010	24,900	$ 11.51
sl	5/14/2010	2,500	$ 11.54
sl	5/18/2010	2,500	$ 11.59
sl	5/19/2010	7,500	$ 11.63
by	5/20/2010	1,800	$ 11.37
by	5/25/2010	1,900	$ 11.36
sl	5/27/2010	270	$ 11.49
sl	5/28/2010	28,140	$ 11.41
sl	6/3/2010	7	$ 11.44
sl	6/4/2010	13,600	$ 11.46
sl	6/7/2010	9,800	$ 11.44
by	6/8/2010	3,000	$ 11.46
sl	6/9/2010	1,800	$ 11.47
sl	6/11/2010	2,500	$ 11.48
sl	6/14/2010	3,000	$ 11.50
sl	6/15/2010	1,594	$ 11.49
sl	6/21/2010	18,100	$ 11.44
sl	6/23/2010	5,000	$ 11.39
sl	6/24/2010	2,700	$ 11.44
by	6/29/2010	4,400	$ 11.45
sl	7/2/2010	47,435	$ 11.44
sl	7/7/2010	5,000	$ 11.48
sl	7/12/2010	8,700	$ 11.52
by	7/14/2010	6,300	$ 11.51
by	7/15/2010	19,100	$ 11.51
sl	7/20/2010	3,000	$ 11.68

sl	7/28/2010	980	$ 11.72
by	7/29/2010	1,500	$ 11.63
by	8/3/2010	50,300	$ 11.75
sl	8/9/2010	502	$ 11.88
sl	8/17/2010	600	$ 12.02
sl	8/18/2010	875	$ 12.02
by	8/20/2010	108	$ 11.92
by	8/24/2010	139,373	$ 11.95
sl	8/24/2010	190	$ 12.04
sl	8/30/2010	237	$ 12.21
sl	9/2/2010	1,050	$ 12.27
sl	9/24/2010	1,735	$ 12.20
sl	9/27/2010	1,065	$ 12.17
sl	9/28/2010	200	$ 12.20
sl	9/29/2010	15,950	$ 12.26
sl	10/4/2010	4,483	$ 12.20
sl	10/15/2010	700	$ 12.33
sl	10/18/2010	700	$ 12.30
sl	10/21/2010	2,200	$ 12.23
sl	10/22/2010	175	$ 12.23
sl	10/25/2010	1,057	$ 12.22
sl	10/26/2010	2,888	$ 12.26
sl	10/27/2010	666	$ 12.25
sl	10/29/2010	700	$ 12.26
sl	11/2/2010	225	$ 12.23
sl	11/3/2010	3,478	$ 12.27
sl	11/4/2010	1,361	$ 12.25
sl	11/5/2010	30,623	$ 12.27
sl	11/8/2010	200	$ 12.23
sl	11/9/2010	1,335	$ 12.08
by	11/10/2010	38,045	$ 11.66
by	11/11/2010	104,153	$ 11.50
by	11/12/2010	12,023	$ 11.46
by	11/15/2010	120,650	$ 11.38
sl	11/15/2010	15,836	$ 11.45
sl	12/1/2010	22,900	$ 11.64
sl	12/3/2010	17,500	$ 11.27
by	12/7/2010	43,821	$ 11.05
by	12/8/2010	50,000	$ 10.94
by	12/9/2010	30,159	$ 10.75
by	12/10/2010	28,300	$ 10.70
by	12/13/2010	42,152	$ 10.66
by	12/14/2010	15,252	$ 10.55
by	12/15/2010	800	$ 10.45
sl	12/15/2010	4,254	$ 10.56
sl	12/21/2010	358*	$ 10.58
sl	12/23/2010	2,126*	$ 10.70
sl	12/27/2010	5,400*	$ 10.52
sl	12/29/2010	2,750*	$ 10.49
sl	1/05/2011	771*	$ 10.80
sl	1/14/2011	100*	$ 10.14
sl	1/24/2011	9,665*	$ 10.51
sl	1/31/2011	10,300	$ 10.64
sl	2/1/2011	32,974	$ 10.61
sl	2/2/2011	12,364	$ 10.67
sl	2/3/2011	7,464	$ 10.68
sl	2/14/2011	10,300	$ 10.70
sl	2/15/2011	10,387	$ 10.71
sl	2/16/2011	31,576	$ 10.75
sl	2/17/2011	9,600	$ 10.73
sl	2/18/2011	600	$ 10.72
by	2/22/2011	5,000	$ 10.50

sl	2/22/2011	100	$ 10.50
sl	2/23/2011	913	$ 10.57

*Shares sold due to account liquidation

PURCHASES AND SALES OF KARPUS IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922301**

Transaction	Date	Quantity	Price ($)
by	3/10/2010	14	$ 22,625
by	3/17/2010	8	$ 22,781

*1 share was transferred out of Karpus, as directed by a client, on June 11, 2010 at $22,500

PURCHASES AND SALES OF KARPUS IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922400**

Transaction	Date	Quantity	Price ($)
by	3/10/2010	21	$ 22,625
by	3/17/2010	120	$ 22,875
by	4/29/2010	120	$ 22,250
sl	11/08/2010	1	$ 20,000

**8 shares were transferred out of Karpus, as directed by a client, on June 11, 2010 at $22,250

PURCHASES AND SALES OF DONALD CHAPMAN IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	10/22/2009	600	$ 11.09
by	11/2/2009	200	$ 10.99
by	11/15/2010	600	$ 11.38

PURCHASES AND SALES OF RICHARD W. COHEN IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	5/12/2009	100	$ 9.98
by	9/9/2009	200	$ 10.92
by	9/23/2009	200	$ 11.33
by	9/24/2009	100	$ 11.33
by	9/28/2009	200	$ 11.37
by	9/30/2009	700	$ 11.43
by	11/12/2009	100	$ 11.00

PURCHASES AND SALES OF RICHARD W. COHEN IN THE AUCTION RATE PREFERRED SHARES OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922301

Transaction	Date	Quantity	Price ($)
by	3/17/2010	1	$ 22,875

PURCHASES AND SALES OF GLEN T. INSLEY IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)

sl	4/28/2010	1,954	$ 11.41
sl	5/6/2010	1,672	$ 11.42
by	2/24/2011	14,370	$ 10.62
by	2/24/2011	1,000	$ 10.61
by	2/24/2011	2,000	$ 10.61

PURCHASES AND SALES OF THOMAS M. MCDONALD IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	9/11/2009	1,000	$ 11.03
sl	4/7/2010	2,000	$ 11.45
by	12/23/2010	450	$ 10.64
by	12/23/2010	550	$ 10.65
by	12/28/2010	4,000	$ 10.53

PURCHASES AND SALES OF BRAD ORVIETO IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	8/3/2010	200	$ 11.75
by	11/15/2010	300	$ 11.38

PURCHASES AND SALES OF GERARD J. WENZKE IN THE COMMON STOCK OF THE FUND DURING THE PAST TWO YEARS, CUSIP 746922103

Transaction	Date	Quantity	Price ($)
by	3/2/2009	1,000	$ 9.09
by	3/6/2009	200	$ 9.07
by	3/19/2009	600	$ 9.09
by	3/20/2009	1,500	$ 9.01
by	3/31/2009	6,500	$ 9.31
by	4/13/2009	100	$ 9.44
by	4/14/2009	1,600	$ 9.46
by	8/26/2009	586	$ 10.53
by	8/27/2009	300	$ 10.53
by	8/28/2009	200	$ 10.54
by	9/8/2009	500	$ 10.83
by	9/17/2009	6,653	$ 11.23
by	9/28/2009	600	$ 11.37
by	10/2/2009	1,600	$ 11.44
by	10/5/2009	400	$ 11.50
by	10/6/2009	600	$ 11.53
by	10/8/2009	200	$ 11.47
by	10/9/2009	1,600	$ 11.36
by	10/12/2009	1,700	$ 11.24
by	10/14/2009	400	$ 11.20

APPENDIX E SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS The following table is derived from publicly filed documents by the indicated owner with the U.S. Securities and Exchange Commission

The following person was known to the Fund to be beneficial owner of more than 5% of the Fund's outstanding shares of Common Stock or Preferred Stock:

Name and Address of Beneficial Owner	Title of Class	Amt. of Shares and Nature of Ownership	% of Class*
Karpus Investment Management 183 Sully's Trail Pittsford, New York 14534	Common Shares	6,743,296	15.7%
Karpus Investment Management 183 Sully's Trail Pittsford, New York 14534	Auction Market Preferred Shares (total of all outstanding CUSIPS)	286	4%
Bank of America, NA 100 North Tryon Street Charlotte, North Carolina 28255	Auction Market Preferred Shares (total of all outstanding CUSIPS)	661	9.2%
Blue Ridge Investments, LLC 214 North Tryon Street Charlotte, North Carolina 28255	Auction Market Preferred Shares (total of all outstanding CUSIPS)	4,557	63.7%

*Such calculations are based on the aggregate amount of 7,154 outstanding auction rate preferred shares (3,417 shares of Series B Preferred Shares and 3,737 Series C Preferred Shares) and 42,871,374 common shares outstanding, as indicated on PMO's proxy statement filed with the U.S. Securities and Exchange Commission.

IMPORTANT

Tell your Board what you think! Your vote is important. No matter how many Shares you own, please give Karpus your proxy FOR the election of Karpus' Nominees and for Karpus' proposals by voting your Shares by telephone or Internet as described in the enclosed **GREEN** proxy card or by signing and dating the enclosed **GREEN** proxy card, and returning it in the postage-paid envelope provided. If any of your Shares are held in the name of a brokerage firm, bank, bank nominee or other institution, only it can vote such Shares and only upon receipt of your specific instructions. Accordingly, please contact the person responsible for your account and instruct that person to execute the **GREEN** proxy card. In addition, if you hold your Shares in a brokerage or bank account, your broker or bank may allow you to provide your voting instructions by telephone or Internet. Please consult the materials you receive from your broker or bank prior to authorizing a proxy by telephone or Internet. Karpus urges you to confirm in writing your instructions to Karpus in care of Regan & Associates, Inc. at the address provided below so that Karpus will be aware of all instructions given and can attempt to ensure that such instructions are followed.

If you have any questions or need assistance voting Shares, please call: Regan & Associates, Inc.
505 Eighth Avenue, Suite 800
New York, New York 10018
1-800-737-3426 -or- Brett D. Gardner, Sr. Corp. Governance Analyst/Portfolio Manager or
Daniel Lippincott, Senior Tax-Sensitive Manager/Municipal Analyst
Karpus Management, Inc., d/b/a Karpus Investment Management
183 Sully's Trail
Pittsford, New York 14534
(585) 586-4680

GREEN PROXY

PUTNAM MUNICIPAL OPPORTUNITIES TRUST

ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF KARPUS MANAGEMENT, INC., D/B/A KARPUS INVESTMENT MANAGEMENT

THE BOARD OF TRUSTEES OF PUTNAM MUNICIPAL OPPORTUNITIES TRUST IS NOT SOLICITING THIS PROXY

The undersigned appoints Brett D. Gardner and Daniel Lippincott as the undersigned's attorney and agent with full power of substitution to vote all shares of common stock of the Putnam Municipal Opportunities Trust (the "Fund" or "PMO") which the undersigned would be entitled to vote if personally present at the annual meeting of shareholders of the Fund scheduled to be held at 10:00 a.m. E.S.T. on May 25, 2011, at the principal offices of the Fund on the 8th Floor of One Post Office Square, Boston, Massachusetts 02109, including any adjournments or postponements thereof or any meeting which may be called in lieu thereof (the "Annual Meeting").

The undersigned hereby revokes any other proxy or proxies heretofore given to vote or act with respect to the shares of common stock of the Fund held by the undersigned, and hereby ratifies and confirms all actions the herein named attorneys and proxies, their substitutes, or any of them may lawfully take by virtue hereof. If properly executed, this Proxy will be voted as directed on the reverse and in the discretion of such attorneys and proxies and their substitutes with respect to any other matters as may properly come before the Annual Meeting. Mark each vote with an X in the box.

IF NO DIRECTION IS INDICATED WITH RESPECT TO THE PROPOSALS ON THE REVERSE, THIS PROXY WILL BE VOTED FOR KARPUS' NOMINEES AND FOR BOTH OF KARPUS' PROPOSALS

This Proxy will be valid until the sooner of one year from the date indicated on the reverse side and the completion of the Annual Meeting.

IMPORTANT: PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY!

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE)

If voting your proxies would, in Karpus' opinion, cause there to be a quorum and to cause management's trustee nominees to be elected, then unless Karpus determines that the Board has agreed to afford shareholders truly independent representation on the Board of the Fund, Karpus may not attend the Meeting, may not vote the undersigned's shares proxy, and the shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy.

To vote on all proposals as Karpus recommends, mark this box (No other vote is necessary) [ ]

KARPUS RECOMMENDS THAT YOU VOTE FOR ALL ITEMS BELOW

1. Fixing the number of Trustees at 12 and electing our fund's 10 nominees for Trustees voted on by the common and preferred shareholders voting as a single class

Trustees to Serve Until the 2012 Annual Meeting of Shareholders

[ ] FOR ALL Karpus Nominees

[ ] FOR Donald Chapman [ ] FOR Glen T. Insley, CFA
[ ] FOR Jeffrey P. Lessard, Ph.D., CFA [ ] FOR Thomas M. McDonald
[ ] FOR Brad Orvieto [ ] FOR Dwight A. Pike, CFA
[ ] FOR Arthur Charles Regan [ ] FOR G. William Schwert, Ph.D
[ ] FOR Douglas Skinner, Ph.D. [ ] FOR Gerard J. Wenzke

[ ] WITHHOLD AUTHORITY
[ ] FOR ALL EXCEPT

To withhold authority to vote for certain nominees only, mark "For All Except" and write each such excepted nominee's name on the line below:

FOR Karpus' proposal recommending that the fund's investment management contract with Putnam Investment Management, LLC (the "Manager") be terminated.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

3. FOR Karpus' proposal recommending the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

**By checking the box below, I authorize Karpus to utilize its discretion to vote, or under specified conditions in Karpus' proxy statement, not vote my shares.

[ ]

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 25, 2011. The proxy statement for this meeting is available at: www.proxyonline.com. If you have any questions on this proposal, please call 1-866-527-7871.

Signature of Stockholder: Signature of Stockholder:
Date: Date: ________________

Note: Please sign exactly as your name or names appear on this Proxy and return promptly using the enclosed envelope. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

GREEN PROXY

PUTNAM MUNICIPAL OPPORTUNITIES TRUST

ANNUAL MEETING OF SHAREHOLDERS

THIS PROXY IS SOLICITED ON BEHALF OF KARPUS MANAGEMENT, INC., D/B/A KARPUS INVESTMENT MANAGEMENT

THE BOARD OF TRUSTEES OF PUTNAM MUNICIPAL OPPORTUNITIES TRUST IS NOT SOLICITING THIS PROXY

The undersigned appoints Brett D. Gardner and Daniel Lippincott as the undersigned's attorney and agent with full power of substitution to vote all shares of preferred stock of the Putnam Municipal Opportunities Trust (the "Fund" or "PMO") which the undersigned would be entitled to vote if personally present at the annual meeting of shareholders of the Fund scheduled to be held at 10:00 a.m. E.S.T. on May 25, 2011 at the principal offices of the Fund on the 8th Floor of One Post Office Square, Boston, Massachusetts 02109, including any adjournments or postponements thereof or any meeting which may be called in lieu thereof (the "Annual Meeting").

The undersigned hereby revokes any other proxy or proxies heretofore given to vote or act with respect to the shares of preferred stock of the Fund held by the undersigned, and hereby ratifies and confirms all actions the herein named attorneys and proxies, their substitutes, or any of them may lawfully take by virtue hereof. If properly executed, this Proxy will be voted as directed on the reverse and in the discretion of such attorneys and proxies and their substitutes with respect to any other matters as may properly come before the Annual Meeting. Mark each vote with an X in the box.

IF NO DIRECTION IS INDICATED WITH RESPECT TO THE PROPOSALS ON THE REVERSE, THIS PROXY WILL BE VOTED FOR KARPUS' NOMINEES AND FOR BOTH OF KARPUS' PROPOSALS

This Proxy will be valid until the sooner of one year from the date indicated on the reverse side and the completion of the Annual Meeting.

IMPORTANT: PLEASE SIGN, DATE AND MAIL THIS PROXY CARD PROMPTLY!

(CONTINUED AND TO BE SIGNED ON REVERSE SIDE)

If voting your proxies would, in Karpus' opinion, cause there to be a quorum and to cause management's trustee nominees to be elected, then unless Karpus determines that the Board has agreed to afford shareholders truly independent representation on the Board of the Fund, Karpus may not attend the Meeting, may not vote the undersigned's shares proxy, and the shares may not be counted toward a quorum. If you do not believe the foregoing condition is reasonably specified, or you unconditionally want your shares to be represented at the Meeting, you should not give us your proxy.

To vote on all proposals as Karpus recommends, mark this box (No other vote is necessary) [ ]

KARPUS RECOMMENDS THAT YOU VOTE FOR ALL ITEMS BELOW

1. Fixing the number of Trustees at 12 and electing our fund's 12 nominees for Trustees:

Trustees to Serve Until the 2012 Annual Meeting of Shareholders

[ ] FOR ALL Karpus Nominees

[ ] FOR Donald Chapman	[ ] FOR Glen T. Insley, CFA
[ ] FOR Jeffrey P. Lessard, Ph.D., CFA	[ ] FOR Thomas M. McDonald
[ ] FOR Brad Orvieto	[ ] FOR Dwight A. Pike, CFA
[ ] FOR Arthur Charles Regan	[ ] FOR G. William Schwert, Ph.D
[ ] FOR Douglas Skinner, Ph.D.	[ ] FOR Gerard J. Wenzke

[ ] WITHHOLD AUTHORITY
[ ] FOR ALL EXCEPT

To withhold authority to vote for certain nominees only, mark "For All Except" and write each such excepted nominee's name on the line below:

---

of Trustees to be voted on **by the preferred shareholders voting separately as a class.**

Trustees to Serve Until the 2012 Annual Meeting of Shareholders

[ ] FOR ALL Karpus Nominees

[ ] FOR Richard W. Cohen
[ ] FOR Phillip Goldstein

[ ] WITHHOLD AUTHORITY
[ ] FOR ALL EXCEPT

To withhold authority to vote for certain nominees only, mark "For All Except" and write each such excepted nominee's name on the line below:

FOR Karpus' proposal recommending that investment management agreement between the Fund and Putnam Investment Management, LLC (the "Manager") shall be terminated.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

3. FOR Karpus' proposal recommending the Board of Trustees of PMO consider taking all steps necessary to cause PMO to redeem all outstanding auction rate preferred shares at par and to utilize Municipal Term Preferred Securities (MTPS), Variable Rate Demand Preferred Securities (VRDPS) and/or Tender Option Bonds (TOBs) as alternate sources of leverage.

FOR	AGAINST	ABSTAIN
[ ]	[ ]	[ ]

**By checking the box below, I authorize Karpus to utilize its discretion to vote, or under specified conditions in Karpus' proxy statement, not vote my shares.

[ ]

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting to be held on May 25, 2011. The proxy statement for this meeting is available at: www.proxyonline.com. If you have any questions on this proposal, please call 1-866-527-7871.

Signature of Stockholder: Signature of Stockholder:
Date: Date: ________________

Note: Please sign exactly as your name or names appear on this Proxy and return promptly using the enclosed envelope. When shares are held jointly, each holder should sign. When signing as executor, administrator, attorney, trustee or guardian, please give full title as such. If the signer is a corporation, please sign full corporate name by duly authorized officer, giving full title as such. If signer is a partnership, please sign in partnership name by authorized person.

e: 10pt">**As of March 31, 2018**

(Dollars are in thousands)

Recorded

Investment

Unpaid Principal Balance

Related

Allowance

With no related allowance recorded: Real estate secured: Commercial$2,828$2,882$-Construction and land development 165 362 -Residential 1-4
family 3,144 3,206 -Multifamily 212 253 -Farmland 1,165 1,191 -Commercial 13 13 -Agriculture 3 3 -Consumer installment loans - - -All other loans - - -With an allowance recorded: Real estate
secured: Commercial 2,047 2,047 365Construction and land development - - -Residential 1-4

family 358 358 89Multifamily - - -Farmland 368 368 232Commercial 461 461 147Agriculture - - -Consumer installment loans 8 8 2All other loans - - 19Total$10,772$11,152$854

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As of December 31, 2017 (Dollars are in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Real estate secured:			
Commercial	$2,646	$2,719	$-
Construction and land development	424	680	-
Residential 1-4 family	3,586	3,885	-
Multifamily	281	321	-
Farmland	1,264	1,664	-
Commercial	628	628	-
Agriculture	12	12	-
Consumer installment loans	8	8	-
All other loans	-	-	-
With an allowance recorded:			
Real estate secured:			
Commercial	2,503	2,622	499
Construction and land development	-	-	-
Residential 1-4 family	421	437	91
Multifamily	-	-	-
Farmland	378	378	243
Commercial	489	572	413
Agriculture	-	-	-
Consumer installment loans	-	-	-
All other loans	-	-	-
Total	$12,640	$13,926	$1,246

The following table presents information concerning the Company's average impaired loans and interest recognized on those impaired loans, for the periods indicated:

	Three Months Ended			
	March 31, 2018		March 31, 2017	
(Dollars are in thousands)	**Average Recorded Investment**	**Interest Income Recognized**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:				
Real estate secured:				
Commercial	$2,737	$ 28	$3,196	$ 25
Construction and land development	295	—	5	—
Residential 1-4 family	3,365	42	3,821	49

Multifamily	247	4	516	12
Farmland	1,215	12	3,884	(115)
Commercial	321	—	—	—
Agriculture	8	—	19	—
Consumer installment loans	4	—	18	—
All other loans	—	—	—	—
With an allowance recorded:				
Real estate secured:				
Commercial	2,275	16	901	2
Construction and land development	—	—	235	—
Residential 1-4 family	390	4	701	9
Multifamily	—	—	—	—
Farmland	373	—	590	5
Commercial	475	—	67	—
Agriculture	—	—	3	—
Consumer installment loans	4	—	5	—
All other loans	—	—	—	—
Total	$11,709	$ 106	$13,961	$ (13)

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An age analysis of past due loans receivable is below. At March 31, 2018 and December 31, 2017, there were no loans over 90 days past due that were accruing.

As of March 31, 2018 (Dollars are in thousands)	**Loans 30-59 Days Past Due**	**Loans 60-89 Days Past Due**	**Loans 90 or More Days Past Due**	**Total Past Due Loans**	**Current Loans**	**Total Loans**
Real estate secured:						
Commercial	$1,596	$25	$318	$1,939	$130,833	$132,772
Construction and land development	561	-	42	603	22,755	23,358
Residential 1-4 family	1,832	508	815	3,155	246,811	249,966
Multifamily	-	-	-	-	14,143	14,143
Farmland	1,547	245	-	1,792	23,011	24,803
Total real estate loans	5,536	778	1,175	7,489	437,553	445,042
Commercial	-	-	-	-	44,760	44,760
Agriculture	3	13	-	16	3,941	3,957
Consumer installment Loans	26	9	-	35	21,917	21,952
All other loans	-	-	-	-	652	652
Total loans	$5,565	$800	$1,175	$7,540	$508,823	$516,363

As of December 31, 2017	**Loans 30-59 Days Past**	**Loans 60-89 Days Past**	**Loans 90 or More Days Past**	**Total Past Due**	**Current**	**Total**

(Dollars are in thousands)	Due	Due	Due	Loans	Loans	Loans
Real estate secured:						
Commercial	$190	$2,396	$453	$3,039	$124,649	$127,688
Construction and land development	69	246	42	357	29,406	29,763
Residential 1-4 family	3,789	378	969	5,136	244,023	249,159
Multifamily	125	89	-	214	15,267	15,481
Farmland	309	-	-	309	22,689	22,998
Total real estate loans	4,482	3,109	1,464	9,055	436,034	445,089
Commercial	103	25	603	731	40,614	41,345
Agriculture	38	-	-	38	3,456	3,494
Consumer installment Loans	102	15	28	145	22,266	22,411
All other loans	-	-	-	-	669	669
Total loans	$4,725	$3,149	$2,095	$9,969	$503,039	$513,008

The Company categorizes loans receivable into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans receivable as to credit risk. The Company uses the following definitions for risk ratings:

Pass - Loans in this category are considered to have a low likelihood of loss based on relevant information analyzed about the ability of the borrowers to service their debt and other factors.

Special Mention - Loans in this category are currently protected but are potentially weak, including adverse trends in borrower's operations, credit quality or financial strength. Those loans constitute an undue and unwarranted credit risk but not to the point of justifying a substandard classification. The credit risk may be relatively minor yet constitute an unwarranted risk in light of the circumstances. Special mention loans have potential weaknesses which may, if not checked or corrected, weaken the loan or inadequately protect the Company's credit position at some future date.

Substandard - A substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as substandard must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; they are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified Doubtful have all the weaknesses inherent in loans classified as Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full on the basis of currently existing facts, conditions, and values highly questionable and improbable.

Based on the most recent analysis performed, the risk category of loans receivable was as follows:

As of March 31, 2018		**Special**		
(Dollars are in thousands)	**Pass**	**Mention**	**Substandard**	**Total**
Real estate secured:				
Commercial	$124,316	$4,489	$3,967	$132,772
Construction and land development	22,353	781	224	23,358
Residential 1-4 family	242,363	3,096	4,507	249,966
Multifamily	13,792	81	270	14,143
Farmland	21,814	1,818	1,171	24,803
Total real estate loans	424,638	10,265	10,139	445,042

Commercial	39,741	4,608	411	44,760
Agriculture	3,925	16	16	3,957
Consumer installment loans	21,930	1	21	21,952
All other loans	652	-	-	652
Total	$490,886	$14,890	$10,587	$516,363

As of December 31, 2017		**Special**		
(Dollars are in thousands)	**Pass**	**Mention**	**Substandard**	**Total**
Real estate secured:				
Commercial	$120,104	$3,228	$4,356	$127,688
Construction and land development	28,462	816	485	29,763
Residential 1-4 family	243,048	1,810	4,301	249,159
Multifamily	13,695	1,445	341	15,481
Farmland	19,273	2,445	1,280	22,998
Total real estate loans	424,582	9,744	10,763	445,089
Commercial	37,973	2,307	1,065	41,345
Agriculture	3,468	23	3	3,494
Consumer installment loans	22,357	2	52	22,411
All other loans	669	-	-	669
Total	$489,049	$12,076	$11,883	$513,008

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NOTE 7 ALLOWANCE FOR LOAN LOSSES:

The following table details activity in the allowance for loan losses by portfolio segment for the period ended March 31, 2018. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

As of March 31, 2018 (Dollars are in thousands)	**Beginning Balance**	**Charge Offs**	**Recoveries**	**Provisions**	**Ending Balance**
Real estate secured:					
Commercial	$1,989	$-	$8	$(156)	$1,841
Construction and land development	191	(96)	-	59	154
Residential 1-4 family	2,400	(44)	29	(19)	2,366
Multifamily	106	-	-	(2)	104
Farmland	415	-	56	(48)	423
Total real estate loans	5,101	(140)	93	(166)	4,888
Commercial	660	(515)	8	426	579
Agriculture	20	-	-	6	26
Consumer installment loans	156	(26)	23	-	153
All other loans	3	-	-	17	20
Unallocated	256	-	-	(220)	36
Total	$6,196	$(681)	$124	$63	$5,702

	Allowance for Loan Losses			**Recorded Investment in Loans**		
As of March 31, 2018 **(Dollars are in thousands)**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
Real estate secured:						
Commercial	$365	$1,476	$1,841	$4,875	$127,897	$132,772
Construction and land development	-	154	154	165	23,193	23,358

Residential 1-4 family	89	2,277	2,366	3,502	246,464	249,966
Multifamily	-	104	104	212	13,931	14,143
Farmland	232	191	423	1,533	23,270	24,803
Total real estate loans	686	4,202	4,888	10,287	434,755	445,042
Commercial	147	432	579	474	44,286	44,760
Agriculture	-	26	26	3	3,954	3,957
Consumer installment loans	2	151	153	8	21,944	21,952
All other loans	19	1	20	-	652	652
Unallocated	-	36	36	-	-	-
Total	$854	$4,848	$5,702	$10,772	$505,591	$516,363

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The following table details activity in the allowance for loan losses by portfolio segment for the period ended December 31, 2017. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

As of December 31, 2017 **(Dollars are in thousands)**	**Beginning Balance**	**Charge Offs**	**Recoveries**	**Provisions**	**Ending Balance**
Real estate secured:					
Commercial	$1,625	$(179)	$193	$350	$1,989
Construction and land development	346	(1)	-	(154)	191
Residential 1-4 family	2,376	(714)	48	690	2,400
Multifamily	241	-	-	(135)	106
Farmland	428	(49)	361	(325)	415
Total real estate loans	5,016	(943)	602	426	5,101
Commercial	163	(11)	153	355	660
Agriculture	31	(4)	5	(12)	20
Consumer installment loans	123	(147)	19	161	156
All other loans	-	-	-	3	3
Unallocated	739	-	-	(483)	256
Total	$6,072	$(1,105)	$779	$450	$6,196

	Allowance for Loan Losses			**Recorded Investment in Loans**		
As of December 31, 2017 **(Dollars are in thousands)**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**	**Total**
Real estate secured:						
Commercial	$499	$1,490	$1,989	$5,149	$122,539	$127,688
Construction and land development	-	191	191	424	29,339	29,763
Residential 1-4 family	91	2,309	2,400	4,007	245,152	249,159
Multifamily	-	106	106	281	15,200	15,481
Farmland	243	172	415	1,642	21,356	22,998

Total real estate loans	833	4,268	5,101	11,503	433,586	445,089
Commercial	413	247	660	1,117	40,228	41,345
Agriculture	-	20	20	12	3,482	3,494
Consumer installment loans	-	156	156	8	22,403	22,411
All other loans	-	3	3	-	669	669
Unallocated	-	256	256	-	-	-
Total	$1,246	$4,950	6,196	$12,640	$500,368	$513,008

In determining the amount of our allowance, we rely on an analysis of our loan portfolio, our experience and our evaluation of general economic conditions, as well as the requirements of the written agreement and other regulatory input. If our assumptions prove to be incorrect, our current allowance may not be sufficient to cover future loan losses and we may experience significant increases to our provision.

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NOTE 8 TROUBLED DEBT RESTRUCTURINGS:

At March 31, 2018 there were $6.2 million in loans that are classified as troubled debt restructurings compared to $6.9 million at December 31, 2017. The following table presents information related to loans modified as troubled debt restructurings during the three months ended March 31, 2018 and 2017.

Troubled Debt Restructurings (Dollars are in thousands)	For the three months ended March 31, 2018 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment	For the three months ended March 31, 2017 # of Loans	Pre-Mod. Recorded Investment	Post-Mod. Recorded Investment
Real estate secured:						
Commercial	-	$-	$-	1	$341	$339
Construction and land Development	-	-	-	-	-	-
Residential 1-4 family	-	-	-	-	-	-
Multifamily	-	-	-	-	-	-
Farmland	-	-	-	-	-	-
Total real estate loans	-	-	-	1	341	339
Commercial	-	-	-	-	-	-
Agriculture	-	-	-	-	-	-
Consumer installment loans	-	-	-	-	-	-
All other loans	-	-	-	-	-	-
Total	-	$-	$-	1	$341	$339

During the three months ended March 31, 2018, the Company modified no loans for which the modification was considered to be a troubled debt restructuring. During the three months ended March 31, 2017, the Company modified the terms of one loan for which the modification was considered to be a troubled debt restructuring. The interest rate and maturity date were not modified; however, the payment terms were changed.

No loans modified as troubled debt restructurings defaulted during the three months ended March 31, 2018 or 2017. Generally, a troubled debt restructuring is considered to be in default once it becomes 90 days or more past due following a modification.

In determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings in its estimate. The Company evaluates all troubled debt restructurings for possible further impairment. As a result, the allowance may be increased, adjustments may be made in the allocation of the allowance, or charge-offs may be taken to further writedown the carrying value of the loan.

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NOTE 9 OTHER REAL ESTATE OWNED:

The following table summarizes the activity in other real estate owned for the three months ended March 31, 2018 and the year ended December 31, 2017:

(Dollars are in thousands)	March 31, 2018	December 31, 2017
Balance, beginning of period	$6,859	$10,655
Additions	1,023	3,087
Transfers of premises and equipment to other real estate	—	125
Proceeds from sales	(739)	(4,742)
Proceeds from insurance claims	—	(12)
Loans made to finance sales	(267)	(1,477)
Adjustment of carrying value	(69)	(758)
Deferred gain from sales	—	45
Losses from sales	(96)	(64)
Balance, end of period	$6,711	$6,859

NOTE 10 FAIR VALUES:

The financial reporting standard, “Fair Value Measurements and Disclosures” provides a framework for measuring fair value under generally accepted accounting principles and requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans and other real estate acquired through foreclosure).

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair Value Measurements and Disclosures also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an exchange market, as well as U. S. Treasury, other U. S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and impaired loans.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

Investment Securities Available-for-Sale – Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices if available. If quoted prices are not available, fair value is measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, or by dealers or brokers in active over-the counter markets. Level 2 securities include mortgage backed securities issued by government sponsored entities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Assets measured at fair value on a recurring basis are as follows. There were no liabilities measured at fair value on a recurring basis.

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(Dollars are in thousands) March 31, 2018	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Available-for-sale investments			
U.S. Government Agencies	$ —	$ 22,613	$ —
Taxable municipals	—	4,292	—
Corporate bonds	—	5,406	—
Mortgage backed securities	—	34,722	—
Total	$ —	$ 67,033	$ —
December 31, 2017			
Available-for-sale investments			
U.S. Government Agencies	$ —	$ 23,844	$ —
Taxable municipals	—	4,397	—
Corporate bonds	—	5,579	—
Mortgage backed securities	—	37,268	—
Total	$ —	$ 71,088	$ —

Loans - The Company does not record loans at fair value on a recurring basis. Real estate serves as collateral on a substantial majority of the Company’s loans. When a loan is considered impaired a specific reserve may be established. Loans which are deemed to be impaired and require a reserve are primarily valued on a non-recurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which management evaluates and determines whether or not the fair value of the collateral is further impaired below the appraised value and there is no observable market price, or whether or not an appraised value does not include estimated costs of disposition. The Company records impaired loans as nonrecurring Level 3 assets.

Foreclosed Assets **–** Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based upon independent observable market prices or appraised values of the collateral with a third party less an estimate of disposition costs, which the Company considers to be level 2 inputs. When the appraised value is not available, management determines the fair value of the collateral if further impaired below the appraised value and there is no observable market price, or an appraised value does not include estimated costs of disposition and management must make an estimate, the Company records the foreclosed asset as nonrecurring Level 3.

Assets measured at fair value on a non-recurring basis are as follows (for purpose of this table the impaired loans are shown net of the related allowance). There were no liabilities measured at fair value on a non-recurring basis.

(Dollars are in thousands) March 31, 2018	Quoted market price in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Other real estate owned	$ —	$ —	$ 6,711
Impaired loans	—	—	9,918
Total	$ —	$ —	$ 16,629
December 31, 2017			
Other real estate owned	$ —	$ —	$ 6,859
Impaired loans	—	—	11,394
Total	$ —	$ —	$ 18,253

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For Level 3 assets measured at fair value on a recurring or non-recurring basis, the significant unobservable inputs used in the fair value measurements were as follows:

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of March 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

(Dollars in thousands)	Fair Value at March 31, 2018	Valuation Technique	Significant Unobservable Inputs	General Range of Significant Unobservable Input Values
Impaired Loans	$9,918	Appraised Value/Discounted Cash Flows/Market Value of Note	Discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	0 – 18%
Other Real Estate Owned	6,711	Appraised Value/Comparable Sales/Other Estimates from Independent Sources	Discounts to reflect current market conditions and estimated costs to sell	0 – 18%

Fair Value of Financial Instruments

Fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practical to estimate the value is based upon the characteristics of the instruments and relevant market information. Financial instruments include cash, evidence of ownership in an entity, or contracts that convey or impose on an entity that contractual right or obligation to either receive or deliver cash for another financial instrument.

The information used to determine fair value is highly subjective and judgmental in nature and, therefore, the results may not be precise. Subjective factors include, among other things, estimates of cash flows, risk characteristics, credit quality, and interest rates, all of which are subject to change. Since the fair value is estimated as of the balance sheet date, the amounts that will actually be realized or paid upon settlement or maturity on these various instruments could be significantly different.

The tables below present the carrying amount, fair value, and placement in the fair value hierarchy of the Company’s financial instruments. This table excludes financial instruments for which the carrying amount approximates fair value. The carrying value of cash and due from banks, federal funds sold, interest-bearing deposits with banks, deposits with no stated maturities, and accrued interest approximates fair value.

During the first quarter of 2018, the Company adopted ASU 2016-01, “Recognition and Measurement of Financial Assets and Liabilities.” The amendments included within this standard, which are applied prospectively, require the Company to disclose fair value of financial instruments measured at amortized cost on the balance sheet to measure that fair value using an exit price notion. Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets.

As of March 31, 2018, the technique used by the Company to estimate the exit price of the loan portfolio consists of similar procedures to those used as of December 31, 2017, but with added emphasis on both illiquidity risk and credit risk not captured by the previously applied entry price notion. The fair value of the Company’s loan portfolio has always included a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company’s loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk as described above. However, under the new guidance, the Company believes a further credit risk discount must be applied through the use of a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company’s loan portfolio.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

As of December 31, 2017, the fair value of the Company's loan portfolio includes a credit risk assumption in the determination of the fair value of its loans. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, impaired loans and all other loans. The results are then adjusted to account for credit risk. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral. For other loans, fair values are estimated using discounted cash flow models, using current market interest rates offered for loans with similar terms to borrowers of similar credit quality. The values derived from the discounted cash flow approach for each of the above portfolios are then further discounted to incorporate credit risk. The methods utilized to estimate the fair value of loans do not necessarily represent an exit price as of December 31, 2017.

The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments.

			Fair Value Measurements		
(Dollars are in thousands)	**Carrying Amount**	**Fair Value**	**Quoted market price in active markets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
March 31, 2018					
Financial Instruments – Assets					
Net Loans	$510,661	$499,763	$-	$489,845	$9,918
Financial Instruments – Liabilities					
Time Deposits	265,025	264,945	-	264,945	-
FHLB Advances	7,258	7,557	-	7,557	-
Trust Preferred Securities	16,496	13,575	-	13,575	-
December 31, 2017					

Financial Instruments – Assets					
Net Loans	$506,812	$506,608	$-	$495,214	$11,394
Financial Instruments – Liabilities					
Time Deposits	272,330	272,352	-	272,352	-
FHLB Advances	7,558	7,794	-	7,794	-
Trust Preferred Securities	16,496	16,496	-	16,496	-

NOTE 11 SALE AND LEASEBACK TRANSACTIONS:

On May 31, 2017 the Bank, the wholly-owned subsidiary of the Company, sold four (4) of its properties, one each located in Abingdon, Bristol, Gate City and Castlewood, Virginia to a nonaffiliated third party for a total purchase price of $6.2 million. After selling expenses of $192 thousand, the net proceeds on the transactions were $6.0 million. The sales prices for the properties were based on outside appraisals obtained by the Bank. The Bank provided $4.9 million of financing to the purchaser for a term of 10 years for this transaction.

In connection with the sale of the four properties, the Bank on May 31, 2017 entered into commercial lease agreements with the purchaser for the properties (the "Leases"), which will allow the Bank to continue to service customers from these locations. The Leases, which commenced on June 1, 2017, provide the Bank with use of the properties for an initial term of fifteen (15) years. Base rent payments for years 1 through 5 of the Leases are approximately $417 thousand a year. The base rent payments will increase by 8% for years 6 through 10 of the Leases and then by another 8% for years 11 through 15 of the Leases. The Bank has the option to renew the Leases five (5) times and each renewal would be for a term of five (5) years. The base rent for the renewals would be negotiated at the time the renewal option is exercised by the Bank. While the cash lease payments are currently $417 thousand a year, the Company is required to straight-line the expense over the initial term of fifteen (15) years. As a result, the annual lease expense will be approximately $451 thousand. The weighted average remaining life of the leases is 14.17 years.

In anticipation of this transaction the Company adopted ASU No. 2016-02 Leases (Topic 842) early. This ASU revised certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. As a result of this transaction the Company recognized initial right-to-use assets – operating leases of approximately $5.3 million, along with corresponding lease liabilities of approximately $5.3 million. The $5.3 million was determined by calculating the present value of the annual cash lease payments using a discount rate of 3.25%. The 3.25% discount rate was determined to be our fifteen (15) year incremental borrowing rate as of May 31, 2017.

As a result of the sale and the determination that the corresponding leases were operating leases, the Company also recognized a gain in 2017 of $2.6 million on the sale and leaseback transactions.

NOTE 12 NONINTEREST EXPENSES:

Other operating expenses, included as part of noninterest expenses, consisted of the following for the periods presented:

(Dollars are in thousands)	March 31, 2018	March 31, 2017
Advertising	$126	$93
ATM network expense	392	403
Legal and professional fees	367	297
Loan related expenses	200	184
Printing and supplies	136	24
FDIC insurance premiums	96	102
Other real estate owned, net	247	300
Other	535	514
Total noninterest expenses	$2,099	$1,917

NOTE 13 SUBSEQUENT EVENTS:

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through the date the financial statements were available to be issued and no subsequent events occurred requiring accrual or disclosure.

NOTE 14 RECENT ACCOUNTING DEVELOPMENTS:

The following is a summary of recent authoritative announcements:

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance became effective January 1, 2018. The amendment does not apply to revenue associated with financial instruments, such as loans and investment securities available for sale, and therefore had no material effect on our consolidated financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification ("ASC"), to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments became effective on January 1, 2018 and did not have a material effect on the financial statements. As discussed in Note 10, the Company measured the fair value of its loan portfolio using an exit price notion as of March 31, 2018.

In February 2016, the FASB amended the Leases topic of the ASC to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. As discussed in Note 11, the Company early adopted ASU No. 2016-02 Leases (Topic 842).

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the ASC to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The guidance became effective January 1, 2018. The Company completed an assessment of revenue streams and a review of related contracts potentially affected by the ASU and, based on this assessment, the Company concluded that the ASU did not materially change the method in which the Company currently recognizes revenue for these revenue streams. As such, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. Early adoption is permitted for all organizations for periods beginning after December 15, 2018. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

In December 2016, the FASB issued technical corrections and improvements to the Revenue from Contracts with Customers Topic. These corrections make a limited number of revisions to several pieces of the revenue recognition standard issued in 2014. The amendment became effective on January 1, 2018 and did not have a material effect on the financial statements.

In January 2017, the FASB updated the Accounting Changes and Error Corrections and the Investments—Equity Method and Joint Ventures Topics of the Accounting Standards Codification. The ASU incorporates into the Accounting Standards Codification recent SEC guidance about disclosing, under SEC SAB Topic 11.M, the effect on financial statements of adopting the revenue, leases, and credit losses standards. The ASU was effective upon issuance. The Company is currently evaluating the impact on additional disclosure requirements as each of the standards is adopted, however it does not expect these amendments to have a material effect on its financial position, results of operations or cash flows.

In February 2017, the FASB amended the Other Income Topic of the ASC to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendment became effective on January 1, 2018 and did not have a material effect on the financial statements.

In September 2017, the FASB updated the Revenue from Contracts with Customers and the Leases Topics of the Accounting Standards Codification. The amendments incorporate into the ASC recent SEC guidance about certain public business entities (PBEs) electing to use the non-PBE effective dates solely to adopt the FASB's new standards on revenue and leases. The amendments were effective upon issuance. The Company is currently in the process of evaluating the impact of adoption of this guidance, however it does not expect these amendments to have a material effect on its financial statements.

In November 2017, the FASB updated the Income Statement and Revenue from Contracts with Customers Topics of the Accounting Standards Codification. The amendments incorporate into the ASC recent SEC guidance related to revenue recognition. The amendments were effective upon issuance and did not have a material effect on the financial statements.

In February 2018, the FASB Issued (ASU 2018-02), Income Statement (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which requires Companies to reclassify the stranded effects in other comprehensive income to retained earnings as a result of the change in the tax rates under the Tax Cuts and Jobs Act. The Company has opted to early adopt this pronouncement by retrospective application to each period (or periods) in which the effect of the change in the tax rate under the Tax Cuts and Jobs Act is recognized. The impact of the reclassification from other comprehensive income to retained earnings was $98 thousand as of December 31, 2017.

In February 2018, the FASB amended the Financial Instruments Topic of the Accounting Standards Codification. The amendments clarify certain aspects of the guidance issued in ASU 2016-01. The amendments will be effective for the third quarter of 2018 subsequent to adopting the amendments in ASU 2016-01. All entities may early adopt these amendments for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years, as long as they have adopted ASU 2016-01. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2018, the FASB updated the Debt Securities and the Regulated Operations Topics of the Accounting Standards Codification. The amendments incorporate into the Accounting Standards Codification recent SEC guidance which was issued in order to make the relevant interpretive guidance consistent with current authoritative accounting and auditing guidance and SEC rules and regulations. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2018, the FASB updated the Income Taxes Topic of the Accounting Standards Codification. The amendments incorporate into the Accounting Standards Codification recent SEC guidance related to the income tax accounting implications of the Tax Cuts and Jobs Act. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

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

Caution About Forward Looking Statements

We make forward looking statements in this quarterly report that are subject to risks and uncertainties. These forward looking statements include statements regarding our profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, business strategy, and financial and other goals. The words “believes,” “expects,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends,” or other similar words or terms are intended to iden forward looking statements.

Certain information contained in this discussion may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements contain the Company’s expectations, plans, future financial performance, and other statements that are not historical facts. These forward-looking statements are generally identified by phrases such as “the Company expects,” “the Company believes” or words of similar importance. Such forward-looking statements involve known and unknown risks including, but not limited to, changes in general economic and business conditions, interest rate fluctuations, competition within and from outside the banking industry, new products and services in the banking industry, risk inherent in making loans such as repayment risks and fluctuating collateral values, problems with technology utilized by the Company, changing trends in customer profiles and changes in laws and regulations applicable to the Company. Although the Company believes that its expectations with respect to the forward-looking statements are based upon reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Because of these uncertainties, our actual future results may be materially different from the results indicated by these forward looking statements. In addition, our past results of operations do not necessarily indicate our future results.

Critical Accounting Policies

For discussion of our significant accounting policies see our Annual Report on Form 10-K for the year ended December 31, 2017. Certain critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements. Our most critical accounting policies relate to our provision for loan losses and the calculation of our deferred tax asset and related valuation allowance.

The provision for loan losses reflects the estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our borrowers were to further deteriorate, resulting in an impairment of their ability to make payments, our estimates would be updated, and additional provisions could be required.

Our deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. If all or a portion of the net deferred tax asset is determined to be unlikely to be realized in the foreseeable future, a valuation allowance is established to reduce the net deferred tax asset to the amount that is more likely than not to be realized. For further discussion of the deferred tax asset and valuation allowance, we refer you to the section on “Deferred Tax Asset and Income Taxes” below.

Overview and Highlights

For the quarter ended March 31, 2018 the Company had net income of $80 thousand, or basic net income per share of $0.00, as compared to a net income of $115 thousand, or basic net income per share of $0.00, for the quarter ended March 31, 2017. Total assets increased $4.9 million from December 31, 2017 at $666.7 million to $671.6 million at March 31, 2018.

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Highlights from the first quarter of 2018 include:

- Interest-bearing deposits with banks increased $7.0 million, or 48.2%;
- Investment securities available-for-sale decreased 5.7%, or $4.1 million;
- Net loans increased $3.8 million;
- Total assets increased $4.9 million;
- Noninterest-bearing deposits increased $8.6 million, or 5.6%;
- Interest-bearing deposits decreased $1.2 million;
- The Bank continues to be considered well-capitalized under regulatory standards; and,
- Book value per share was $2.10 as of March 31, 2018.

Comparison of the Three Months ended March 31, 2018 to March 31, 2017

Interest income increased $877 thousand, or 14.4%, for the first three months of 2018 compared to the first three months of 2017. Substantially all of the increase was related to interest and fees earned on loans. Interest paid for deposit accounts in the first quarter of 2018 was $158 thousand higher than the prior year contributing to the overall $164 thousand increase to interest expenses for the quarter. These increases resulted in an increase to net interest income of $713 thousand. In the first quarter of 2018, our net interest margin was 4.09%, as compared to 3.85% for the same period in 2017, an increase of 24 basis points.

Noninterest income for the first quarter of 2018 was $1.8 million, an increase of $36 thousand when compared to $1.7 million for the same period in 2017. Service charges and fees increased $26 thousand during the first quarter of 2018 compared to the first quarter of 2017 due principally to Interactive Teller Machine (“ITM”) and ATM network fee revenue which increased $36 thousand year over year.

Noninterest expense increased $661 thousand, or 9.47%, to $7.6 million for the first quarter 2018 as compared to $7.0 million for the first quarter of 2017. Salaries and employee benefits increased $263 thousand, or 7.78% in the quarter-to-quarter comparison, from $3.4 million at March 31, 2017 to $3.6 million for the same period in 2018. This increase was primarily the result of seasoned commercial bankers and credit administration staff hired throughout 2017 as a part of our strategy to grow the loan portfolio, staffing for a new branch location that opened in the second quarter of 2018 in Princeton, West Virgina, , annual pay increases, and increased health insurance costs.

Occupancy and equipment expenses increased $165 thousand from $1.1 million for the first quarter of 2017 to $1.3 million for the first quarter of 2018. In the second quarter of 2017, the Bank sold four commercial properties and then entered into commercial lease agreements resulting in an increase to lease expense of $119 thousand for the three months ended March 31, 2018 compared to March 31, 2017. Building depreciation expense decreased $32 thousand while maintenance and equipment depreciation expenses increased $17 thousand and $36 thousand, respectively. Data processing and telecommunications expenses increased $51 thousand. Other real estate owned expenses decreased $53 thousand to $247 thousand for the first quarter of 2018 as compared to $300 thousand for the same period in 2017. Writedowns on other real estate owned were $69 thousand for the first three months of 2018 as compared to writedowns of $176 thousand for the same period in 2017. During the first three months of 2018, we had net losses on the sale of other real estate owned of $96 thousand as compared to net gains on the sale of other real estate owned of $24 for the same period in 2017, as we continue to actively pursue the reduction of OREO and redeploy the funds received in earning assets. Legal and professional fees increased $70 thousand due principally to an increase in legal fees of $63 thousand related to efforts to resolve various litigation issues incurred in the normal course of business.

Our efficiency ratio, a non-GAAP measure which is defined as noninterest expense divided by the sum of net interest income plus noninterest income, was 97.59% for the first quarter of 2018 as compared to 98.57% for the same period in 2017. Included in this calculation are the other real estate owned write-downs which negatively impact the ratio.

Balance Sheet

Total assets increased $4.9 million, or 0.73%, to $671.6 million at March 31, 2018 from $666.7 million at December 31, 2017. The main driver in the increase is related to an increase of $3.4 million in loans resulting from our efforts to conservatively grow the loan portfolio. Going forward, we anticipate total assets increasing due to our plan to conservatively and prudently grow the loan portfolio, as we were able to accomplish in the first quarter of 2018.

Total investments decreased $4.1 million, or 5.70%, to $67.0 million at March 31, 2018 from $71.1 million at December 31, 2017. Due to rising interest rates, a $1.0 million decrease in the fair market value of the investment portfolio during the 1st quarter of 2018 resulted in a net unrealized loss of $1.8 million at March 31, 2018 compared to the net unrealized loss of $751 thousand at December 31, 2017. Interest bearing deposits with banks increased $7.0 million, or 48.21%, in the first three months of 2018 to $21.4 million from $14.4 million at December 31, 2017 as liquid assets were increased to support loan demand.

Total loans increased $3.4 million to $516.4 million at March 31, 2018 as compared to $513.0 million at December 31, 2017. We believe the focus on developing new and existing lending relationships should continue the pace of increasing total loans as experienced in the first three months of 2018, subject to the economy and heightened competition in our markets.

In May 2017, the Company early adopted ASU No. 2016-02 Leases (Topic 842) which resulted in the recognition of right-of-use assets – operating leases and corresponding lease liabilities. During the first quarter of 2018, both the right-of-use assets and the liabilities decreased $77 thousand.

Total deposits increased $7.4 million, or 1.27%, from $582.5 million at December 31, 2017 to $589.9 million at March 31, 2018. Noninterest-bearing demand deposits increased 5.57%, or $8.6 million, from $154.6 million at December 31, 2017 to $163.2 million at March 31, 2018. Interest-bearing deposits decreased $1.2 million over the same period as we seek to manage the composition of the deposit portfolio and reduce reliance on time deposits. Due to competitive pressures, rising interest rates, and our need for funding, we expect to see an uptick on the interest we pay on time deposits in 2018. Overall, we continue to maintain core deposits through attractive consumer and commercial deposit products and strong ties with our customer base and communities.

At March 31, 2018, we had borrowings from the Federal Home Loan Bank (“FHLB”) totaling $7.3 million as compared to $7.6 million at December 31, 2017, a decrease of $300 thousand in regularly scheduled principal payments. None of the FHLB advances are overnight borrowings and therefore the advances are not subject to daily interest rate changes.

The following table presents the FHLB advances:

(Dollars in thousands)	**Maturity Date**	**Rate**	**March 31, 2018**	**December 31, 2017**
Principal Reducing Credit	5/16/2018	4.10%	$83	$208
Principal Reducing Credit	5/21/2018	4.05%	175	350
Fixed Rate Hybrid	6/28/2019	0.99%	2,000	2,000
Fixed Rate Hybrid	6/30/2021	1.34%	5,000	5,000
Total			$7,258	$7,558

Total equity at March 31, 2018 was $50.2 million compared to $51.0 million at December 31, 2017. Net income of $80 thousand for the three months ended March 31, 2018, was offset by an increase in unrealized losses of $821 thousand on available-for-sale investments which is included in accumulated other comprehensive loss, net of tax. This unrealized loss is due to the upward shift in interest rates and is not indicative of credit quality factors related to any of the security issuers.

Asset Quality

We continue to make progress in reducing the levels of non-performing assets. Though asset quality is improving, the level of nonperforming assets remains elevated as we continue to work through foreclosed properties that are held over from the Great Recession and nonaccrual loans. The ratio of nonperforming assets to total assets was 2.22% at March 31, 2018 as compared to 2.16% at December 31, 2017. Nonperforming assets, which include nonaccrual loans, other real estate owned and past due loans greater than 90 days still accruing interest, were $14.9 million and $14.4 million at March 31, 2018 and December 31, 2017, respectively. The makeup of these assets is primarily loans secured by commercial real estate, residential mortgages, and farmland as well as other real estate owned properties. We continue undertaking extensive and more aggressive measures to work through problem credits and liquidate foreclosed properties in an effort to accelerate a reduction of nonperforming assets. Our goal is to reduce the nonperforming assets being mindful of the impact to earnings and capital; however, we may recognize some losses and reductions in the allowance for loan loss as we expedite the resolution of these problem assets.

Nonperforming assets consisted of the following:

	March 31, 2018	December 31, 2017
Nonaccrual loans	$8,227	$7,564
Loans past due more than 90 days, still accruing	-	-
Nonperforming loans	8,227	7,564
Other real estate owned	6,711	6,859
Nonperforming assets	$14,938	$14,423
Nonperforming loans/Total loans at period end	1.59%	1.47%
Nonperforming assets/Total assets at period end	2.22%	2.16%

There were no loans past due more than 90 days still accruing interest at March 31, 2018 or December 31, 2017. Loans rated substandard were $10.6 million at March 31, 2018, a decrease of $1.3 million from $11.9 million at December 31, 2017. Total past due loans decreased from $10.0 million at December 31, 2017, to $7.5 million at March 31, 2018.

Other real estate owned ("OREO") decreased $148 thousand to $6.7 million at March 31, 2018 from $6.9 million at December 31, 2017. All properties are available for sale by commercial and residential realtors under the direction of our Special Assets division. During the first three months of 2018, we acquired $1.0 million in other real estate owned as a result of settlement of foreclosed loans, which was offset by sales of $1.1 million of our properties with losses of $96 thousand realized as a result of the sales. In an effort to reduce our level of foreclosed properties, we have taken an aggressive approach toward liquidating properties by making pricing adjustments and holding auctions on several of our older properties. We expect to continue these efforts during 2018 which could result in additional losses, while reducing future carrying costs. We do have lease agreements on certain OREO properties which are generating rental income at market rates. Rental income on OREO properties was $54 thousand for the first three months of 2018 compared to $55 thousand for the first three months of 2017.

Our allowance for loan losses at March 31, 2018 was $5.7 million, or 1.10% of total loans as compared to $6.2 million, or 1.21% of total loans at December 31, 2017. Impaired loans decreased $1.9 million, or 14.78%, to $10.8 million with an estimated related allowance of $854 thousand for potential losses at March 31, 2018 as compared to $12.6 million in impaired loans with an estimated related allowance of $1.2 million at the end of 2017. A provision for loan losses of $64 thousand was expensed during the first three months of 2018. No provision for loan losses was recorded during first three months of 2017. In the first three months of 2018, net charge offs were $557 thousand, or 0.11% of average loans, as compared to $104 thousand, or 0.09% of average loans, in the same period of 2017. The allowance for loan losses is being maintained at a level that management deems appropriate to absorb any potential future losses and known impairments within the loan portfolio whether or not the losses are actually ever realized. We continue to adjust the allowance for loan loss model to best reflect the risks in the portfolio and the improvements made in our internal policies and procedures; however, future provisions may be deemed necessary.

(Dollars in thousands)	March 31, 2018	December 31, 2017
Specific allowance	$854	$1,246

General allowance	4,848	4,950
Total allowance	$5,702	$6,196
Impaired loans	$10,772	$12,640
Other loans	505,591	500,368
Total loans	$516,363	$513,008
Total allowance/Total loans	1.10%	1.21%
General allowance/Other loans	0.96%	0.99%

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Deferred Tax Asset and Income Taxes

Due to timing differences between book and tax treatment of several income and expense items, a net deferred tax asset of $5.7 million and $5.5 million existed at March 31, 2018 and December 31, 2017, respectively. Our income tax expense was computed at the revised corporate income tax rate of 21% of taxable income for 2018 due to the enactment of the Tax Cuts and Jobs Act ("TCJA") which became law on December 22, 2017. Income tax expense was previously calculated at 34% of taxable income. We do not have significant nontaxable income or nondeductible expenses.

Capital Resources

Total stockholders' equity for the quarter ended March 31, 2018 was $50.2 million compared to $51.0 million at December 31, 2017, a decrease of $741 thousand. The decrease includes increased unrealized losses related to the available-for-sale portfolio, net of tax, of $821 thousand offset by net income of $80 thousand for the three month period.

The Company meets eligibility criteria of a small bank holding company in accordance with the Federal Reserve Board's Small Bank Holding Company Policy Statement issued in February 2015, and is no longer obligated to report consolidated regulatory capital. The Bank continues to be subject to various capital requirements administered by banking agencies.

The Bank's capital ratios are as follows:

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of March 31, 2014, the significant unobservable inputs used in the fair value measurements were as follows:

	Well-Capitalized Regulatory Threshold	**March 31, 2018**	**December 31, 2017**
Tier 1 leverage	5.00%	9.56%	9.56%
Common equity Tier 1	6.50%	13.97%	14.05%
Tier 1 risk-based capital	8.00%	13.97%	14.05%
Total risk-based capital	10.00%	15.21%	15.30%

At March 31, 2018, the Bank remains well capitalized under the regulatory framework for prompt corrective action. The ratios mentioned above for the Bank comply with the Federal Reserve rules to align with the Basel III Capital requirements effective January 1, 2015. As a result of these new rules the Company and Bank are now subject to a Common Equity Tier 1 ratio set out above.

The tangible book value per common share was $2.10 at March 31, 2018 compared to $2.13 at December 31, 2017. Other key performance indicators are as follows:

	March 31, 2018	**March 31, 2017**
Return on average assets[1]	0.05%	0.07%
Return on average equity[1]	0.64%	0.99%
Average equity to average assets	7.59%	7.35%

[1] Annualized

Total assets increased during the first quarter of 2018 and we anticipate asset levels to increase in the future due to an emphasis on growing the loan portfolio and the core deposit base of the Bank. Under current economic conditions, we believe it is prudent to continue to increase capital to support planned asset growth while being able to absorb potential losses that may occur if asset quality deteriorates further. Based upon projections, we believe our current capital levels will be sufficient to support the Bank's planned asset growth.

No cash dividends have been paid historically and we do not anticipate paying a cash dividend in the foreseeable future as the Company continues to have a retained deficit. Earnings will continue to be retained to build capital and position the Company to pay a dividend to its shareholders as soon as practicable.

Liquidity

We closely monitor our liquidity and our liquid assets in the form of cash, due from banks, federal funds sold, and unpledged available for sale investments. Collectively, those balances were $94.7 million at March 31, 2018, an increase from $92.8 million at December 31, 2017. A surplus of short-term assets are maintained at levels management deems adequate to meet potential liquidity needs.

At March 31, 2018, all of our investments are classified as available-for-sale. These investments provide an additional source of liquidity in the amount of $56.7 million, which is net of the $10.3 million of securities pledged as collateral. Investment securities available for sale serve as a source of liquidity while yielding a higher return versus other short-term investment options, such as federal funds sold and overnight deposits with the Federal Reserve Bank.

Our loan to deposit ratio was 87.53% at March 31, 2018 and 88.06% at December 31, 2017.

Available third-party sources of liquidity at March 31, 2018 include the following: a line of credit with the Federal Home Loan Bank of Atlanta, access to brokered certificates of deposit markets and internet certificates of deposit, and the discount window at the Federal Reserve Bank of Richmond. We also have the ability to borrow $20.0 million in unsecured federal funds.

The Bank has a line of credit with the FHLB. Advances outstanding at March 31, 2018 were $7.3 million and the line also secures letters of credit totaling $17.0 million. Unused availability at March 31, 2018 was $142.2 million. The line is secured by a blanket lien on our residential real estate loans which amounted to $141.9 million at March 31, 2018.

We have access to the brokered deposits market. Currently we have $2.7 million in brokered term time deposits opened in 2009 with an original maturity of ten years at a cost of 4.10%. We also have deposits through the Certificate of Deposit Registry Service (“CDARS”). At March 31, 2018 we had $1.8 million in CDARS one way time deposits and $18.3 million in CDARS two way time deposits.

We are a member of an internet certificate of deposit network whereby we may purchase funds from other financial institutions at auction. We may invest funds through this network as well. Currently, we only intend to use this source of liquidity in a liquidity crisis event.

The Bank has access to additional liquidity through the Federal Reserve Bank discount window for overnight funding needs. We may collateralize this line with investment securities and loans at our discretion; however, we do not anticipate using this funding source except as a last resort.

With the on-balance sheet liquidity and other external sources of funding, we believe the Bank has adequate liquidity and capital resources to meet our requirements and needs for the foreseeable future. However, liquidity can be further affected by a number of factors such as counterparty willingness or ability to extend credit, regulatory actions and customer preferences, etc., some of which are beyond our control.

The bank holding company has $1.0 million in cash on deposit at the Bank as of March 31, 2018. These funds will be used to pay operating expenses, trust preferred interest payments, and provide additional capital injections to the Bank, if needed. The Company is making quarterly interest payments on the trust preferred securities.

During the capital raise in 2012, common stock warrants were issued to investors. The warrants were immediately exercisable through December 2017. There were no outstanding warrants at March 31, 2018.

Off Balance Sheet Items and Contractual Obligations

There have been no material changes during the quarter ended March 31, 2018 to the off-balance sheet items and the contractual obligations disclosed in our annual report on Form 10-K for the fiscal year ended December 31, 2017.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable.

Item 4. Controls and Procedures

We have carried out an evaluation, under the supervision and with the participation of our management, including our President and Chief Executive Officer (our "CEO") and our Executive Vice President and Chief Financial Officer (our "CFO"), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based upon that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were operating effectively in providing reasonable assurance that (a) the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (b) such information is accumulated and communicated to our management, including our CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) during the quarter ended March 31, 2018 that have materially affected or are reasonably likely to materially affect the Company's internal control over financial reporting.

Part II Other Information

Item 1. Legal Proceedings
In the course of operations, we may become a party to legal proceedings.

There are no pending or threatened legal proceedings to which the Company or any of its subsidiaries is a party or to which the property of the Company or any of its subsidiaries is subject that, in the opinion of management, may materially impact the financial condition of the Company.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None.

Item 6. Exhibits

See Index of Exhibits.

SIGNATURES

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

NEW PEOPLES BANKSHARES, INC.

By: /s/ C. TODD ASBURY

C. Todd Asbury

President and Chief Executive Officer

Date: May 21, 2018

By: /s/ JOHN J. BOCZAR

John J. Boczar

Executive Vice President and Chief Financial Officer

Date: May 21, 2018

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Index of Exhibits

No.	Description
2.1	Agreement and Plan of Share Exchange dated August 15, 2011 (incorporated by reference to Exhibit 2 to Form 8-K filed December 17, 2011).
3.1	Amended Articles of Incorporation of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 3.1 to Form 10-Q for the quarterly period ended June 30, 2008 filed on August 11, 2008).
3.2	Bylaws of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 3.1 to Form 8-K filed on April 15, 2004).
4.1	Specimen Common Stock Certificate of New Peoples Bankshares, Inc. (incorporated by reference to Exhibit 4.1 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
4.2	Form of Warrant to Purchase Shares of Common Stock (incorporated by reference to Exhibit 4.2 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
4.3	Form of Rights Certificate (incorporated by reference to Exhibit 4.3 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
10.1*	New Peoples Bank, Inc. 2001 Stock Option Plan (incorporated by reference to Exhibit 10.1 to Annual Report on Form 10-KSB for the fiscal year ended December 31, 2001).
10.2*	Form of Non-Employee Director Non-Qualified Stock Option Agreement (incorporated by reference to Exhibit 10.2 to Form 8-K filed November 30, 2004).
10.3*	Form of Incentive Stock Option Agreement (incorporated by reference to Exhibit 10.3 to Form 8-K filed November 30, 2004).
10.4*	Salary Continuation Agreement dated December 18, 2002 between New Peoples Bank, Inc. and Frank Sexton, Jr. (incorporated by reference to Exhibit 10.6 to Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.5*	First Amendment dated June 30, 2003 to Salary Continuation Agreement between New Peoples Bank, Inc. and Frank Sexton, Jr. (incorporated by reference to Exhibit 10.7 to Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
10.6*	Letter Agreement, dated as of June 29, 2009, between the Company and Kenneth D. Hart (incorporated by reference to Exhibit 10.1 to Quarterly Report on Form 10-Q for the quarter ended June 30, 2009).
10.7	Written Agreement, effective August 4, 2010, by and among New Peoples Bankshares, Inc., New Peoples Bank, Inc., the Federal Reserve Bank of Richmond and the State Corporation Commission Bureau of Financial Institutions (incorporated by reference to Exhibit 10.1 to Form 8-K filed August 6, 2010).
10.8	Engagement Letters of Scott & Stringfellow, LLC (incorporated by reference to Exhibit 10.8 to Form 10-Q for the quarterly period ended June 30, 2012 filed on August 14, 2012).
10.9	Convertible Note Payable, B. Scott White, dated June 27, 2012 (incorporated by reference to Exhibit 10.1 to Form 8-K filed June 29, 2012).
10.10	Convertible Note Payable, Harold Lynn Keene, dated June 27, 2012 (incorporated by reference to Exhibit 10.2 to Form 8-K filed June 29, 2012).
10.11*	Employment Agreement dated December 1, 2016 between New Peoples Bankshares, Inc., New Peoples Bank, Inc., and C. Todd Asbury (incorporated by reference to Exhibit 10.1 to Form 8-K filed December 2, 2016).
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act.

32	Certification by Chief Executive Officer and Chief Financial Officer, as required by Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials for the Company's 10-Q Report for the quarterly period ended March 31, 2018, formatted in XBRL: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Income, (iii) the Consolidated Statements of Comprehensive Income, (iv) the Consolidated Statements of Changes in Stockholders' Equity, (v) the Consolidated Statements of Cash Flows, and (vi) the Notes to the Consolidated Financial Statements, tagged as blocks of text.

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* Denotes management contract.

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