

ALLIANCE DATA SYSTEMS CORP
Form 8-K
September 11, 2014

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported):
September 11, 2014

ALLIANCE DATA SYSTEMS CORPORATION
(Exact Name of Registrant as Specified in Charter)

DELAWARE 001-15749 31-1429215
(State or Other Jurisdiction (Commission (IRS Employer
of Incorporation) File Number) Identification No.)

7500 DALLAS PARKWAY, SUITE 700
PLANO, TEXAS 75024
(Address and Zip Code of Principal Executive Offices)

(214) 494-3000
(Registrant's Telephone Number, including Area Code)

NOT APPLICABLE
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K is intended to simultaneously satisfy the filing obligation of the Registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act

Item 1.01 Entry into a Material Definitive Agreement.

Merger Agreement

On September 11, 2014, Alliance Data Systems Corporation ("Alliance Data") entered into an Agreement and Plan of Merger (the "Merger Agreement") with Conversant, Inc. ("Conversant") and Amber Sub LLC ("Merger Sub"), a direct wholly-owned subsidiary of Alliance Data. The Merger Agreement provides for the merger of Conversant with and into Merger Sub, with Merger Sub continuing as the surviving company and a direct wholly-owned subsidiary of Alliance Data (the "Merger").

Subject to the terms and conditions of the Merger Agreement, Alliance Data will pay holders of Conversant common stock consideration valued at \$35.00 per share, or approximately \$2.3 billion in the aggregate (based on the closing price of Alliance Data common stock on September 11, 2014). Each outstanding share of Conversant common stock will be exchanged in the Merger for consideration consisting of (i) 0.07037 shares of Alliance Data common stock and (ii) an amount in cash such that (based on the 15-day volume weighted average price of Alliance Data common stock as of the close of business on the second business day prior to closing (the "Closing VWAP")), the total consideration per share equals \$35.00 (together, the "Standard Merger Consideration"), with a final mix of consideration being determined following the determination of the Closing VWAP. However, the maximum amount of cash Alliance Data will pay per share of Conversant common stock will equal \$18.62 and the minimum amount of cash Alliance Data will pay per share of Conversant common stock will equal \$14.98 (the "Collar Range"). In the event that the maximum or minimum cash amount is reached, the amount of cash per share (i.e. either \$18.62 or \$14.98) and the stock exchange ratio of 0.07037 would remain fixed at these levels and the value received by Conversant shareholders would float below or above \$35.00 respectively outside of the Collar Range. Based on the 7-day volume weighted average price of Alliance Data common stock as of the close of business on September 10, 2014, the consideration to be paid to Conversant stockholders is approximately equal to 52% shares of Alliance Data common stock and 48% cash.

As an alternative to the Standard Merger Consideration, Conversant stockholders may instead elect to receive, for each share of Conversant common stock, all stock or all cash consideration, subject to pro ration amongst electing stockholders such that the aggregate amount of cash paid and the aggregate number of shares of Alliance Data common stock issued in the Merger is the same that would be paid and issued if each share of Conversant common stock had been converted into the Standard Merger Consideration. As long as Alliance Data common stock consists of 40% or more in the aggregate of the Merger Consideration as valued at one day prior to closing, the stock portion of the consideration is expected to be tax free to Conversant stockholders.

Pursuant to the Merger Agreement, outstanding equity awards of Conversant will be treated as follows at closing:

restricted stock awards that remain unvested at the closing of the Merger will be converted at the appropriate exchange ratio into the right to receive shares of restricted Alliance Data common stock, with the same vesting rights and other terms under the applicable agreement for such restricted shares; and

outstanding options will be converted at the appropriate exchange rate into the right to receive options to purchase Alliance Data common stock, with the same vesting rights and other terms under the applicable agreement for such options.

The respective Boards of Directors of Alliance Data and Conversant have unanimously approved the Merger Agreement, and the Board of Conversant has agreed to recommend that the Conversant stockholders adopt the Merger Agreement, subject to certain exceptions set forth in the Merger Agreement.

The Merger Agreement contains customary representations, warranties and covenants made by each of Conversant, Alliance Data and Merger Sub. Conversant may not solicit competing acquisition proposals, or, subject to certain exceptions with respect to unsolicited proposals, engage in discussions concerning, or provide confidential information in connection with, any alternative business combinations. Conversant is required to keep Alliance Data informed of all unsolicited alternative business combination proposals. The Merger Agreement further provides that, upon termination of the Merger Agreement under certain circumstances, including in connection with the acceptance of an alternative transaction or a material breach of the no-shop covenants, Conversant may be required to pay Alliance Data a termination fee equal to \$65 million.

Completion of the Merger is subject to customary conditions, including approval by Conversant stockholders, listing of the shares of Alliance Data common stock to be issued in the Merger on the New York Stock Exchange, effectiveness of Alliance Data's registration statement on Form S-4 and receipt of required regulatory approvals.

Upon the execution of the Merger Agreement, Conversant delivered voting agreements to Alliance Data for all executive officers and directors of Conversant, which restrict the transfer of shares except to certain permitted transferees.

Voting Agreement

Simultaneously with the execution of the Merger Agreement, and as an inducement to Alliance Data to enter into the Merger Agreement, all executive officers and directors of Conversant, who owned shares of or securities convertible into or exercisable for Conversant common stock representing approximately 6.5% of Conversant common stock outstanding as of September 11, 2014 on a fully diluted basis, entered into a Voting Agreement with Alliance Data dated as of September 11, 2014 (the "Voting Agreement"). Under the terms of the Voting Agreement, the executive officers and directors of Conversant agreed, subject to the exceptions set forth therein, among other things, to vote all shares of Conversant common stock which such officer or director holds in favor of the Merger Agreement and the Merger and not to transfer such shares except to certain permitted transferees who agree to become bound by the Voting Agreement.

The foregoing summaries of the Merger Agreement and Voting Agreement and the transactions contemplated thereby do not purport to be complete and are subject to, and qualified in their entirety by, the full text of the Merger Agreement, which is filed as Exhibit 2.1 to this Form 8-K, and the full text of the Voting Agreement, which is filed as Exhibit 10.1 to this Form 8-K, each of which are incorporated herein by reference.

The Merger Agreement, the Voting Agreement and the above description have been included to provide investors and security holders with information regarding the terms of the Merger Agreement and Voting Agreement. They are not intended to provide any other factual information about Conversant, Alliance Data or their respective subsidiaries or affiliates or stockholders. The representations, warranties and covenants contained in the Merger Agreement and Voting Agreement were made only for purposes of those agreements and as of specific dates; were solely for the benefit of the parties to the Merger Agreement or the Voting Agreement, as applicable; and may be subject to limitations agreed upon by the parties, including being qualified by confidential disclosures made by each contracting party to the other for the purposes of allocating contractual risk between them that differ from those applicable to investors. Investors should be aware that the representations, warranties and covenants or any description thereof may not reflect the actual state of facts or condition of Conversant, Alliance Data, Merger Sub or any of their respective subsidiaries, affiliates, businesses or stockholders. Moreover, information concerning the subject matter of the representations, warranties and covenants may change after the date of the Merger Agreement, which subsequent information may or may not be fully reflected in public disclosures by Conversant or Alliance Data. Accordingly, investors should read the representations and warranties in the Merger Agreement and Voting Agreement not in isolation but only in conjunction with the other information about Conversant, Alliance Data or Merger Sub and their respective subsidiaries that the respective companies include in reports, statements and other filings they make with

the SEC.

Item 8.01. Other Events

On September 11, 2014, Alliance Data issued a joint press release with Conversant announcing the Merger Agreement. A copy of the joint press release is attached hereto as Exhibit 99.1 and incorporated herein by reference.

Important Information for Investors and Stockholders

This communication shall not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction. No offering of securities shall be made except by means of a prospectus meeting the requirements of Section 10 of the Securities Act of 1933, as amended. This communication may be deemed to be solicitation material in respect of the proposed merger between Conversant and Alliance Data. In connection with the proposed merger, Alliance Data intends to file with the United States Securities and Exchange Commission ("SEC") a registration statement on Form S-4 containing a proxy statement/prospectus. After the registration statement has been declared effective by the SEC, the definitive proxy statement/prospectus will be delivered to stockholders of Conversant. SECURITY HOLDERS OF CONVERSANT ARE URGED TO READ THE DEFINITIVE PROXY STATEMENT/PROSPECTUS (INCLUDING ALL AMENDMENTS AND SUPPLEMENTS THERETO) AND OTHER DOCUMENTS RELATING TO THE MERGER THAT WILL BE FILED WITH THE SEC CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED MERGER. Investors and security holders will be able to obtain copies of the registration statement and proxy statement/prospectus (when available) and other documents filed by Alliance Data and Conversant, without charge, through the website maintained by the SEC at <http://www.sec.gov>. Copies of documents filed with the SEC by Alliance Data will be made available free of charge on Alliance Data's website at www.alliancedata.com. Copies of documents filed with the SEC by Conversant will be made available free of charge on Conversant's website at www.conversantmedia.com.

Safe Harbor Statement/Forward Looking Statements

Certain information set forth in this communication, including financial estimates, projections about the industries and markets in which Alliance Data and Conversant operate, and statements as to the expected timing, completion and effects of the proposed merger between Alliance Data and Conversant, constitute forward-looking statements within the meaning of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements may use words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "predict," "project," "would" and similar expressions as they relate to each company or their respective management teams. These estimates and statements are subject to risks and uncertainties that could cause actual results to differ materially from those expected in or suggested by such statements. Such estimates and statements include, but are not limited to, statements about the benefits of the merger, including future financial and operating results, the combined company's plans, objectives, expectations (financial or otherwise) and intentions, the estimated timetable for completing the transaction and other statements that are not historical facts. Such statements are based upon the current beliefs and expectations of the management of Alliance Data and/or Conversant and are subject to significant risks and uncertainties outside of our control.

Risks and uncertainties related to the proposed merger include, among others: the occurrence of any event, change or other circumstances that could give rise to the termination of the merger agreement; the risk that Conversant stockholders may not adopt the merger agreement; the risk that the necessary regulatory approvals may not be obtained or may be obtained subject to conditions that are not anticipated; uncertainties as to the timing of the merger; competitive responses to the proposed merger; response by activist shareholders to the merger; risks that any of the closing conditions to the proposed merger may not be satisfied in a timely manner; unexpected costs, charges or expenses resulting from the merger; litigation relating to the merger; the outcome of pending litigation; risks related to the disruption of management time from ongoing business operations due to the proposed merger; failure to realize the benefits expected from the proposed merger; changes in general economic and/or industry-specific conditions; and the effect of the announcement of the proposed merger on the ability of Alliance Data and Conversant to retain customers and retain and hire key personnel and maintain relationships with their suppliers, and on their operating results and businesses generally. For further information regarding factors affecting future results of Alliance Data and Conversant, please refer to their respective Annual Reports filed on Form 10-K for the year ended December 31, 2013, Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2014, and other documents filed by Alliance Data and Conversant with the SEC, which are available at the SEC's website <http://www.sec.gov>. Neither Alliance Data nor Conversant is under any obligation, and each expressly disclaim any obligation, to update, alter, or otherwise revise any forward-looking statements, whether written or oral, that may be made from time to time, whether as a result of new information, future events, or otherwise, except as required by law. Persons reading this announcement are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof.

Participants in the Solicitation

Alliance Data and Conversant and their respective directors and executive officers may be deemed to be participants in the solicitation of proxies from the holders of Conversant common stock in respect of the proposed transaction. Information about Alliance Data's directors and executive officers is set forth in the proxy statement for Alliance Data's 2014 Annual Meeting of Stockholders, which was filed with the SEC on April 21, 2014. Information about Conversant's directors and executive officers is set forth in the proxy statement for Conversant's 2014 Annual Meeting of Stockholders, which was filed with the SEC on March 28, 2014. Additional information regarding the participants in the proxy solicitation and a description of their direct and indirect interests, through securities holdings or otherwise, will be contained in the proxy statement/prospectus and other relevant materials to be filed with the SEC regarding the proposed merger when they become available. Investors should read the joint proxy statement/prospectus carefully when it becomes available before making any voting or investment decisions. You may obtain free copies of these documents from Alliance Data.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

<u>Exhibit No.</u>	<u>Document Description</u>
2.1	Agreement and Plan of Merger, dated as of September 11, 2014, among Alliance Data Systems Corporation, Conversant, Inc. and Amber Sub LLC*
10.1	Voting Agreement, dated as of September 11, 2014, by and among Alliance Data Systems Corporation and executive officers and directors of Conversant, Inc.*
99.1	Joint Press Release, dated September 11, 2014, issued by Alliance Data Systems Corporation and Conversant, Inc.

* Certain schedules and exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. A copy of any omitted schedule and/or exhibit will be furnished supplementally to the SEC upon request.

SIGNATURES

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

Alliance Data Systems
Corporation

Date: September 11, 2014 By: /s/ Charles L. Horn
Charles L. Horn
Executive Vice President and
Chief Financial Officer

EXHIBIT INDEX

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,040,470 PA Delaware County Industrial American REF-Fuel Co., Series 1997 A, Development Authority 6.200% 07/01/19 1,000,000 1,039,310 ----- Resource Recovery Total 2,079,780 Resource Recovery Total 3,388,455 Tax-Backed - 29.2% Local Appropriated - 1.6% CA Compton Civic Center & Capital Improvements, Series 1997 A, 5.500% 09/01/15 1,000,000 1,031,570 SC Dorchester County School Series 2004, District No. 2 5.250% 12/01/29 500,000 533,270 SC Laurens County School Lancaster County School District, Series 2005, District No. 55 5.250% 12/01/30 700,000 744,905 SC Newberry County School District Series 2005, 5.000% 12/01/30 400,000 416,776 ----- Local Appropriated Total 2,726,521 Local General Obligations - 7.0% CA Los Angeles Unified School Series 2002 E, Insured: MBIA District 5.750% 07/01/16 600,000 704,574 CO Northwest Metropolitan Series 2005, District No. 3 6.250% 12/01/35 500,000 534,580 See Accompanying Notes to Financial Statements. 17 Colonial Municipal Income Trust November 30, 2006 Municipal Bonds (continued) Par (\$) Value (\$) Tax-Backed (continued) Local General Obligations (continued) LA New Orleans Series 1991, Insured: AMBAC (a) 09/01/15 4,000,000 2,765,120 NJ Bergen County Improvement Series 2005, Authority 5.000% 11/15/24 1,000,000 1,138,290 NY New York Series 1998 H, Insured: MBIA 5.125% 08/01/25 4,815,000 4,966,961 TX Dallas County Flood Control Series 2002, District 7.250% 04/01/32 750,000 805,328 TX Irving Independent School Series 1997 A, Insured: PSFG District (a) 02/15/16 1,000,000 692,470 ----- Local General Obligations Total 11,607,323 Special Non-Property Tax - 9.9% CA San Diego Redevelopment Series 2001, Insured: FSA Agency (a) 09/01/18 1,015,000 626,336 IL Bolingbrook Series 2005, (h) 01/01/24 (6.250% 01/01/08) 500,000 491,115 IL Metropolitan Pier & Exposition McCormick Place Expansion: Authority Series 1994 A, Insured: MBIA (a) 06/15/15 3,000,000 2,149,920 Series 1996 A, Insured: MBIA (a) 12/15/13 5,000,000 3,825,150 Series 2002 A, Insured: FGIC (a) 06/15/14 3,990,000 2,986,555 KS Wyandotte County Series 2005, 5.000% 12/01/20 225,000 235,798 Series 2006, 4.875% 10/01/28 600,000 603,306 NJ Economic Development Series 2004: Authority 5.500% 06/15/31 120,000 128,415 5.750% 06/15/29 500,000 546,365 PR Commonwealth of Puerto Rico Series 2005 C, Insured: AMBAC Infrastructure Financing Authority 5.500% 07/01/24 4,000,000 4,797,520 ----- Special Non-Property Tax Total 16,390,480 Special Property Tax - 9.2% CA Huntington Beach Community Series 2001-1, Facilities District 6.450% 09/01/31 500,000 541,025 CA Lincoln Community Facilities Series 2004, District No. 2003-1 5.550% 09/01/18 450,000 467,447 See Accompanying Notes to Financial Statements. 18 Colonial Municipal Income Trust November 30, 2006 Municipal Bonds (continued) Par (\$) Value (\$) Tax-Backed (continued) Special Property Tax (continued) CA Oakdale Public Financing Series 2004, Authority 5.375% 06/01/33 1,125,000 1,192,230 CA Orange County Improvement Phase IV, No. 01-1-B, Series 2003, Bond Act 1915 5.750% 09/02/33 500,000

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515,705 CA Redwood City Community Series 2003 B, Facilities District No. 1 6.000% 09/01/33 300,000 316,560 CA Temecula Valley Unified School Series 2003, District No. 1 6.125% 09/01/33 355,000 362,952 CA Yorba Linda Redevelopment Series 1998 A, Insured: MBIA Agency (a) 09/01/24 1,325,000 622,591 FL Celebration Community Series 2003 A, Development District 6.400% 05/01/34 730,000 782,239 FL Colonial Country Club Series 2003, Community Development District 6.400% 05/01/33 485,000 523,509 FL Double Branch Community Series 2002 A, Development District 6.700% 05/01/34 490,000 541,754 FL Islands at Doral Southwest Series 2003, Community Development District 6.375% 05/01/35 245,000 263,730 FL Lexington Oaks Community Series 1998 A, Development District 6.125% 05/01/19 685,000 688,069 FL Orlando Series 1998 A: 5.500% 05/01/10 85,000 86,732 5.800% 05/01/26 300,000 307,980 FL Seven Oaks Community Series 2004 B, Development District II 5.000% 05/01/09 720,000 722,534 FL Stoneybrook Community Series 1998 A, Development District 6.100% 05/01/19 215,000 215,976 FL West Villages Improvement Series 2006, District 5.500% 05/01/37 500,000 508,660 FL Westchester Community Series 2003, Development District No. 1 6.125% 05/01/35 275,000 294,173 FL Westridge Community Series 2005, Development District 5.800% 05/01/37 1,000,000 1,033,800 GA Atlanta Series 2005 B, 5.400% 01/01/20 500,000 520,685 IL Chicago Pilsen Redevelopment, Series 2004 B, 6.750% 06/01/22 310,000 338,514 See Accompanying Notes to Financial Statements. 19 Colonial Municipal Income Trust November 30, 2006 Municipal Bonds (continued) Par (\$) Value (\$) Tax-Backed (continued) Special Property Tax (continued) IL Du Page County Special Service Series 2006, Area No. 31 5.625% 03/01/36 250,000 263,455 IL Lincolnshire Special Services Series 2004, Area No. 1 6.250% 03/01/34 250,000 266,648 IL Plano Special Service Area No. 4 Series 2005 5-B, 6.000% 03/01/35 1,500,000 1,521,330 IL Volo Village Special Service Series 2006 1, Area No. 3 6.000% 03/01/36 485,000 500,166 IN Portage Series 2006, 5.000% 01/15/27 260,000 267,389 MI Pontiac Tax Increment Finance Development Area No. 3, Series 2002, Authority 6.375% 06/01/31 450,000 485,914 MI Taylor Tax Increment Finance Series 2001, Insured: FSA Authority 5.375% 05/01/17 1,000,000 1,069,790
----- Special Property Tax Total 15,221,557 State Appropriated - 1.2% MI Building Authority Series 2001 I, 5.000% 10/15/24 1,000,000 1,048,820 PR Commonwealth of Puerto Rico Series 2002 E, Public Finance Corp. 6.000% 08/01/26 820,000 1,006,124 -----
----- State Appropriated Total 2,054,944 State General Obligations - 0.3% CA State Series 2003, 5.250% 02/01/23 380,000 434,667 ----- State General Obligations Total 434,667 Tax-Backed Total 48,435,492 Transportation - 13.1% Air Transportation - 4.4% CA Los Angeles Regional Airport LAX Fuel Corp., Series 2001, AMT, Insured: AMBAC 5.250% 01/01/23 500,000 520,780 CO Denver City & County Airport United Air Lines, Inc., Series 1992 A, 6.875% 10/01/32 645,000 669,239 FL Capital Trust Agency Air Cargo-Orlando, Series 2003, AMT, 6.750% 01/01/32 350,000 380,054 IN Indianapolis Airport Authority Series 2004, AMT, GTY AGMT: Federal Express Corp. 5.100% 01/15/17 500,000 532,870 See Accompanying Notes to Financial Statements. 20 Colonial Municipal Income Trust November 30, 2006 Transportation (continued) Par (\$) Value (\$) Transportation (continued) Air Transportation (continued) NC Charlotte/Douglas International US Airways, Inc.: Airport Series 1998, AMT, 5.600% 07/01/27 250,000 252,725 Series 2000, AMT, 7.750% 02/01/28 500,000 540,565 NJ Economic Development Continental Airlines, Inc., Series 2003, AMT, Authority 9.000% 06/01/33 1,250,000 1,552,950 NY New York City Industrial Terminal One Group Association LP, Series 2005, AMT, Development Agency 5.500% 01/01/21 500,000 549,055 NY New York City Industrial JFK International Airport, American Airlines, Inc., Development Authority Series 2002 B, AMT, 8.500% 08/01/28 500,000 584,265 PA Philadelphia Authority for Aero Philadelphia, Series 1999, AMT, Industrial Development 5.250% 01/01/09 220,000 221,448 TX Dallas-Fort Worth International American Airlines, Inc., Series 2000 A, AMT, Airport 9.000% 05/01/29 750,000 916,035 TX Houston Industrial Development United Parcel Service, Series 2002, AMT, Corp. 6.000% 03/01/23 510,000 542,936 ----- Air Transportation Total 7,262,922 Airports - 2.0% GA Augusta Airport Series 2005 B, AMT, 5.350% 01/01/28 215,000 227,683 TX Dallas Fort Worth International Series 2004 B, AMT, Insured: FSA Airport 5.000% 11/01/25 3,000,000 3,158,100 ----- Airports Total 3,385,783 Toll Facilities - 3.3% CA San Joaquin Hills Transportation Series 1997 A, Insured: MBIA Corridor Agency (a) 01/15/15 3,000,000 2,193,510 CO E-470 Public Highway Authority Series 2000 B, Insured: MBIA (a) 09/01/18 3,000,000 1,851,240 CO Northwest Parkway Public Series 2001 D, Highway Authority 7.125% 06/15/41 1,000,000 1,047,060 PR Commonwealth of Puerto Rico Series 2003 AA, Insured: MBIA Highway & Transportation Authority 5.500% 07/01/18 375,000 435,817 ----- Toll Facilities Total 5,527,627 See Accompanying Notes

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to Financial Statements. 21 Colonial Municipal Income Trust November 30, 2006 Municipal Bonds (continued) Par (\$)
 Value (\$) Transportation (continued) Transportation - 3.4% NV Department of Business & Las Vegas Monorail
 Co., Series 2000, Industry 7.375% 01/01/40 750,000 767,925 NY Port Authority of New York & Series 2004, AMT,
 Insured: FSA New Jersey 5.125% 07/15/30 (i) 4,450,000 4,775,206 -----
 ----- Transportation Total 5,543,131 Transportation Total 21,719,463 Utilities - 14.6% Independent Power
 Producers - 2.1% NY Port Authority of New York & Kiac Partners, Series 1996 IV, AMT, New Jersey 6.750%
 10/01/11 2,000,000 2,029,440 NY Suffolk County Industrial Nissequoque Cogeneration Partners Facilities,
 Development Authority Series 1998, AMT, 5.500% 01/01/23 550,000 550,385 OR Western Generation Agency
 Series 2006 B, 5.000% 01/01/16 500,000 515,520 PA Carbon City Industrial Panther Creek Partners, Series 2000,
 AMT, Development Authority 6.650% 05/01/10 115,000 120,822 PR Commonwealth of Puerto Rico Industrial,
 Tourist, Educational, Medical & Environmental AES Project, Series 2000, AMT, Cogeneration Facilities 6.625%
 06/01/26 320,000 348,541 ----- Independent Power Producers
 Total 3,564,708 Investor Owned - 7.8% AZ Pima County Industrial Tucson Electric Power Co., Series 1997 A, AMT,
 Development Authority 6.100% 09/01/25 750,000 752,977 CA Chula Vista Industrial San Diego Gas & Electric Co.,
 Series 1996 B, AMT, Development Authority 5.500% 12/01/21 475,000 525,896 FL Polk County Industrial Tampa
 Electric Co., Series 1996, AMT, Development Authority 5.850% 12/01/30 800,000 816,648 IL Bryant Central Illinois
 Light Co., Series 1993, 5.900% 08/01/23 1,000,000 1,008,800 IN Petersburg Indianapolis Power & Light Co., Series
 1995, 6.625% 12/01/24 750,000 750,060 LA Calcasieu Parish Industrial Entergy Gulf States, Inc., Series 1999,
 Development Board 5.450% 07/01/10 500,000 500,835 LA West Feliciana Parish Entergy Gulf States, Inc., Series
 1999 B, 6.600% 09/01/28 500,000 501,300 See Accompanying Notes to Financial Statements. 22 Colonial Municipal
 Income Trust November 30, 2006 Municipal Bonds (continued) Par (\$)
 Value (\$) Utilities (continued) Investor
 Owned (continued) MS Business Finance Corp. Systems Energy Resources, Series 1998, 5.875% 04/01/22 1,500,000
 1,505,010 MT Forsyth Northwestern Corp., Series 2006, Insured: AMBAC 4.650% 08/01/23 1,000,000 1,031,710
 Portland General, Series 1998 A, 5.200% 05/01/33 225,000 230,639 NH Business Finance Authority Public Service
 Co., Series 2006 B, AMT, Insured: MBIA 4.750% 05/01/21 250,000 258,520 NV Clark County Industrial Nevada
 Power Co., Series 1997 A, AMT, Development Authority 5.900% 11/01/32 1,500,000 1,503,885 OH Air Quality
 Development Cleveland Electric Illuminating Co., Series 2002 A, Authority 6.000% 12/01/13 650,000 668,051 PA
 Economic Development Reliant Energy, Inc., Series 2001 A, AMT, Financing Authority 6.750% 12/01/36 400,000
 434,820 TX Brazos River Authority TXU Energy Co., LLC: Series 2001 C, AMT, 5.750% 05/01/36 220,000 234,282
 Series 2003 C, AMT, 6.750% 10/01/38 555,000 627,117 VA Pittsylvania County Industrial Virginia Electric & Power
 Co., Series 1994 A, AMT, Development Authority 7.450% 01/01/09 600,000 607,608 WY Campbell County Black
 Hills Power, Inc., Series 2004, 5.350% 10/01/24 1,000,000 1,055,170 -----
 ----- Investor Owned Total 13,013,328 Joint Power Authority - 0.3% NC Eastern Municipal Power Series
 2003 F, Agency 5.500% 01/01/16 430,000 464,039 -----
 Joint Power Authority Total 464,039 Municipal Electric - 1.5% WA Seattle Light & Power Series 2001, Insured: FSA
 5.500% 03/01/17 2,250,000 2,406,060 ----- Municipal
 Electric Total 2,406,060 Water & Sewer - 2.9% MA Water Resources Authority Series 1997 D, Insured: MBIA
 5.000% 08/01/24 2,000,000 2,055,500 MS V Lakes Utility District Series 1994, 8.250% 07/15/24 (e) 485,000 377,315
 TX Houston Water & Sewer System Series 1991 C, Insured: AMBAC (a) 12/01/12 3,000,000 2,389,560
 ----- Water & Sewer Total 4,822,375 Utilities Total
 24,270,510 Total Municipal Bonds (Cost of \$235,315,665) 248,091,264 See Accompanying Notes to Financial
 Statements. 23 Colonial Municipal Income Trust November 30, 2006 Municipal Preferred Stocks - 2.0% Par (\$)
 Value (\$) Housing - 2.0% Multi-Family - 2.0% Charter Mac Equity Issuer Trust AMT, 6.000% 04/30/19 (f) 1,000,000
 1,114,730 Series 2000, AMT, 7.600% 11/30/10 (f) 500,000 555,465 GMAC Municipal Mortgage Trust AMT, 5.600%
 10/31/39 (f) 500,000 539,835 MuniMae Trust AMT, 5.800% 06/30/49 (f) 1,000,000 1,086,340
 ----- Multi-Family Total 3,296,370 Housing Total 3,296,370
 Total Municipal Preferred Stocks (Cost of \$3,000,000) 3,296,370 Shares Investment Company - 0.0% Dreyfus
 Tax-Exempt Cash Management Fund 6,355 6,355 ----- Total
 Investment Company (Cost of \$6,355) 6,355 Par (\$)
 Short-Term Obligations - 2.2% Variable Rate Demand Notes(j) -
 2.2% FL Orange County School Board Series 2000 B, Insured: AMBAC, SPA: Sun Trust Bank N.A. 3.570%
 08/01/25 500,000 500,000 Series 2002 B, Insured: MBIA, SPA: SunTrust Bank N.A. 3.570% 08/01/27 300,000

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300,000 IL Health Facilities Authority University of Chicago Hospital, Series 1994, Insured: MBIA, SPA: JPMorgan Chase Bank 3.570% 08/15/26 200,000 200,000 MN Mankato Bethany Lutheran College, Inc., Series 2000 B, LOC: Wells Fargo Bank N.A. 3.620% 11/01/15 100,000 100,000 MO Health & Educational Facilities Bethesda Health Group, Inc., Series 2001 A, Authority 3.620% 08/01/31 100,000 100,000 NE Lancaster County Hospital Bryanlgh Medical Center, Series 2002, Insured: AMBAC Authority No. 1 3.570% 06/01/18 200,000 200,000 TN Blount County Public Building Local Government Public Improvement, Series 2006 D-7-B, Authority SPA: Depfa Bank PLC 3.570% 06/01/31 100,000 100,000 TX Harris County Health Facilities Texas Medical Center, Series 2001, Insured: MBIA Development Corp. 3.570% 09/01/31 800,000 800,000 See Accompanying Notes to Financial Statements. 24 Colonial Municipal Income Trust November 30, 2006 Par (\$) Value (\$) Short-Term Obligations (continued) Variable Rate Demand Notes (j) (continued) WI Health & Educational Facilities Gundersen Clinic Ltd., Series 2000 A, Insured: FSA, Authority SPA: Dexia Credit Local 3.570% 12/01/15 100,000 100,000 Gundersen Lutheran, Series 2000 B, Insured: FSA, SPA: Dexia Credit Local 3.570% 12/01/29 100,000 100,000 ProHealth Care, Inc., Series 2001 B, Insured: AMBAC, SPA: JPMorgan Chase Bank 3.570% 08/15/30 100,000 100,000 WY Uinta County Pollution Control Chevron Corp.: Revenue Series 1992, 2.380% 12/01/22 100,000 100,000 Series 1993, 3.570% 08/15/20 1,000,000 1,000,000 ----- Variable Rate Demand Notes Total 3,700,000 ----- Total Short-Term Obligations (Cost of \$3,700,000) 3,700,000 ----- Total Investments - 153.7% (Cost of \$242,022,020)(k) 255,093,989 ----- Auction Preferred Shares Plus Cumulative Unpaid Distributions - (54.2)% (90,054,000) ----- Other Assets & Liabilities, Net - 0.5% 896,377 ----- Net Assets - 100.0% 165,936,366 Notes to Investment Portfolio: (a)Zero coupon bond. (b)Denotes a restricted security, which is subject to registration with the SEC or is required to be exempted from such registration prior to resale. At November 30, 2006, the value of this security represents 0.7% of net assets. Acquisition Acquisition Security Date Cost ----- CA Statewide Communities Development Authority, Crossroads School for Arts & Sciences, Series 1998, 6.00% 08/01/28 08/21/98 \$1,070,000 (c)Security purchased on a delayed delivery basis. (d)Represents fair value as determined in good faith under procedures approved by the Board of Trustees. (e)The issuer is in default of certain debt covenants. Income is not being accrued. At November 30, 2006, the value of these securities amounted to \$526,311, which represents 0.3% of net assets. (f)Security exempt from registration pursuant to Rule 144A under the Securities Act of 1933. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At November 30, 2006, these securities, which are not illiquid except for the following, amounted to \$6,612,417, which represents 4.0% of net assets. Acquisition Security Date Par/Unit Cost Value ----- Resolution Trust Corp., Pass-Through Certificates, Series 1993 A, 8.500% 12/01/16 08/27/93 \$455,481 \$455,481 \$454,725 (g)The Trust has been informed that each issuer has placed direct obligations of the U.S. Government in an irrevocable trust, solely for the payment of principal and interest. See Accompanying Notes to Financial Statements. 25 Colonial Municipal Income Trust November 30, 2006 (h)Step bond. This security is currently not paying coupon. Shown parenthetically is the next interest rate to be paid and the date the Trust will begin accruing at this rate. (i)A portion of this security with a market value of \$4,775,206 is pledged as collateral for open futures contracts. (j)Variable rate demand notes. These securities are payable upon demand and are secured by letters of credit or other credit support agreements from banks. The interest rates change periodically and the interest rates shown reflect the rate as of November 30, 2006. (k)Cost for federal income tax purposes is \$241,875,819. At November 30, 2006, the Trust held the following open short futures contracts: Number of Aggregate Expiration Unrealized Type Contracts Value Face Value Date Depreciation ----- 10-Year U.S. Treasury Notes 129 \$14,024,300 \$14,085,188 Mar-2007 \$(60,888) At November 30, 2006, the Trust held the following forward swap contract: Effective Expiration Counter- Receive Fixed Variable Unrealized Notional Amount Date Date party (Pay) Rate Rate Depreciation ----- \$9,000,000 02/03/07 02/03/27 JPMorgan (Pay) 3.857% BMA Index \$(83,954) Chase Bank At November 30, 2006, the composition of the Trust by revenue source is as follows: Holdings by Revenue Source (Unaudited) % of Net Assets ----- Health Care 43.0% Tax-Backed 29.2 Other 17.7 Housing 17.0 Utilities 14.6 Transportation 13.1 Industrial 8.4 Other Revenue 4.7 Resource Recovery 2.0 Education 1.8 ----- 151.5 Investment Company 0.0* Short-Term Obligations 2.2 Auction Preferred Shares Plus Cumulative Unpaid

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Distributions (54.2) Other Assets & Liabilities, Net 0.5 ----- 100.0% ===== * Rounds to less than 0.1% Acronym
Name ----- AMBAC Ambac Assurance Corp. AMT Alternative Minimum Tax FGIC Financial Guaranty
Insurance Co. FHA Federal Housing Administration FHLMC Federal Home Loan Mortgage Corp. FSA Financial
Security Assurance, Inc. GNMA Government National Mortgage Association GTY AGMT Guaranty Agreement
LOC Letter of Credit MBIA MBIA Insurance Corp. PSFG Permanent School Fund Guarantee SPA Stand-by Purchase
Agreement See Accompanying Notes to Financial Statements. 26 Statement of Assets and Liabilities - Colonial
Municipal Income Trust November 30, 2006 (\$) Assets Investments, at cost 242,022,020 ----- Investments, at
value 255,093,989 Cash 9,561 Receivable for interest 3,815,527 Deferred Trustees' compensation plan 23,584
----- Total Assets 258,942,661 Liabilities Net
unrealized depreciation on swap contracts 83,954 Payable for: Investments purchased on a delayed delivery basis
1,791,078 Futures variation margin 52,406 Distributions -- common shares 750,136 Distributions -- preferred shares
54,000 Investment advisory fee 134,785 Pricing and bookkeeping fees 12,354 Trustees' fees 372 Custody fee 673
Audit fee 34,800 Reports to shareholders 55,955 Preferred shares remarketing commissions 3,703 Chief compliance
officer expenses 717 Deferred Trustees' fees 23,584 Other liabilities 7,778
----- Total Liabilities 3,006,295
----- Auction Preferred Shares 3,600 shares issued
and outstanding at \$25,000 per share 90,000,000 -----
----- Composition of Net Assets Paid-in capital -- common shares 202,691,824 Applicable to Common Shares
Overdistributed net investment income (132,475) Accumulated net realized loss (49,550,110) Net unrealized
appreciation (depreciation) on: Investments 13,071,969 Swap contracts (83,954) Futures contracts (60,888)
----- Net assets at value applicable to 27,767,614
common shares of beneficial interest outstanding 165,936,366
----- Net asset value per common share 5.98 See
Accompanying Notes to Financial Statements. 27 Statement of Operations - Colonial Municipal Income Trust For the
Year Ended November 30, 2006 (\$) Investment Income Interest 14,619,468 Dividends 4,803
----- Total Investment Income 14,624,271 Expenses Investment
advisory fee 1,639,559 Transfer agent fee 53,595 Pricing and bookkeeping fees 85,740 Trustees' fees 18,840 Preferred
shares remarketing commissions 225,257 Custody fee 9,799 Chief compliance officer expenses 4,508 Other expenses
220,677 ----- Total Expenses 2,257,975 Custody earnings credit
(3,099) ----- Net Expenses 2,254,876
----- Net Investment Income 12,369,395 Net Realized and
Unrealized Gain Net realized gain (loss) on: (Loss) on Investments, Swap Investments (7,559,159) Contracts and
Futures Contracts Futures contracts 488,804 ----- Net realized loss
(7,070,355) Net change in unrealized appreciation (depreciation) on: Investments 13,492,939 Swap contracts (83,954)
Futures contracts (61,694) ----- Net change in unrealized
appreciation (depreciation) 13,347,291 ----- Net Gain 6,276,936
----- Net Increase Resulting from Operations 18,646,331 Less
Distributions Declared to From net investment income (3,050,923) Preferred Shareholders
----- Net Increase Resulting from Operations Applicable to
Common Shares 15,595,408 See Accompanying Notes to Financial Statements. 28 Statement of Changes in Net
Assets - Colonial Municipal Income Trust Year Ended November 30, Increase (Decrease) in Net Assets 2006 (\$) 2005
(\$) Operations Net investment income 12,369,395 12,440,205 Net realized gain (loss) on investments and futures
contracts (7,070,355) 1,501,601 Net change in unrealized appreciation (depreciation) on investments, swap contracts
and futures contracts 13,347,291 622,105 ----- Net Increase
Resulting from Operations 18,646,331 14,563,911 Less Distributions Declared to Preferred Shareholders From net
investment income (3,050,923) (2,031,984) ----- Increase
Resulting from Operations Applicable to Common Shares 15,595,408 12,531,927 Less Distributions Declared to
Common Shareholders From net investment income (9,603,287) (10,623,821) Share Transactions Distributions
reinvested 152,038 127,412 ----- Net Increase in Net Assets
Applicable to Common Shares 6,144,159 2,035,518 Net Assets Applicable to Common Shares Beginning of period
159,792,207 157,756,689 End of period (including undistributed (overdistributed) net investment income of

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\$(132,475) and \$173,993, respectively) 165,936,366 159,792,207 -----
 ----- Number of Trust Shares Common Shares Issued for distributions reinvested 25,960 21,935 Outstanding at:
 Beginning of period 27,741,654 27,719,719 End of period 27,767,614 27,741,654
 ----- Preferred Shares Outstanding at end of period 3,600
 3,600 ----- See Accompanying Notes to Financial
 Statements. 29 Financial Highlights - Colonial Municipal Income Trust Selected data for a share outstanding
 throughout each period is as follows (common shares unless otherwise noted): Year Ended November 30,
 ----- 2006 2005 2004 2003 2002
 ----- Net Asset Value,
 Beginning of Period \$ 5.76 \$ 5.69 \$ 5.85 \$ 5.82 \$ 6.12 Income from Investment Operations: Net investment income
 (a) 0.45 0.45 0.45 0.47 0.50 Net realized and unrealized gain (loss) on investments, swap contracts and futures
 contracts 0.23 0.08 (0.15) 0.02 (0.33) ----- Total from Investment Operations 0.68 0.53
 0.30 0.49 0.17 Less Common Share Equivalent of Distributions Declared to Preferred Shareholders: From net
 investment income (0.11) (0.08) (0.04) (0.03) (0.05) ----- Total from Investment
 Operations Applicable to Common Shareholders 0.57 0.45 0.26 0.46 0.12 Less Distributions Declared to Common
 Shareholders: From net investment income (0.35) (0.38) (0.42) (0.43) (0.42) ----- Net
 Asset Value, End of Period \$ 5.98 \$ 5.76 \$ 5.69 \$ 5.85 \$ 5.82 ----- Market price per
 share -- common shares \$ 5.96 \$ 5.36 \$ 5.66 \$ 5.65 \$ 5.67 ----- Total return -- based on
 market value -- common shares (b) 17.99% 1.36% 7.86% 7.35% 7.87% Ratios to Average Net Assets/Supplemental
 Data: Expenses (c)(d) 1.39% 1.40% 1.42% 1.39% 1.37% Net investment income before preferred stock dividend
 (c)(d) 7.62% 7.73% 7.79% 8.17% 8.28% Net investment income after preferred stock dividend (c)(d) 5.74% 6.46%
 7.15% 7.61% 7.47% Portfolio turnover rate 33% 18% 16% 15% 27% Net assets, end of period (000's) -- common
 shares \$165,936 \$159,792 \$157,757 \$161,994 \$161,044 (a)Per share data was calculated using the average shares
 outstanding during the period. (b)Total return at market value assuming all distributions reinvested at prices calculated
 in accordance with the Dividend Reinvestment Plan. (c)The benefits derived from custody credits had an impact of
 less than 0.01%. (d)Ratios reflect average net assets available to common shares only. See Accompanying Notes to
 Financial Statements. 30 Asset Coverage Requirements - Colonial Municipal Income Trust Involuntary Average Asset
 Liquidating Market Total Amount Coverage Preference Value Outstanding Per Share* Per Share Per Share
 ----- 11/30/06 \$90,000,000 \$71,093 \$25,015 \$25,000 11/30/05 90,000,000
 69,387 25,010 25,000 11/30/04 90,000,000 68,821 25,004 25,000 11/30/03 90,000,000 69,998 25,006 25,000
 11/30/02 90,000,000 69,734 25,001 25,000 11/30/01 90,000,000 71,967 25,007 25,000 11/30/00 90,000,000 71,462
 25,011 25,000 11/30/99 ** 90,000,000 50,023 25,006 25,000 * Calculated by subtracting the Trust's total liabilities
 from the Trust's total assets and dividing the amount by the number of Auction Preferred Shares outstanding. **On
 July 20, 1999, the Trust began offering Auction Preferred Shares. 31 Notes to Financial Statements - Colonial
 Municipal Income Trust November 30, 2006 Note 1. Organization Colonial Municipal Income Trust (the "Trust") is a
 Massachusetts business trust registered under the Investment Company Act of 1940 (the "Act"), as amended, as a
 closed-end management investments company and is operating as a diversified investment company. Investment Goal
 The Trust seeks to provide high current income, generally exempt from federal income taxes, by investing primarily in
 medium and lower quality bonds and notes issued by or on behalf of state and local government units whose interest is
 exempt from ordinary federal income tax, other than the possible incidence of any alternative minimum tax. The
 Trust's secondary goal is to seek total return. Trust Shares The Trust may issue an unlimited number of common
 shares. On July 20, 1999, the Trust issued 3,600 Auction Preferred Shares ("APS"). Note 2. Significant Accounting
 Policies The preparation of financial statements in conformity with accounting principles generally accepted in the
 United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported
 amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial
 statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ
 from those estimates. The following is a summary of significant accounting policies consistently followed by the Trust
 in the preparation of its financial statements. Security Valuation Debt securities generally are valued by pricing
 services approved by the Trust's Board of Trustees, based upon market transactions for normal, institutional-size
 trading units of similar securities. The services may use various pricing techniques which take into account
 appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as

well as broker quotes. Debt securities for which quotations are readily available are valued at an over-the-counter or exchange bid quotation. Certain debt securities, which tend to be more thinly traded and of lesser quality, are priced based on fundamental analysis of the financial condition of the issuer and the estimated value of any collateral. Valuations developed through pricing techniques may vary from the actual amounts realized upon sale of the securities, and the potential variation may be greater for those securities valued using fundamental analysis. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value. Investments in open-end investment companies are valued at net asset value. Futures contracts are valued at the settlement price established each day by the board of trade or exchange on which they are traded. Investments for which market quotations are not readily available, or that have quotations which management believes are not reliable, are valued at fair value as determined in good faith under consistently applied procedures established by and under the general supervision of the Board of Trustees. If a security is valued at a "fair value", such value is likely to be different from the last quoted market price for the security. In September 2006, Statement of Financial Accounting Standards No. 157, Fair Value Measurements ("SFAS 157") was issued. SFAS 157 is effective for fiscal years beginning after November 15, 2007. SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. Management has recently begun to evaluate the impact the application of SFAS 157 will have on the Trust's financial statement disclosures. Security Transactions Security transactions are accounted for on the trade date. Cost is determined and gains (losses) are based upon the specific identification method for both financial statement and federal income tax purposes. Futures Contracts The Trust may invest in futures contracts to hedge against the effects of changes in the value of portfolio securities due to anticipated changes in interest rates and/or market conditions, for duration management, or when the transactions are economically appropriate to the reduction of 32 Colonial Municipal Income Trust November 30, 2006 risk inherent in the management of the Trust and not for trading purposes. The use of futures contracts involves certain risks, which include: (1) imperfect correlation between the price movement of the instruments and the underlying securities, (2) inability to close out positions due to differing trading hours, or the temporary absence of a liquid market, for either the instrument or the underlying securities, or (3) an inaccurate prediction by Columbia Management Advisors, LLC of the future direction of interest rates. Any of these risks may involve amounts exceeding the variation margin recorded in the Trust's Statement of Assets and Liabilities at any given time. Upon entering into a futures contract, the Trust deposits cash or securities with the broker in an amount sufficient to meet the initial margin requirement. Subsequent payments are made or received by the Trust equal to the daily change in the contract value and are recorded as variation margin receivable or payable and offset in unrealized gains or losses. The Trust recognizes a realized gain or loss when the contract is closed or expires. Swap Contracts The Trust may engage in swap transactions such as interest rate and forward swaps, consistent with its investment objective and policies to obtain a desired return at a lower cost than if the Trust had invested directly in the asset that yielded the desired return. Swaps involve the exchange by a Trust with another party of their respective commitments to pay or receive interest or total return throughout the lives of the agreements. The interest to be paid or received on swaps is included in net realized gain/(loss) on investments. Unrealized gains are reported as an asset and unrealized losses are reported as a liability on the Statement of Assets and Liabilities. A realized gain or loss is recorded upon termination of swap agreements and is equal to the difference between the Trust's basis in the swap and the proceeds from (or cost of) the closing transaction. Swap agreements are stated at fair value. Notional principal amounts are used to express the extent of involvement in these transactions, but the amounts potentially subject to credit risk are much smaller. If there is a default by the counterparty to a swap contract, the Trust will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that the swap contract counterparties will be able to meet their obligations pursuant to the swap contracts or that, in the event of default, the Trust will succeed in pursuing contractual remedies. The Trust thus assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to the swap contracts. The use of derivative instruments involves, to varying degrees, elements of market risk in excess of the amount recognized in the Statement of Assets and Liabilities. Restricted Securities Restricted securities are securities that may only be resold upon registration under federal securities laws or in transactions exempt from registration. In some cases, the issuer of restricted securities has agreed to register such securities for resale at the issuer's expense either upon demand by the Trust or in connection with another registered offering of the securities. Many restricted securities may be resold in the secondary market in transactions exempt from registration. Such restricted securities may be determined to be liquid under criteria established by the Board of Trustees. The Trust will

not incur any registration costs upon such resale. **Delayed Delivery Securities** The Trust may trade securities on other than normal settlement terms, including securities purchased or sold on a "when-issued" basis. This may increase the risk if the other party to the transaction fails to deliver and causes the Trust to subsequently invest at less advantageous prices. The Trust identifies cash or liquid portfolio securities as segregated with the custodian in an amount equal to the delayed delivery commitment. **Income Recognition Interest** income is recorded on the accrual basis. Original issue discount is accreted to interest income over the life of the security with a corresponding increase in the cost basis. Premium and discount are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date. **Federal Income Tax Status** The Trust intends to qualify each year as a "regulated investment company" under Subchapter M of the Internal Revenue Code, as amended, and will distribute substantially all of its taxable income, if any, for its tax year, and as such 33 Colonial Municipal Income Trust November 30, 2006 will not be subject to federal income taxes. In addition, the Trust intends to distribute in each calendar year substantially all of its net investment income, capital gains and certain other amounts, if any, such that the Trust should not be subject to federal excise tax. Therefore, no federal income or excise tax provision is recorded. **Distributions to Shareholders** Distributions to common shareholders are recorded on the ex-date. Distributions to Auction Preferred shareholders are recorded daily and payable at the end of each dividend period. Each dividend payment period for the APS is generally seven days. The applicable dividend rate for the APS on November 30, 2006 was 3.65%. For the year ended November 30, 2006, the Trust declared dividends to Auction Preferred shareholders amounting to \$3,050,923, representing an average dividend rate of 3.39% per APS. **Indemnification** In the normal course of business, the Trust enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Trust's maximum exposure under these arrangements is unknown, as this would involve future claims against the Trust. Also, under the Trust's organizational documents and by contract, the Trustees and Officers of the Trust are indemnified against certain liabilities that may arise out of their duties to the Trust. However, based on experience, the Trust expects the risk of loss due to these warranties and indemnities to be minimal. **Note 3. Federal Tax Information** The timing and character of income and capital gain distributions are determined in accordance with income tax regulations, which may differ from GAAP. Reclassifications are made to the Trust's capital accounts for permanent tax differences to reflect income and gains available for distribution (or available capital loss carryforwards) under income tax regulations. For the year ended November 30, 2006, permanent book and tax basis differences resulting primarily from differing treatments for discount accretion/premium amortization on debt securities and market discount reclassifications were identified and reclassified among the components of the Trust's net assets as follows:

Overdistributed Net Accumulated Investment Net Realized Paid-In Income Loss Capital	\$(21,653)	\$21,654	\$(1)
Net investment income and net realized gains (losses), as disclosed on the Statement of Operations, and net assets were not affected by this reclassification. The tax character of distributions paid during the years ended November 30, 2006 and November 30, 2005 was as follows:			
November 30, 2006	2005	Distributions paid from:	
		Tax-Exempt Income	\$12,639,297
		Ordinary Income	\$12,655,805
		Long-Term Capital Gains	\$14,913

*For tax purposes short-term capital gains distributions, if any, are considered ordinary income distributions. As of November 30, 2006, the components of distributable earnings on a tax basis were as follows:

Undistributed Undistributed Net Tax-Exempt Long-term Unrealized Income Capital Gains Appreciation*	\$950,066	\$13,218,170				
*The differences between book-basis and tax-basis net unrealized appreciation/depreciation are primarily due to discount accretion/premium amortization on debt securities. Unrealized appreciation and depreciation at November 30, 2006, based on cost of investments for federal income tax purposes, was: <table border="1"> <thead> <tr> <th>Unrealized appreciation</th> <th>\$17,307,199</th> <th>Unrealized depreciation</th> <th>(4,089,029)</th> <th>Net unrealized appreciation</th> <th>\$13,218,170</th> </tr> </thead> </table>	Unrealized appreciation	\$17,307,199	Unrealized depreciation	(4,089,029)	Net unrealized appreciation	\$13,218,170
Unrealized appreciation	\$17,307,199	Unrealized depreciation	(4,089,029)	Net unrealized appreciation	\$13,218,170	

 | |

34 Colonial Municipal Income Trust November 30, 2006 The following capital loss carryforwards, determined as of November 30, 2006, may be available to reduce taxable income arising from future net realized gains on investments, if any, to the extent permitted by the Internal Revenue Code:

Year of Expiration	Capital Loss Carryforward
2007	\$ 3,490,821
2008	13,036,764
2009	3,114,307
2010	7,684,792
2011	4,393,912
2012	4,060,511
2014	7,119,782
Total	\$42,900,889

 Under current tax rules, certain capital losses realized after October 31 may be deferred and treated as occurring on the first day of the following fiscal year. As of November 30, 2006, post-October capital losses of \$442,091 attributed to security transactions were deferred to December 1, 2006. In June 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109 (the "Interpretation"). This Interpretation is effective for fiscal years beginning after December 15, 2006 and is to be applied to open tax positions upon initial adoption. This

Interpretation prescribes a minimum recognition threshold and measurement method for the financial statement recognition of tax positions taken or expected to be taken in a tax return and also requires certain expanded disclosures. Management has recently begun to evaluate the application of this Interpretation to the Trust and has not at this time quantified the impact, if any, resulting from the adoption of this Interpretation on the Trust's financial statements.

Note 4. Fees and Compensation Paid to Affiliates Investment Advisory Fee Columbia Management Advisors, LLC ("Columbia"), an indirect, wholly-owned subsidiary of Bank of America Corporation ("BOA"), is the investment advisor to the Trust and provides administrative and other services. Columbia receives a monthly investment advisory fee at the annual rate of 0.65% of the Trust's average weekly net assets, including assets applicable to the APS. Pricing and Bookkeeping Fees Columbia is responsible for providing pricing and bookkeeping services to the Trust under a pricing and bookkeeping agreement. Under a separate agreement (the "Outsourcing Agreement"), Columbia has delegated certain functions to State Street Bank & Trust Company ("State Street"). As a result, the total fees payable under the pricing and bookkeeping agreement (other than certain reimbursements paid to Columbia and discussed below) are paid to State Street. Under its pricing and bookkeeping agreement with the Trust, Columbia receives an annual fee of \$38,000 paid monthly plus an additional monthly fee based on the level of average daily net assets for the month; provided that during any 12-month period, the aggregate fee (exclusive of out-of-pocket expenses and charges) shall not exceed \$140,000. The Trust also reimburses Columbia and State Street for out-of-pocket expenses and charges, including fees payable to third parties for pricing the Trust's portfolio securities and direct internal costs incurred by Columbia in connection with providing fund accounting oversight and monitoring and certain other services. For the year ended November 30, 2006, the effective pricing and bookkeeping fee rate for the Trust, inclusive of out-of-pocket expenses, were 0.034% of the Trust's average daily net assets.

Custody Credits The Trust has an agreement with its custodian bank under which custody fees may be reduced by balance credits. These credits are recorded as a reduction of total expenses on the Statement of Operations. The Trust could have invested a portion of the assets utilized in connection with the expense offset arrangement in an income-producing asset if it had not entered into such an agreement.

Fees Paid to Officers and Trustees All officers of the Trust, with the exception of the Trust's Chief Compliance Officer, are employees of Columbia or its affiliates and receive no compensation from the Trust. The Board of Trustees has appointed a Chief Compliance Officer to the Trust in accordance with federal securities regulations.

35 Colonial Municipal Income Trust November 30, 2006 The Trust, along with other affiliated funds, pays its pro-rata share of the expenses associated with the Chief Compliance Officer. The Trust's expenses for the Office of the Chief Compliance Officer will not exceed \$15,000 per year. The Trust's Trustees may participate in a deferred compensation plan which may be terminated at any time. Obligations of the plan will be paid solely out of the Trust's assets.

Other Columbia provides certain services to the Trust related to Sarbanes-Oxley compliance. For the year ended November 30, 2006, the Trust paid \$2,536 to Columbia for such services. This amount is included in "Other expenses" on the Statement of Operations.

Note 5. Portfolio Information For the year ended November 30, 2006, the cost of purchases and proceeds from sales of securities, excluding short-term obligations, were \$87,908,159 and \$80,859,851, respectively.

Note 6. Preferred Shares The Trust currently has outstanding 3,600 APS. The APS have a liquidation preference of \$25,000 per APS plus accumulated but unpaid dividends and have certain class-specific preferences over the common shares. The dividend rate on the APS is set, typically every seven days, through an auction process. Dividends on the APS are cumulative. Each holder of the APS is entitled to one vote per APS. Unless otherwise required by law or under the terms of the bylaws, each holder of APS has the same voting rights as common shareholders and will vote together with common shareholders as a single class. The holders of APS, voting as a separate class, have the right to: (a) elect at least two Trustees, (b) elect a majority of the Trustees at any time when dividends on the APS are due and unpaid for two full years, and (c) vote on certain matters affecting the rights of the APS. Under the Act, the Trust is required to maintain asset coverage of at least 200% with respect to the APS as of the last business day of each month in which any APS are outstanding. Additionally, the Trust is required to meet more stringent asset coverage requirements under the terms of the APS agreement and in accordance with the guidelines prescribed by the APS' rating agencies. Should these requirements not be met, or should dividends accrued on the APS not be paid, the Trust may be restricted in its ability to declare dividends to common shareholders or may be required to redeem certain APS. At November 30, 2006, there were no such restrictions on the Trust.

Note 7. Disclosure of Significant Risks and Contingencies **Concentration of Credit Risk** The Trust holds investments that are insured by private insurers who guarantee the payment of principal and interest in the event of default or that are supported by a letter of credit. Each of the Trust's insurers is rated Aaa by Moody's

Investor Services, Inc. ("Moody's") or rated AAA by Standard & Poor's. At November 30, 2006, investments supported by private insurers that represent greater than 5% of the total investments of the Trust were as follows: % of Total Insurer Investments MBIA Insurance Corp. 7.8% Ambac Assurance Corp. 6.3 Financial Security Assurance, Inc 5.7 Geographic Concentration The Trust has greater than 5% of its total investments at November 30, 2006 invested in debt obligations issued by the states of California, Illinois, Massachusetts, New York, Pennsylvania and Texas and their respective political subdivisions, agencies and public authorities. The Trust is more susceptible to economic and political factors adversely affecting issuers of the specific state's municipal securities than are municipal bond funds that are not concentrated to the same extent in these issuers. High-Yield Securities Investing in high-yield securities may involve greater credit risk and considerations not typically associated with investing in U.S. government bonds and other higher quality fixed income securities. These securities are non-investment grade securities, often referred to as "junk" bonds. Economic downturns may disrupt the high yield market and impair the ability of issuers to repay principal and interest. Also, an increase in interest rates would likely have an adverse impact 36 Colonial Municipal Income Trust November 30, 2006 on the value of such obligations. Moreover, high-yield securities may be less liquid to the extent that there is no established secondary market. Legal Proceedings On February 9, 2005, Columbia Management Advisors, Inc. (which has since merged into Banc of America Capital Management, LLC (now named Columbia Management Advisors, LLC)) ("Columbia") and Columbia Funds Distributor, Inc. (which has been renamed Columbia Management Distributors, Inc.) (the "Distributor") (collectively, the "Columbia Group") entered into an Assurance of Discontinuance with the New York Attorney General ("NYAG") (the "NYAG Settlement") and consented to the entry of a cease-and-desist order by the Securities and Exchange Commission ("SEC") (the "SEC Order"). The SEC Order and the NYAG Settlement are referred to collectively as the "Settlements". The Settlements contain substantially the same terms and conditions as outlined in the agreements in principle which Columbia Group entered into with the SEC and NYAG in March 2004. Under the terms of the SEC Order, the Columbia Group agreed, among other things, to: pay \$70 million in disgorgement and \$70 million in civil money penalties; cease and desist from violations of the antifraud provisions and certain other provisions of the federal securities laws; maintain certain compliance and ethics oversight structures; retain an independent consultant to review the Columbia Group's applicable supervisory, compliance, control and other policies and procedures; and retain an independent distribution consultant (see below). The Columbia Funds have also voluntarily undertaken to implement certain governance measures designed to maintain the independence of their boards of trustees. The NYAG Settlement also, among other things, requires Columbia and its affiliates to reduce management fees for certain Columbia Funds (including the former Nations Funds) and other mutual funds collectively by \$32 million per year for five years, for a projected total of \$160 million in management fee reductions. Pursuant to the procedures set forth in the SEC order, the \$140 million in settlement amounts described above will be distributed in accordance with a distribution plan developed by an independent distribution consultant and approved by the SEC. The independent distribution consultant has been in consultation with the staff of the SEC and has submitted a proposed plan of distribution. The SEC has released the proposed plan of distribution for public notice and comment but has not yet approved a final plan of distribution. As a result of these matters or any adverse publicity or other developments resulting from them, the market price of trust shares could decline. A copy of the SEC Order is available on the SEC website at <http://www.sec.gov>. A copy of the NYAG Settlement is available as part of the Bank of America Corporation Form 8-K filing on February 10, 2005. In connection with the events described in detail above, various parties have filed suit against certain funds, the Trustees of the Columbia Funds, FleetBoston Financial Corporation and its affiliated entities and/or Bank of America and its affiliated entities. On February 20, 2004, the Judicial Panel on Multidistrict Litigation transferred these cases and cases against other mutual fund companies based on similar allegations to the United States District Court in Maryland for consolidated or coordinated pretrial proceedings (the "MDL"). Subsequently, additional related cases were transferred to the MDL. On September 29, 2004, the plaintiffs in the MDL filed amended and consolidated complaints. One of these amended complaints is a putative class action that includes claims under the federal securities laws and state common law, and that names Columbia, the Distributor, the Trustees of the Columbia Funds, Bank of America Corporation and others as defendants. Another of the amended complaints is a derivative action purportedly on behalf of the Columbia Funds that asserts claims under federal securities laws and state common law. On February 25, 2005, Columbia and other defendants filed motions to dismiss the claims in the pending cases. On March 1, 2006, for reasons stated in the court's memoranda dated November 3, 2005, the U.S. District Court for the District of Maryland granted in part and denied in part the defendants' motions to dismiss. The court dismissed all of

the class action claims pending against the Columbia Funds Trusts. As to Columbia and the Distributor, the claims under the Securities Act of 1933, the claims under Sections 34(b) and 36(a) of the Investment Company Act of 1940 ("ICA") and the state law claims were dismissed. The claims under 37 Colonial Municipal Income Trust November 30, 2006 Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and claims under Section 36(b) of the ICA were not dismissed. On March 21, 2005, a purported class action was filed in Massachusetts state court alleging that the conduct, including market timing, entitles Class B shareholders in certain Columbia funds to an exemption from contingent deferred sales charges upon early redemption ("the CDSC Lawsuit"). The CDSC Lawsuit has been removed to federal court in Massachusetts and the federal Judicial Panel has transferred the CDSC Lawsuit to the MDL. On April 4, 2006, the plaintiffs and the Columbia defendants named in the MDL, including the Columbia Funds, entered into a term sheet containing the principal terms of a stipulation of settlement that would settle all Columbia-related claims in the MDL described above, including the CDSC Lawsuit. On April 6, 2006, the U.S. District Court for the District of Maryland stayed all actions with respect to these Columbia-related claims. In 2004, certain Columbia funds, the Trustees of the Columbia Funds, advisers and affiliated entities were named as defendants in certain purported shareholder class and derivative actions making claims, including claims under the Investment Company and the Investment Advisers Acts of 1940 and state law. The suits allege, inter alia, that the fees and expenses paid by the funds are excessive and that the advisers and their affiliates inappropriately used fund assets to distribute the funds and for other improper purposes. On March 2, 2005, the actions were consolidated in the Massachusetts federal court as *In re Columbia Entities Litigation*. The plaintiffs filed a consolidated amended complaint on June 9, 2005 naming the Columbia Funds as nominal defendants. On November 30, 2005, the judge dismissed all claims by plaintiffs and ordered that the case be closed. The plaintiffs filed a notice of appeal to the United States Court of Appeals for the First Circuit on December 30, 2005; this appeal is currently pending. The parties have advised the appellate court that they are engaged in settlement discussions and the court has, accordingly, deferred the briefing schedule for the appeal. The settlement has not yet been finalized. Any settlement ultimately agreed by the parties will be subject to court approval. This matter is ongoing. Accordingly, no estimate can be made of the financial impact, if any, of this litigation on any fund.

38 Report of Independent Registered Public Accounting Firm To the Trustees and the Shareholders of Colonial Municipal Income Trust In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Colonial Municipal Income Trust (the "Trust") at November 30, 2006, and the results of its operations, the changes in its net assets, and its financial highlights for the periods indicated, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at November 30, 2006 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP Boston, Massachusetts January 25, 2007

39 Unaudited Information - Colonial Municipal Income Trust Federal Income Tax Information 99.87% of distributions from net investment income will be treated as exempt income for federal income tax purposes. For the calendar year ended December 31, 2006, 23.04% of distributions from net investment income is subject to the alternative minimum tax.

40 Dividend Reinvestment Plan Colonial Municipal Income Trust Shareholders may elect to have all distributions of dividends and capital gains automatically reinvested by Computershare (the "Plan Agent"), as agent under the Trust's Dividend Reinvestment and Cash Purchase Plan (the "Plan"). Pursuant to the Plan, the provisions of which are described below, shareholders not making such an election will receive all such amounts in cash paid by check mailed directly to the shareholder by the Plan Agent, as the dividend paying agent. If the Trustees of the Trust declare a dividend or determine to make a capital gain distribution payable either in shares of the Trust or in cash, as shareholders may have elected, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in shares of the Trust. If the market price of the shares on the payment date for the dividend or distribution is equal to or exceeds their

net asset value, participants will be issued shares of the Trust at the higher of net asset value or 95% of the market price. If the net asset value exceeds the market price of Trust shares at such time, or if the Trust declares a dividend or other distribution payable only in cash, the Plan Agent will, as agent for Plan participants, buy Trust shares in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts. If, before the Plan Agent has completed its purchases, the market price exceeds the net asset value of the Trust's shares, the average per share purchase price paid by the Plan Agent may exceed the net asset value of the Trust's shares, resulting in the acquisition of fewer shares than if the dividend or distribution had been paid in shares issued by the Trust. Participants in the Plan may withdraw from the Plan upon written notice to the Plan Agent. When a participant withdraws from the Plan or upon termination of the Plan as provided below, certificates for whole shares credited to the participant's account under the Plan will be issued and a cash payment will be made for any fraction of a share credited to such account. Participants in the Plan have the option of making additional cash payments to the Plan Agent semi-annually, for investment in the Trust's shares. Such payments may be made in any amount from \$100 to \$500. State Street will use all funds received from participants (as well as any dividends and distributions received in cash) to purchase Trust shares in the open market semiannually. Interest will not be paid on any uninvested cash payments. In the case of shareholders such as banks, brokers or nominees holding shares for others who are the beneficial owners of those shares, the Plan Agent will administer the Plan on the basis of the number of shares certified from time to time by the shareholder of record as representing the total amount registered in such shareholder's name and held for the account of beneficial owners who are to participate in the Plan. There is no charge to Plan participants for reinvesting dividends or distributions. The Plan Agent's fees for the handling of the reinvestment of dividends and distributions will be paid by the Trust. There will be no brokerage charges with respect to shares issued directly by the Trust as a result of dividends or distributions payable either in stock or in cash. However, each participant will pay a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of dividends or distributions as well as from voluntary cash payments. Brokerage charges for purchasing small amounts of stock for individual accounts under the voluntary cash purchase provisions of the Plan are expected to be less than the usual brokerage charges for individual transactions of comparable size, because the Plan Agent will be purchasing shares for all participants in blocks and charging to cash purchase Plan participants a pro rated portion of the lower commissions usually obtainable on such block purchases. The automatic reinvestment of dividends and distributions will not relieve participants of any income tax that may be payable on such dividends or distributions. The Plan may be amended or terminated on 30 days written notice to the Plan participants. Contact the Plan Agent for more information regarding the Plan. All correspondence concerning the Plan should be directed to Computershare by mail at P.O. Box 403011, Providence, RI 02940-3011, or by phone at 1-800-426-5523. 41 Fund Governance - Colonial Municipal Income Trust The Trustees serve terms of indefinite duration. The names, addresses and ages of the Trustees and officers of the Funds in the Columbia Funds Complex, the year each was first elected or appointed to office, their principal business occupations during at least the last five years, the number of portfolios overseen by each Trustee and other directorships they hold are shown below. Each officer listed below serves as an officer of each Fund in the Columbia Funds Complex. Independent Trustees -----

----- Name, address and year of birth, Principal occupation(s) during past five years, Number position with Funds, Year first of portfolios in Columbia Funds Complex overseen by elected or appointed to office/(1)/ trustee, Other directorships held Douglas A. Hacker (Born 1955)

----- c/o Columbia Management Independent business executive since May, 2006; Advisors, LLC Executive Vice President-Strategy of United Airlines One Financial Center (airline) from December, 2002 to May, 2006; President Boston, MA 02111 of UAL Loyalty Services (airline marketing company) Trustee (since 1996) from September, 2001 to December, 2002; Executive Vice President and Chief Financial Officer of United Airlines from July, 1999 to September, 2001. Oversees 81, Nash Finch Company (food distributor); Aircastle Limited (aircraft leasing) Janet Langford Kelly (Born 1957)

----- c/o Columbia Management Deputy General Counsel-Corporate Legal Services, Advisors, LLC ConocoPhillips (integrated petroleum company) since One Financial Center August, 2006; Partner, Zelle, Hofmann, Voelbel, Mason & Boston, MA 02111 Gette LLP (law firm) from March, 2005 to July, 2006; Adjunct Professor of Law, Northwestern University, from September, 2004 to June, 2006, Director, UAL Corporation (airline) from February, 2006 to July, 2006; Chief Administrative Officer and Senior Vice President, Kmart Holding Corporation (consumer goods), from September,

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2003 to March, 2004; Executive Vice President-Corporate Development and Administration, General Counsel and Secretary, Kellogg Company (food manufacturer), from September, 1999 to August, 2003. Oversees 81, None Richard W. Lowry (Born 1936) ----- c/o Columbia Management Private Investor since August, 1987 (formerly Chairman Advisors, LLC and Chief Executive Officer, U.S. Plywood Corporation One Financial Center (building products manufacturer) until 1987). Oversees Boston, MA 02111 81, None Trustee (since 1995) Charles R. Nelson (Born 1943) ----- c/o Columbia Management Professor of Economics, University of Washington, Advisors, LLC since January, 1976; Ford and Louisa Van Voorhis One Financial Center Professor of Political Economy, University of Boston, MA 02111 Washington, since September, 1993; Director, Institute Trustee (since 1981) for Economic Research, University of Washington from September, 2001 to June, 2003; Adjunct Professor of Statistics, University of Washington, since September, 1980; Associate Editor, Journal of Money Credit and Banking, since September, 1993; Consultant on econometric and statistical matters. Oversees 81, None John J. Neuhauser (Born 1942) ----- c/o Columbia Management University Professor, Boston College since November, Advisors, LLC 2005; Academic Vice President and Dean of Faculties, One Financial Center Boston College from August, 1999 to October, 2005. Boston, MA 02111 Oversees 81, None Trustee (since 1985) 42 Fund Governance (continued) - Colonial Municipal Income Trust Name, address and year of birth, Principal occupation(s) during past five Years, Number Position with Funds, year first of portfolios in Columbia Funds Complex overseen by elected or Appointed to office/(1)/ trustee, Other directorships held Patrick J. Simpson (Born 1944) ----- c/o Columbia Management Partner, Perkins Coie LLP (law firm). Oversees 81, None Advisors, LLC One Financial Center Boston, MA 02111 Trustee (since 2000) Thomas E. Stitzel (Born 1936) ----- c/o Columbia Management Business Consultant since 1999; Chartered Financial Advisors, LLC Analyst. Oversees 81, None One Financial Center Boston, MA 02111 Trustee (since 1998) Thomas C. Theobald (Born 1937) ----- c/o Columbia Management Partner and Senior Advisor, Chicago Growth Partners Advisors, LLC (private equity investing) since September, 2004; One Financial Center Managing Director, William Blair Capital Partners Boston, MA 02111 (private equity investing) from September, 1994 to Trustee and Chairman of the September, 2004. Oversees 81, Anixter International Board/(2)/ (since 1996) (network support equipment distributor); Ventas, Inc. (real estate investment trust); Jones Lang LaSalle (real estate management services); Ambac Financial Group (financial guaranty insurance) Anne-Lee Verville (Born 1945) ----- c/o Columbia Management Retired since 1997 (formerly General Manager, Global Advisors, LLC Education Industry, IBM Corporation (computer and One Financial Center technology) from 1994 to 1997). Oversees 81, None Boston, MA 02111 Trustee (since 1998) Interested Trustee ----- William E. Mayer (Born 1940) ----- c/o Columbia Management Partner, Park Avenue Equity Partners (private equity) Advisors, LLC since February, 1999; Dean and Professor, College of One Financial Center Business, University of Maryland, 1992 to 1997. Boston, MA 02111 Oversees 81, Lee Enterprises (print media), WR Trustee/(3)/ (since 1994) Hambrecht + Co. (financial service provider); Reader's Digest (publishing) /(1)/In December 2000, the boards of each of the former Liberty Funds and former Stein Roe Funds were combined into one board of trustees responsible for the oversight of both fund groups (collectively, the "Liberty Board"). In October 2003, the trustees on the Liberty Board were elected to the boards of the Columbia Funds (the "Columbia Board") and of the CMG Fund Trust (the "CMG Funds Board"); simultaneous with that election, Patrick J. Simpson who had been a director on the Columbia Board and trustee on the CMG Funds Board, was appointed to serve as trustee of the Liberty Board. The date shown is the earliest date on which a trustee/director was elected or appointed to the board of a Fund in the Columbia Funds Complex. /(2)/Mr. Theobald was appointed as Chairman of the Board effective December 10, 2003. /(3)/Mr. Mayer is an "interested person" (as defined in the Investment Company Act of 1940 (1940 Act)) by reason of his affiliation with WR Hambrecht + Co. The Statement of Additional Information includes additional information about the Trustees of the Funds and is available, without charge, upon request by calling 800-426-3750. 43 Fund Governance (continued) - Colonial Municipal Income Trust Officers ----- Name, address and year of birth, Principal occupation(s) during past five

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years Position with Columbia Funds, Year first elected or appointed to office Christopher L. Wilson (Born 1957)
----- One Financial Center Boston, Head of Mutual Funds since August, 2004 and Managing MA 02111 Director of Columbia Management Advisors, LLC ("the President (since 2004) Advisor") since September, 2005; President and Chief Executive Officer, CDC IXIS Asset Management Services, Inc. (investment management) from September, 1998 to August, 2004. James R. Bordewick, Jr. (Born 1959) ----- One Financial Center Associate General Counsel, Bank of America since Boston, MA 02111 April, 2005; Senior Vice President and Associate Senior Vice President, Secretary General Counsel, MFS Investment Management (investment and Chief Legal Officer (since 2006) management) prior to April, 2005. J. Kevin Connaughton (Born 1964)
----- One Financial Center Managing Director of the Advisor since February, 1998. Boston, MA 02111 Senior Vice President, Chief Financial Officer and Treasurer (since 2000) Linda J. Wondrack (Born 1964)
----- One Financial Center Director (Columbia Management Group LLC and Investment Boston, MA 02111 Product Group Compliance), Bank of America since June Senior Vice President, Chief 2005; Director of Corporate Compliance and Conflicts Compliance Officer (since 2007) Officer, MFS Investment Management (investment management), August 2004 to May 2005; Managing Director, Deutsche Asset Management (investment management) prior to August 2004. Michael G. Clarke (Born 1969) ----- One Financial Center Director of Fund Administration of the Advisor since Boston, MA 02111 January, 2006; Managing Director of the Advisor Chief Accounting Officer and September, 2004 to December, 2005; Vice President Fund Assistant Treasurer (since 2004) Administration of the Advisor June, 2002 to September, 2004. Vice President Product Strategy and Development of the Advisor from February, 2001 to June, 2002. Jeffrey R. Coleman (Born 1969)
----- One Financial Center Director of Fund Administration of the Advisor since Boston, MA 02111 January, 2006; Fund Controller of the Advisor from Deputy Treasurer (since 2006) October 2004 to January 2006; Vice President of CDC IXIS Asset Management Services, Inc. (investment management) from August, 2000 to September, 2004. Joseph F. DiMaria (Born 1968)
----- One Financial Center Director of Fund Administration of the Advisor since Boston, MA 02111 January, 2006; Head of Tax/Compliance and Assistant Deputy Treasurer (since 2006) Treasurer of the Advisor from November, 2004 to December, 2005; Director of Trustee Administration (Sarbanes-Oxley) of the Advisor from May, 2003 to October, 2004; Senior Audit Manager, PricewaterhouseCoopers (independent registered public accounting firm) from July, 2000 to April, 2003. 44 Fund Governance (continued) - Colonial Municipal Income Trust Name, address and year of birth, Principal occupation(s) during past five years Position with Columbia Funds, Year first elected or appointed to office Ty S. Edwards (Born 1966) ----- One Financial Center Director of Fund Administration of the Advisor since Boston, MA 02111 January, 2006; Vice President of the Advisor from Deputy Treasurer (since 2006) July, 2002 to December, 2005; Assistant Vice president and Director, State Street Corporation (financial services) prior to 2002. Barry S. Vallan (Born 1969)
----- One Financial Center Vice President-Fund Treasury of the Advisor since Boston, MA 02111 October, 2004; Vice President- Trustee Reporting of Controller (since 2006) the Advisor from April, 2002 to October, 2004; Management Consultant, PricewaterhouseCoopers (independent registered public accounting firm) prior to October, 2002. 45 Board Consideration and Approval of Investment Advisory Agreements The Advisory Fees and Expenses Committee of the Board of Trustees meets one or more times annually to review the advisory agreements (collectively, the "Agreements") of the funds for which the Trustees serve as trustees (each a "fund") and determine whether to recommend that the full Board approve the continuation of the Agreements for an additional one-year period. After the Committee has made its recommendation, the full Board, including the Independent Trustees, determines whether to approve the continuation of the Agreements. In addition, the Board, including the Independent Trustees, considers matters bearing on the Agreements at most of its other meetings throughout the year and meets regularly with the heads of each investment area within Columbia. Through the Board's Investment Oversight Committees, Trustees also meet with selected fund portfolio managers at various times throughout the year. The Trustees receive and review all materials that they, their legal counsel or Columbia, the funds' investment adviser, believe to be reasonably necessary

for the Trustees to evaluate the Agreements and determine whether to approve the continuation of the Agreements. Those materials generally include, among other items, (i) information on the investment performance of each fund relative to the performance of peer groups of mutual funds and the fund's performance benchmarks, (ii) information on each fund's advisory fees and other expenses, including information comparing the fund's expenses to those of peer groups of mutual funds and information about any applicable expense caps and fee "breakpoints," (iii) information about the profitability of the Agreements to Columbia, including potential "fall-out" or ancillary benefits that Columbia and its affiliates may receive as a result of their relationships with the funds and (iv) information obtained through Columbia's response to a questionnaire prepared at the request of the Trustees by counsel to the funds and independent legal counsel to the Independent Trustees. The Trustees also consider other information such as (v) Columbia's financial results and financial condition, (vi) each fund's investment objective and strategies and the size, education and experience of Columbia's investment staffs and their use of technology, external research and trading cost measurement tools, (vii) the allocation of the funds' brokerage, if any, and the use of "soft" commission dollars to pay for research products and services, (viii) Columbia's resources devoted to, and its record of compliance with, the funds' investment policies and restrictions, policies on personal securities transactions and other compliance policies, (ix) Columbia's response to various legal and regulatory proceedings since 2003 and (x) the economic outlook generally and for the mutual fund industry in particular. In addition, the Advisory Fees and Expenses Committee confers with the funds' independent fee consultant and reviews materials relating to the funds' relationships with Columbia provided by the independent fee consultant. Throughout the process, the Trustees have the opportunity to ask questions of and request additional materials from Columbia and to consult with independent legal counsel to the Independent Trustees and the independent fee consultant. The Board of Trustees most recently approved the continuation of the Agreements at its October, 2006 meeting, following meetings of the Advisory Fees and Expenses Committee held in August, September and October, 2006. In considering whether to approve the continuation of the Agreements, the Trustees, including the Independent Trustees, did not identify any single factor as determinative, and each weighed various factors as he or she deemed appropriate. The Trustees considered the following matters in connection with their approval of the continuation of the Agreements: The nature, extent and quality of the services provided to the funds under the Agreements. The Trustees considered the nature, extent and quality of the services provided by Columbia and its affiliates to the funds and the resources dedicated to the funds by Columbia and its affiliates. Among other things, the Trustees considered (i) Columbia's ability (including its personnel and other resources, compensation programs for personnel involved in fund management, reputation and other attributes) to attract and retain highly qualified research, advisory and supervisory investment professionals; (ii) the portfolio management services provided by those investment professionals; and (iii) the trade execution services provided on behalf of the funds. For each fund, the Trustees also considered the benefits to shareholders of investing in a mutual fund that is part of a family of funds offering exposure to a variety of asset classes and investment disciplines and providing a variety of fund and shareholder services. After reviewing those and related factors, the Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that the nature, extent and quality of services provided supported the continuation of the Agreements. 46 Investment performance of the funds and Columbia. The Trustees reviewed information about the performance of each fund over various time periods, including information prepared by an independent third party that compared the performance of each fund to the performance of peer groups of mutual funds and performance benchmarks. The Trustees also reviewed a description of the third party's methodology for identifying each fund's peer group for purposes of performance and expense comparisons. The Trustees also considered additional information that the Advisory Fees and Expenses Committee requested from Columbia relating to funds that presented relatively weaker performance and/or relatively higher expenses. In the case of each fund whose performance lagged that of a relevant peer group for certain (although not necessarily all) periods, the Trustees concluded that other factors relevant to performance were sufficient, in light of other considerations, to warrant continuation of the fund's Agreements. Those factors varied from fund to fund, but included one or more of the following: (i) that the fund's performance, although lagging in certain recent periods, was stronger over the longer term; (ii) that the underperformance was attributable, to a significant extent, to investment decisions that were reasonable and consistent with the fund's investment strategy and policies and that the fund was performing as expected, given these investment decisions, market conditions and the fund's investment strategy; (iii) that the fund's performance was competitive when compared to other relevant performance benchmarks or peer groups; (iv) that Columbia had taken or was taking steps designed to help improve the fund's investment performance,

including, but not limited to, replacing portfolio managers or modifying investment strategies; and (v) that the fund was proposed to be reorganized into another fund, and that such reorganization would result in a reduction in fund expenses. The Trustees also considered Columbia's performance and reputation generally, the funds' performance as a fund family generally, and Columbia's historical responsiveness to Trustee concerns about performance and Columbia's willingness to take steps intended to improve performance. After reviewing those and related factors, the Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that the performance of each fund and Columbia was sufficient, in light of other considerations, to warrant the continuation of the Agreement(s) pertaining to that fund. The costs of the services provided and profits realized by Columbia and its affiliates from their relationships with the funds. The Trustees considered the fees charged to the funds for advisory services as well as the total expense levels of the funds. That information included comparisons (provided by management and by an independent third party) of each fund's advisory fees and total expense levels to those of the fund's peer groups and information about the advisory fees charged by Columbia to comparable institutional accounts. In considering the fees charged to those accounts, the Trustees took into account, among other things, management's representations about the differences between managing mutual funds as compared to other types of accounts, including differences in the services provided, differences in the risk profile of such business for Columbia, and the additional resources required to manage mutual funds effectively. In evaluating each fund's advisory fees, the Trustees also took into account the demands, complexity and quality of the investment management of the fund. The Trustees considered existing advisory fee breakpoints, and Columbia's use of advisory fee waivers and expense caps, which benefited a number of the funds. The Trustees also noted management's stated justification for the fees charged to the funds, which included information about the investment performance of the funds and the services provided to the funds. The Trustees also considered the compensation directly or indirectly received by Columbia and its affiliates from their relationships with the funds. The Trustees reviewed information provided by management as to the profitability to Columbia and its affiliates of their relationships with each fund, and information about the allocation of expenses used to calculate profitability. When reviewing profitability, the Trustees also considered court cases in which adviser profitability was an issue in whole or in part, the performance of the relevant funds, the expense level of each fund, and whether Columbia had implemented breakpoints and/or expense caps with respect to the fund. After reviewing those and related factors, the Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that the advisory fees charged to each fund, and the related profitability to Columbia and its affiliates of their relationships with the fund, supported the continuation of the Agreement(s) pertaining to that fund. Economies of Scale. The Trustees considered the existence of any economies of scale in the provision by Columbia of services to each fund, to groups of related funds, and to Columbia's investment advisory clients as a whole and whether those economies were shared with the funds through breakpoints in the investment advisory fees or other means, such as expense waivers/reductions and additional investments by Columbia in investment, trading and compliance resources. The Trustees noted that many of the funds benefited from breakpoints, expense caps, or both. In considering those issues, the Trustees also took note of the costs of the services provided (both on an absolute and a relative basis) and the profitability to Columbia and its affiliates of their relationships with the funds, as discussed above. After reviewing those and related factors, the Trustees concluded, within the context of their overall conclusions regarding each of the Agreements, that the extent to which economies of scale were shared with the funds supported the continuation of the Agreements. Other Factors. The Trustees also considered other factors, which included but were not limited to the following: .. the extent to which each fund had operated in accordance with its investment objective and investment restrictions, the nature and scope of the compliance programs of the funds and Columbia and the compliance-related resources that Columbia and its affiliates were providing to the funds; .. the nature, quality, cost and extent of administrative and shareholder services performed by Columbia and its affiliates, both under the Agreements and under separate agreements for the provision of transfer agency and administrative services; .. so-called "fall-out benefits" to Columbia and its affiliates, such as the engagement of its affiliates to provide distribution, brokerage and transfer agency services to the funds, and the benefits of research made available to Columbia by reason of brokerage commissions generated by the funds' securities transactions, as well as possible conflicts of interest associated with those fall-out and other benefits, and the reporting, disclosure and other processes in place to disclose and monitor those possible conflicts of interest; and .. the draft report provided by the funds' independent fee consultant, which included information about and analysis of the funds' fees, expenses and performance. Based on their evaluation of all factors that they deemed to be material, including those factors

described above, and assisted by the advice of independent counsel and the independent fee consultant, the Trustees, including the Independent Trustees, approved the continuance of each of the Agreements through October 31, 2007.

48 Summary of Management Fee Evaluation by Independent Fee Consultant INDEPENDENT FEE CONSULTANT'S EVALUATION OF THE PROCESS BY WHICH MANAGEMENT FEES ARE NEGOTIATED FOR THE COLUMBIA MUTUAL FUNDS OVERSEEN BY THE COLUMBIA ATLANTIC BOARD Prepared Pursuant to the February 9, 2005 Assurance of Discontinuance between the Office of Attorney General of New York State and Columbia Management Advisors, Inc. and Columbia Funds Distributor, Inc. October 11, 2006 I. Overview Columbia Management Advisors, LLC ("CMA") and Columbia Funds Distributors, Inc./1/ ("CFD") agreed on February 9, 2005 to the New York Attorney General's Assurance of Discontinuance ("AOD"). Among other things, the AOD stipulates that CMA may manage or advise a Columbia Fund ("Fund" and together with all such funds or a group of such funds as the "Funds") only if the Independent Members of the Fund's Board of Trustees (such Independent Members of the Fund's Board together with the other members of the Fund's Board, referred to as the "Trustees") appoint a Senior Officer or retain an Independent Fee Consultant ("IFC") who is to manage the process by which proposed management fees are negotiated. The AOD further stipulates that the Senior Officer or IFC is to prepare a written annual evaluation of the fee negotiation process. On September 14, 2006, the Independent Members of the Funds' Boards retained me as IFC for the Funds. In this capacity, I have prepared the second annual written evaluation of the fee negotiation process. I am successor to the first IFC, Erik Sirri, who prepared the annual evaluation in 2005 and who contributed to the second annual written evaluation until his resignation as IFC in August 2006 to become Director of the Division of Market Regulation at the U.S. Securities and Exchange Commission./2/ A. Role of the Independent Fee Consultant The AOD charges the IFC with "managing the process by which proposed management fees...to be charged the Columbia Fund are negotiated so that they are negotiated in a manner which is at arms' length and reasonable and consistent with this Assurance of Discontinuance." In this role, the IFC does not replace the Trustees in negotiating management fees with CMA, and the IFC does not substitute his or her judgment for that of the Trustees about the reasonableness of proposed fees. As the AOD states, CMA "may manage or advise a Columbia Fund only if the reasonableness of the proposed management fees is determined by the Board of Trustees...using...an annual independent written evaluation prepared by or under the direction of...the Independent Fee Consultant." B. Elements Involved in Managing the Fee Negotiation Process Managing the fee negotiation process has three elements. One involves reviewing the information provided by CMG to the Trustees for evaluating the proposed management fees and augmenting that information, as necessary, with additional information from CMG or other sources and with further analyses of the information and data. The second element involves reviewing the information and analysis relative to at least the following six factors set forth in the AOD: 1.The nature and quality of CMA's services, including the Fund's performance; 2.Management fees (including any components thereof) charged by other mutual fund companies for like services; 1CMA and CFD are subsidiaries of Columbia Management Group, Inc. ("CMG"), which also is the parent of Columbia Management Services, Inc. ("CFS"), the Funds' transfer agent. Before the date of this report, CMA merged into an affiliated entity, Banc of America Capital Management, LLC, which was renamed Columbia Management Advisors, LLC and which carries on the business of CMA. CFD also has been renamed Columbia Management Distributors, Inc. 2I am an independent economic consultant. From August 2005 until August 2006, I provided support to Mr. Sirri as an independent consultant. From 1994 to 2004, I was Chief Economist at the Investment Company Institute. Earlier, I was Section Chief and Assistant Director at the Federal Reserve Board and Professor of Economics at Oklahoma State University. I have no material relationship with Bank of America or CMG, aside from serving as IFC, and I am aware of no material relationship with any of their affiliates. To assist me with the report, I engaged NERA Economic Consulting, an independent consulting firm that has had extensive experience in the mutual fund industry. I also have retained Willkie Farr & Gallagher LLP as counsel to advise me in connection with the report. 49 3.Possible economies of scale as the Fund grows larger; 4.Management fees (including any components thereof) charged to institutional and other clients of CMA for like services; 5.Costs to CMA and its affiliates of supplying services pursuant to the management fee agreements, excluding any intra-corporate profit; and 6.Profit margins of CMA and its affiliates from supplying such services. The final element involves providing the Trustees with a written evaluation of the above factors as they relate to the fee negotiation process. C. Organization of the Annual Evaluation The 2006 annual evaluation focuses on the six factors and contains a section for each factor except that CMA's costs and profits from managing the Funds have been combined into a single section. In each section, the discussion of the factor considers and analyzes the available data and other

information as they bear upon the fee negotiation process. If appropriate, the discussion in the section may point out certain aspects of the proposed fees that may warrant particular attention from the Trustees. The discussion also may suggest other data, information, and approaches that the Trustees might consider incorporating into the fee negotiation process in future years. In addition to a discussion of the six factors, the report reviews the status of recommendations made in the 2005 IFC evaluation. The 2006 report also summarizes the findings with regard to the six factors and contains a summary of recommendations for possible enhancements to the process. II. Status of 2005

Recommendations The 2005 IFC evaluation contains recommendations aimed at enhancing the evaluation of proposed management fees by Trustees. The section summarizes those recommendations and includes my assessment of the response to the recommendations. 1.Recommendation: Trustees should consider requesting more analytical work from CMG in the preparation of future 15(c) materials. Status:CMG has provided additional analyses to the Trustees on economies of scale, a comparative analysis of institutional and retail management fees, management fee breakpoints, risk-adjusted performance, fee waivers and expense reimbursements, and CMG's costs and profitability. 2.Recommendation: Trustees may wish to consider whether CMG should continue expanding the use of Morningstar or other third party data to supplement CMG's fee and performance analysis that is now based primarily on Lipper reports. Status:CMG has used data from Morningstar Inc. to compare with data from Lipper Inc. ("Lipper") in performing the Trustees' screening procedures. 3.Recommendation: Trustees should consider whether...the fund-by-fund screen...should place comparable emphasis on both basis point and quintile information in their evaluation of the funds...Also, the Trustees should consider incorporating sequences of one-year performance into a fund-by-fund screen. Status:CMG has not provided Trustees with results of the screening process using percentiles. CMG has provided Trustees with information on the changes in performance and expenses between 2005 and 2006 and data on oneyear returns. 4.Recommendation: Given the volatility of fund performance, the Trustees may want to consider whether a better method exists than th[e] fee waiver process to deal with fund underperformance. Status:It is my understanding that the Trustees have determined to address fund underperformance not only through fee waivers and expense caps but also through discussions with CMG regarding the sources of underperformance. CMG has provided Trustees with an analysis of the relationship between breakpoints, expense reimbursements, and fee waivers. 5.Recommendation: [Seventy-one] percent of funds [have] yet to reach their first management fee breakpoint... Trustees may wish to consider whether the results of my ongoing economies-of-scale work affects the underlying economic assumptions reflected in the existing breakpoint schedules. 50 Status:CMG has prepared a memo for the Trustees discussing its views on the nature and sharing of potential economies of scale. The memo discusses CMG's view that economies of scale arise at the complex level rather than the fund level. The memo also describes steps, including the introduction of breakpoints, taken to share economies of scale with shareholders. CMG's analysis, however, does not discuss specific sources of economies of scale and does not link breakpoints to economies of scale that might be realized as the Funds' assets increase. 6.Recommendation: Trustees should continue working with management to address issues of funds that demonstrate consistent or significant underperformance even if the fee levels for the funds are low. Status:Trustees monitor performance on an ongoing basis. III. Findings A. General 1.Based upon my examination of the available information and the six factors, I conclude that the Trustees have the relevant information necessary to evaluate the reasonableness of the proposed management fees for the Funds. CMG has provided the Trustees with relevant materials on the six factors through the 15(c) contract renewal process and in materials prepared for review at Board and Committee meetings. 2.In my view, the process by which the proposed management fees of the Funds have been negotiated in 2006 thus far has been, to the extent practicable, at arms' length and reasonable and consistent with the AOD. B. Nature and Quality of Services, Including Performance 3.The performance of the Funds has been relatively strong, especially that of fixed-income Funds. For each of the 1-, 3-, 5- and 10-year performance periods, over 60 percent of the funds have ranked in the top three performance quintiles. 4.The performance of the equity Funds overall, though less concentrated in the top two quintiles than the fixed-income Funds, improved in 2006 relative to that in 2005. The fixedincome funds maintained the relatively high performance level of 2005 in 2006. 5.The Funds' overall performance adjusted for risk was significantly stronger than performance unadjusted for risk. Domestic and international equity funds, in particular, moved to higher relative performance rankings after adjusting for risk. 6.The procedure used to construct the performance universe in which each Fund's performance is ranked relative to comparable funds may bias a Fund's ranking upward within that universe. The bias occurs because the performance ranking procedure includes all share classes of multi-class funds in the universe and because the procedure ranks either no-load or A share classes of the Funds. No-load and A share classes generally

have lower total expenses than B and C shares (owing to B and C shares having higher distribution/service fees) and thus, given all else, would outperform many of B and C share classes included in the universe. A preliminary analysis that adjusts for the bias results in a downward movement in the relative performance for the Funds but does not change the general finding that the Funds' performance has been strong relative to comparable funds. C. Management Fees Charged by Other Mutual Fund Companies 7. The Funds' management fees and total expenses are generally low relative to those of their peers. At least 56 percent of the Funds are in the first or second quintiles with the lowest fees and expenses and nearly three-fourths or more in the first three quintiles. Equity Funds are more highly concentrated in the first three quintiles than fixed income Funds. 8. The fee and expense rankings as whole are similar to those in 2005 in that the majority of funds are ranked in the top quintiles. Nonetheless, a number of individual funds experienced a change in ranking between 2005 and 2006. This fund-level instability may reflect sensitivity of rankings to the composition of the comparison groups, as the membership of the peer groups typically changed substantially between the two years. 9. The Liberty Money Market Fund VS appears to have a higher management fee structure than that of other Columbia money market funds of comparable asset size. 51 D. Trustees' Fee and Performance Evaluation Process 10. The Trustees' evaluation process identified 21 funds in 2006 for further review based upon their relative performance or expenses. Seventeen of these funds had been subject to review in 2004 or 2005. E. Potential Economies of Scale 11. CMG has prepared a memo for the Trustees containing its views on the sources and sharing of potential economies of scale. CMG views economies of scale as arising at the complex level and would regard estimates of scale economies for individual funds as unreliable. CMG has not, however, identified specific sources of economies of scale nor has it provided any estimates of the magnitude of any economies of scale. In the memo, CMG also describes measures taken by the Trustees and CMG that seek to share any potential economies of scale through breakpoints in management fee schedules, expense reimbursements, fee waivers, enhanced shareholder services, fund mergers, and operational consolidation. These measures, although of significant benefit to shareholders, have not been directly linked in the memo to the existence, sources, and magnitude of economies of scale. F. Management Fees Charged to Institutional Clients 12. CMG has provided Trustees with comparisons of mutual fund management fees and institutional fees based upon standardized fee schedules and upon actual fees. Based upon the information, institutional fees are generally lower than the Funds' management fees. This pattern is consistent with the economics of the two financial products. Data are not available, however, on actual institutional fees at other money managers. Thus, it is not possible to determine the extent to which differences between the Funds' management fees and institutional fees are consistent with those seen generally in the marketplace. G. Revenues, Expenses, and Profits 13. The financial statements and the methodology underlying their construction generally form a sufficient basis for Trustees to evaluate the expenses and profitability of the Funds. IV. Recommendations A. Performance 1. Trustees may wish to consider incorporating risk-adjusted measures in their evaluation of performance. CMG has begun to prepare reports for the Trustees with risk adjustments, which could form the basis for formally including the measures in the 15(c) materials. To this end, Trustees may wish to have CMG prepare documents explaining risk adjustments and describing their advantages and disadvantages. 2. Trustees may wish to consider having CMG evaluate the sensitivity of performance rankings to the design of the universe. The preliminary analysis contained in the evaluation suggests that the method employed by Lipper, the source of performance rankings used by the Trustees, may bias performance rankings upward. B. Economies of Scale 3. Trustees may wish to consider having CMG extend its analysis of economies of scale by examining the sources of such economies, if any. Identification of the sources may enable the Trustees and CMG to gauge their magnitude. It also may enable the Trustees and CMG to build upon past work on standardized fee schedules so that the schedules themselves are consistent with any economies of scale and their sources. Finally, an extension of the analysis may enable the Trustees and CMG to develop a framework that coordinates the use of fee waivers and expense caps with the standard fee schedules and with any economies of scale and their sources. C. Institutional Fees 4. Trustees may wish to consider encouraging CMG to build further upon its expanded analysis of institutional fees by refining the matching of institutional accounts with mutual funds, by dating the establishment of each institutional account, and by incorporating other accounts, such as subadvisory relationships, trusts, offshore funds, and separately managed accounts into the analysis. D. Profitability 5. Trustees may wish to consider requesting that CMG expand the reporting of revenues and expenses to include more line-item detail for management and administration, transfer agency, fund accounting, and distribution. 52 6. Trustees may wish to consider requesting that CMG provide a statement of its operations in the 15(c) materials. 7. Trustees may wish to consider the treatment of the revenue sharing with the Private Bank of Bank of America in their review of CMG's

profitability. Respectfully submitted, John D. Rea 53 APPENDIX SOURCES OF INFORMATION USED IN THE EVALUATION The following list generally describes the sources and types of information that were used in preparing this report. 1.Performance, management fees, and expense ratios for the Funds and comparable funds from other fund complexes from Lipper and CMG. The sources of this information were CMG and Lipper; 2.CMG's expenses and profitability obtained directly from CMG; 3.Information on CMG's organizational structure; 4.Profitability of publicly traded asset managers from Lipper; 5.Interviews with CMG staff, including members of senior management, legal staff, heads of affiliates, portfolio managers, and financial personnel; 6.Documents prepared by CMG for Section 15(c) contract renewals in 2005 and 2006; 7.Academic research papers, industry publications, professional materials on mutual fund operations and profitability, and SEC releases and studies of mutual fund expenses 8.Interviews with and documents prepared by Ernst & Young LLP in its review of the Private Bank Revenue Sharing Agreement; 9.Discussions with Trustees and attendance at Board and committee meetings during which matters pertaining to the evaluation were considered. In addition, I engaged NERA Economic Consulting ("NERA") to assist me in data management and analysis. NERA has extensive experience in the mutual fund industry that provides unique insights and special knowledge pertaining to my independent analysis of fees, performance, and profitability. I have also retained attorneys in the Washington, D.C. office of Willkie Farr & Gallagher LLP as outside counsel to advise me in connection with my evaluation. Finally, meetings and discussions with CMG staff were informative. My participation in Board and committee meetings in which Trustees and CMG management discussed issues relating to management contracts were of great benefit to the preparation of the evaluation. 54 Important Information About This Report Colonial Municipal Income Trust Transfer Agent Computershare P.O. Box 43010 Providence, RI 02940-3010 The trust mails one shareholder report to each shareholder address. Shareholders can order additional reports by calling 800-730-6001. In addition, representatives at that number can provide shareholders information about the trust. Financial advisors who want additional information about the trust may speak to a representative at 800-426-3750. A description of the trust's proxy voting policies and procedures is available (i) at www.columbiamanagement.com; (ii) on the Securities and Exchange Commission's website at www.sec.gov, and (iii) without charge, upon request, by calling 800-730-6001. Information regarding how the trust voted proxies relating to portfolio securities during the 12-month period ended June 30 is available from the SEC's website. Information regarding how the trust voted proxies relating to portfolio securities is also available at www.columbiamanagement.com. The trust files a complete schedule of portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. The trust's Form N-Q is available on the SEC's website at www.sec.gov and may be reviewed and copied at the SEC's Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330. Annual Certifications -- As required, on June 21, 2006, the trust submitted to the New York Stock Exchange ("NYSE") the annual certification of the trust's Chief Executive Officer certifying that he is not aware of any violation of the NYSE's Corporate Governance listing standards. The trust also has included the certifications of the trust's Chief Executive Officer and Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 as exhibits to the trust's Form N-CSR filed with the Securities and Exchange Commission for the annual period. This report has been prepared for shareholders of Colonial Municipal Income Trust. 55 [GRAPHIC] COLONIAL MUNICIPAL INCOME TRUST ANNUAL REPORT SHC-42/115520-1106 (01/07) 07/33040 Item 2. Code of Ethics. (a) The registrant has, as of the end of the period covered by this report, adopted a code of ethics that applies to the registrant's principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, regardless of whether these individuals are employed by the registrant or a third party. (b) The registrant's Board adopted, effective January 3, 2006, a revised code of ethics described in 2(a) above. This revised code of ethics, which is attached as an exhibit hereto, does not differ materially from the code of ethics in effect for the year ended November 30, 2005. (c) During the period covered by this report, there were no waivers, including any implicit waivers, from a provision of the code of ethics described in 2(a) above that relates to one or more of the items set forth in paragraph (b) of this item's instructions. Item 3. Audit Committee Financial Expert. The registrant's Board of Trustees has determined that Douglas A. Hacker, Thomas E. Stitzel and Anne-Lee Verville, each of whom are members of the registrant's Board of Trustees and Audit Committee, each qualify as an audit committee financial expert. Mr. Hacker, Mr. Stitzel and Ms. Verville are each independent trustees, as defined in paragraph (a)(2) of this item's instructions and collectively constitute the entire Audit Committee. Item 4. Principal Accountant Fees and Services. (a) Audit Fees. Aggregate Audit Fees billed by the principal accountant for professional services rendered

during the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005
 ---- ---- \$32,000 \$29,000 Audit Fees include amounts related to the audit of the registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. (b) Audit-Related Fees. Aggregate Audit-Related Fees billed to the registrant by the principal accountant for professional services rendered during the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005 ---- ---- \$13,700 \$13,200 Audit-Related Fees include amounts for assurance and related services by the principal accountant that are reasonably related to the performance of the audit of the registrant's financial statements and are not reported in Audit Fees above. In both fiscal years 2006 and 2005, Audit-Related Fees include agreed-upon procedures performed for semi-annual shareholder reports and rating agency reviews. During the fiscal years ended November 30, 2006 and November 30, 2005, there were no Audit-Related Fees billed by the registrant's principal accountant to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for an engagement that related directly to the operations and financial reporting of the registrant. (c) Tax Fees. Aggregate Tax Fees billed by the principal accountant to the registrant for professional services rendered during the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005 ---- ---- \$3,900 \$3,100 Tax Fees consist primarily of the review of annual tax returns and include amounts for professional services by the principal accountant for tax compliance, tax advice and tax planning. During the fiscal years ended November 30, 2006 and November 30, 2005, there were no Tax Fees billed by the registrant's principal accountant to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for an engagement that related directly to the operations and financial reporting of the registrant. (d) All Other Fees. Aggregate All Other Fees billed by the principal accountant to the registrant for professional services rendered during the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005 ---- ---- \$0 \$0 All Other Fees include amounts for products and services provided by the principal accountant, other than the services reported in paragraphs (a) through (c) above. Aggregate All Other Fees billed by the registrant's principal accountant to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for an engagement that related directly to the operations and financial reporting of the registrant during the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005 ---- ---- \$505,500 \$255,500 In both fiscal years 2006 and 2005, All Other Fees include internal control reviews of the registrant's investment advisor. (e)(1) Audit Committee Pre-Approval Policies and Procedures The registrant's Audit Committee is required to pre-approve the engagement of the registrant's independent accountants to provide audit and non-audit services to the registrant and non-audit services to its investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) or any entity controlling, controlled by or under common control with such investment adviser that provides ongoing services to the registrant ("Adviser Affiliates"), if the engagement relates directly to the operations and financial reporting of the registrant. The Audit Committee has adopted a Policy for Engagement of Independent Accountants for Audit and Non-Audit Services ("Policy"). The Policy sets forth the understanding of the Audit Committee regarding the engagement of the registrant's independent accountants to provide (i) audit and permissible audit-related, tax and other services to the registrant (collectively "Fund Services"); (ii) non-audit services to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and Adviser Affiliates, if the engagement relates directly to the operations or financial reporting of a Fund (collectively "Fund-related Adviser Services"); and (iii) certain other audit and non-audit services to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser) and Adviser Affiliates. Unless a type of service receives general pre-approval under the Policy, it requires specific pre-approval by the Audit Committee if it is to be provided by the independent accountants. Pre-approval of non-audit services to the registrant, the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted

with or overseen by another investment adviser) and Adviser Affiliates may be waived provided that the "de minimis" requirements set forth under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X are met. Under the Policy, the Audit Committee may delegate pre-approval authority to any pre-designated member or members who are Independent Trustees/Directors. The member(s) to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the Audit Committee at its next regular meeting. The Audit Committee's responsibilities with respect to the pre-approval of services performed by the independent accountants may not be delegated to management. The Policy requires the Fund Treasurer and/or Director of Board Administration to submit to the Audit Committee, on an annual basis, a schedule of the types of services that are subject to general pre-approval. The schedule(s) provide a description of each type of service that is subject to general pre-approval and, where possible, will provide estimated fee caps for each instance of providing each service. The Audit Committees will review and approve the types of services and review the projected fees for the next fiscal year and may add to, or subtract from, the list of general pre-approved services from time to time based on subsequent determinations. That approval acknowledges that the Audit Committee is in agreement with the specific types of services that the independent accountants will be permitted to perform. The Fund Treasurer and/or Director of Board Administration shall report to the Audit Committee at each of its regular meetings regarding all Fund Services or Fund-related Adviser Services initiated since the last such report was rendered, including a general description of the services, actual billed and projected fees, and the means by which such Fund Services or Fund-related Adviser Services were pre-approved by the Audit Committee. ***** (e)(2) The percentage of services described in paragraphs (b) through (d) of this Item approved pursuant to the "de minimis" exception under paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X during both fiscal years ended November 30, 2006 and November 30, 2005 was zero. (f) Not applicable. (g) The aggregate non-audit fees billed by the registrant's accountant for services rendered to the registrant, and rendered to the registrant's investment adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant for the fiscal years ended November 30, 2006 and November 30, 2005 are approximately as follows: 2006 2005 ---- ---- \$523,100 \$271,800 (h) The registrant's Audit Committee of the Board of Directors has considered whether the provision of non-audit services that were rendered to the registrant's adviser (not including any sub-adviser whose role is primarily portfolio management and is subcontracted with or overseen by another investment adviser), and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the registrant that were not pre-approved pursuant to paragraph (c)(7)(ii) of Rule 2-01 of Regulation S-X, is compatible with maintaining the principal accountant's independence.

Item 5. Audit Committee of Listed Registrants. The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act (15 U.S.C. 78c(a)(58)(A)). Douglas A. Hacker, Thomas E. Stitzel and Anne-Lee Verville are each independent trustees and collectively constitute the entire Audit Committee.

Item 6. Schedule of Investments The registrant's "Schedule I - Investments in securities of unaffiliated issuers" (as set forth in 17 CFR 210.12-12) is included in Item 1 of this Form N-CSR.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies. The Fund has delegated to Columbia Management Advisors, LLC (the "Advisor") the responsibility to vote proxies relating to portfolio securities held by the Fund. In deciding to delegate this responsibility to the Advisor, the Board of Trustees of the Trust reviewed and approved the policies and procedures adopted by the Advisor. These included the procedures that the Advisor follows when a vote presents a conflict between the interests of the Fund and its shareholders and the Advisor, its affiliates, its other clients or other persons. The Advisor's policy is to vote all proxies for Fund securities in a manner considered by the Advisor to be in the best interest of the Fund and its shareholders without regard to any benefit to the Advisor, its affiliates, its other clients or other persons. The Advisor examines each proposal and votes against the proposal, if, in its judgment, approval or adoption of the proposal would be expected to impact adversely the current or potential market value of the issuer's securities. The Advisor also examines each proposal and votes the proxies against the proposal, if, in its judgment, the proposal would be expected to affect adversely the best interest of the Fund. The Advisor determines the best interest of the Fund in light of the potential economic return on the Fund's investment. The Advisor addresses potential material conflicts of interest by having predetermined voting guidelines. For those proposals that require special consideration or in instances where special circumstances may require varying from the predetermined guideline, the Advisor's Proxy Committee determines the vote in the best interest of the Fund, without consideration

of any benefit to the Advisor, its affiliates, its other clients or other persons. The Advisor may also address potential material conflicts of interest by delegating the proxy to an independent third party voting agent. The Advisor's Proxy Committee is composed of representatives of the Advisor's investment management team, compliance, legal and fund administration functions. In addition to the responsibilities described above, the Proxy Committee has the responsibility to review, at least annually, the Advisor's proxy voting policies to ensure consistency with internal and regulatory agency policies and to develop additional predetermined voting guidelines to assist in the review of proxy proposals. The Proxy Committee may vary from a predetermined guideline if it determines that voting on the proposal according to the predetermined guideline would be expected to impact adversely the current or potential market value of the issuer's securities or to affect adversely the best interest of the client. References to the best interest of a client refer to the interest of the client in terms of the potential economic return on the client's investment. In determining the vote on any proposal, the Proxy Committee does not consider any benefit other than benefits to the owner of the securities to be voted. A member of the Proxy Committee is prohibited from voting on any proposal for which he or she has a conflict of interest by reason of a direct relationship with the issuer or other party affected by a given proposal. Persons making recommendations to the Proxy Committee or its members are required to disclose to the Committee any relationship with a party making a proposal or other matter known to the person that would create a potential conflict of interest. The Advisor has retained a third party vendor to implement its proxy voting process. The vendor provides proxy analysis, record keeping services and vote disclosure services.

Item 8. Portfolio Managers of Closed-End Management Investment Companies. (a)(1) PORTFOLIO MANAGER MAUREEN G. NEWMAN, a senior vice president of Columbia Management Advisors, LLC, is the manager for the Fund and has managed the Fund since August, 1998. Ms. Newman has been associated with Columbia Management Advisors, LLC or its predecessors since May 1996. (2) OTHER ACCOUNTS MANAGED BY THE PORTFOLIO MANAGER The following table shows the number and assets of other investment accounts (or portions of investment accounts) that the Fund's portfolio manager managed as of the Fund's fiscal year-end. Other SEC- registered open-end Other pooled and closed-end funds investment vehicles Other accounts -----

Number of	Number of	Number of	Portfolio Manager	accounts	Assets	accounts	Assets	accounts	Assets
-----	-----	-----	Maureen G. Newman	3	\$1.3 billion	0	\$0	10	\$3.7 million

None of these accounts are subject to an advisory fee that is based on the performance of the account. POTENTIAL CONFLICTS OF INTEREST IN MANAGING MULTIPLE ACCOUNTS Like other investment professionals with multiple clients, a portfolio manager for the Fund may face certain potential conflicts of interest in connection with managing both the Fund and other accounts at the same time. The paragraphs below describe some of these potential conflicts, which Columbia Management Advisors, LLC believes are faced by investment professionals at most major financial firms. Columbia Management Advisors, LLC and the Trustees of the Fund have adopted compliance policies and procedures that attempt to address certain of these potential conflicts. The management of accounts with different advisory fee rates and/or fee structures, including accounts that pay advisory fees based on account performance ("performance fee accounts"), may raise potential conflicts of interest by creating an incentive to favor higher-fee accounts. These potential conflicts may include, among others: . The most attractive investments could be allocated to higher-fee accounts or performance fee accounts. . The trading of higher-fee accounts could be favored as to timing and/or execution price. For example, higher-fee accounts could be permitted to sell securities earlier than other accounts when a prompt sale is desirable or to buy securities at an earlier and more opportune time. . The trading of other accounts could be used to benefit higher-fee accounts (front- running). . The investment management team could focus their time and efforts primarily on higher-fee accounts due to a personal stake in compensation. Potential conflicts of interest may also arise when the portfolio managers have personal investments in other accounts that may create an incentive to favor those accounts. As a general matter and subject to limited exceptions, Columbia Management Advisors, LLC's investment professionals do not have the opportunity to invest in client accounts, other than the Columbia Funds. A potential conflict of interest may arise when the Fund and other accounts purchase or sell the same securities. On occasions when a portfolio manager considers the purchase or sale of a security to be in the best interests of the Fund as well as other accounts, Columbia Management Advisors, LLC 's trading desk may, to the extent permitted by applicable laws and regulations, aggregate the securities to be sold or purchased in order to obtain the best execution and lower brokerage commissions, if any. Aggregation of trades may create the potential for unfairness to the Fund or another account if one account is favored over another in allocating the securities purchased or sold -- for example, by allocating a disproportionate amount of a security that is likely to increase in value to a

avored account. "Cross trades," in which one Columbia account sells a particular security to another account (potentially saving transaction costs for both accounts), may also pose a potential conflict of interest. Cross trades may be seen to involve a potential conflict of interest if, for example, one account is permitted to sell a security to another account at a higher price than an independent third party would pay. Columbia Management Advisors, LLC and the Funds' Trustees have adopted compliance procedures that provide that any transactions between the Fund and another Columbia-advised account are to be made at an independent current market price, as required by law. Another potential conflict of interest may arise based on the different investment objectives and strategies of the Fund and other accounts. For example, another account may have a shorter-term investment horizon or different investment objectives, policies or restrictions than the Fund. Depending on another account's objectives or other factors, a portfolio manager may give advice and make decisions that may differ from advice given, or the timing or nature of decisions made, with respect to the Fund. In addition, investment decisions are the product of many factors in addition to basic suitability for the particular account involved. Thus, a particular security may be bought or sold for certain accounts even though it could have been bought or sold for other accounts at the same time. More rarely, a particular security may be bought for one or more accounts managed by a portfolio manager when one or more other accounts are selling the security (including short sales). There may be circumstances when purchases or sales of portfolio securities for one or more accounts may have an adverse effect on other accounts. The Fund's portfolio manager who is responsible for managing multiple funds and/or accounts may devote unequal time and attention to the management of those funds and/or accounts. As a result, the portfolio manager may not be able to formulate as complete a strategy or identify equally attractive investment opportunities for each of those accounts as might be the case if he or she were to devote substantially more attention to the management of a single fund. The effects of this potential conflict may be more pronounced where funds and/or accounts overseen by a particular portfolio manager have different investment strategies. The Fund's portfolio managers may be able to select or influence the selection of the brokers and dealers that are used to execute securities transactions for the Fund. In addition to executing trades, some brokers and dealers provide portfolio managers with brokerage and research services (as those terms are defined in Section 28(e) of the Securities Exchange Act of 1934), which may result in the payment of higher brokerage fees than might have otherwise be available. These services may be more beneficial to certain funds or accounts than to others. Although the payment of brokerage commissions is subject to the requirement that the portfolio manager determine in good faith that the commissions are reasonable in relation to the value of the brokerage and research services provided to the fund, a portfolio manager's decision as to the selection of brokers and dealers could yield disproportionate costs and benefits among the funds and/or accounts that he or she manages. Columbia Management Advisors, LLC or an affiliate may provide more services (such as distribution or recordkeeping) for some types of funds or accounts than for others. In such cases, a portfolio manager may benefit, either directly or indirectly, by devoting disproportionate attention to the management of fund and/or accounts that provide greater overall returns to the investment manager and its affiliates. The Fund's portfolio manager(s) may also face other potential conflicts of interest in managing the Fund, and the description above is not a complete description of every conflict that could be deemed to exist in managing both the Fund and other accounts. In addition, the Fund's portfolio manager may also manage other accounts (including their personal assets or the assets of family members) in their personal capacity. The management of these accounts may also involve certain of the potential conflicts described above. Investment personnel at Columbia Management Advisors, LLC, including the Fund's portfolio manager, are subject to restrictions on engaging in personal securities transactions pursuant to Codes of Ethics adopted by the Columbia Management Advisors, LLC and the Fund, which contain provisions and requirements designed to identify and address certain conflicts of interest between personal investment activities and the interests of the Fund. (3) COMPENSATION As of the Fund's most recent fiscal year end, the portfolio manager received all of her compensation from Columbia Management Advisors, LLC and its parent company, Columbia Management Group, in the form of salary, bonus, stock options and restricted stock. A portfolio manager's bonus is variable and is generally based on (1) an evaluation of the manager's investment performance and (2) the results of a peer and/or management review of such individual, which takes into account skills and attributes such as team participation, investment process, communication and professionalism. In evaluating investment performance, Columbia Management Advisors, LLC generally considers the one-, three- and five-year performance of mutual funds and other accounts under the portfolio manager's oversight relative to the benchmarks and peer groups noted below, emphasizing the manager's three- and five-year performance. Columbia Management Advisors, LLC may also consider the portfolio manager's performance in managing client assets in sectors and

industries assigned to the manager as part of her investment team responsibilities, where applicable. For portfolio managers who also have group management responsibilities, another factor in their evaluation is an assessment of the group's overall investment performance. Portfolio Manager Performance Benchmark Peer Group -----

----- Maureen G. Newman Lehman Municipal Bond Lipper High Yield Index Municipal Debt Funds The size of the overall bonus pool each year is determined by Columbia Management Group and depends in part on levels of compensation generally in the investment management industry (based on market compensation data) and Columbia Management Advisors, LLC 's profitability for the year, which is influenced by assets under management. (4)OWNERSHIP OF SECURITIES The table below shows the dollar ranges of shares of the Fund beneficially owned (as determined pursuant to Rule 16a-1(a)(2) under the Securities Exchange Act of 1934, as amended) by the portfolio manager listed above at the end of the Fund's most recent fiscal year: Dollar Range of Equity Securities in the Fund Portfolio Manager Beneficially Owned -----

----- Maureen G. Newman None Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers. Registrant Purchases of Equity Securities* (c) Total Number of (d) (a) (b) Shares Purchased as Maximum Number of Total Number Average Part of Publicly Shares that May Yet of Shares Price Paid Announced Plans Be Purchased Under Period Purchased Per Share or Programs the Plans or Programs ----- 06/01/06 through 06/30/06 8,590 \$5.79 8,590 N/A 07/01/06 through 07/31/06 0 \$0.00 0 N/A 08/01/06 through 08/31/06 0 \$0.00 0 N/A 09/01/06 through 09/30/06 0 \$0.00 0 N/A 10/01/06 through 10/31/06 7,448 \$5.93 7,448 N/A 11/01/06 through 11/30/06 7,107 \$5.86 7,107 N/A ----- Total..... 23,145 \$5.86 23,145 N/A ----- * Includes shares purchased by the Dividend Reinvestment Agent pursuant to the Registrant's Dividend Reinvestment Plan. Item 10. Submission of Matters to a Vote of Security Holders. There have not been any material changes to the procedures by which shareholders may recommend nominees to the registrant's board of directors, since those procedures were last disclosed in response to requirements of Item 7(d)(2)(ii)(G) of Schedule 14A or this Item. Item 11. Controls and Procedures. (a) The registrant's principal executive officer and principal financial officers, based on their evaluation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing of this report, have concluded that such controls and procedures are adequately designed to ensure that information required to be disclosed by the registrant in Form N-CSR is accumulated and communicated to the registrant's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. (b) There was no change in the registrant's internal control over financial reporting that occurred during the registrant's second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting. Item 12. Exhibits. (a)(1) Code of ethics required to be disclosed under Item 2 of Form N-CSR attached hereto as Exhibit 99.CODE ETH. (a)(2) Certifications pursuant to Rule 30a-2(a) under the Investment Company Act of 1940 (17 CFR 270.30a-2(a)) attached hereto as Exhibit 99.CERT. (a)(3) Not applicable. (b) Certification pursuant to Rule 30a-2(b) under the Investment Company Act of 1940 (17 CFR 270.30a-2(b)) attached hereto as Exhibit 99.906CERT. SIGNATURES Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized. (registrant) Colonial Municipal Income Trust -----

By (Signature and Title) /s/ Christopher L. Wilson ----- Christopher L. Wilson, President Date January 25, 2007 ----- Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. By (Signature and Title) /s/ Christopher L. Wilson ----- Christopher L. Wilson, President Date January 25, 2007 ----- By (Signature and Title) /s/ J. Kevin Connaughton ----- J. Kevin Connaughton, Treasurer Date January 25, 2007 -----