PUTNAM MUNICIPAL OPPORTUNITIES TRUST
Form N-CSR
December 29, 2004

Putnam
Municipal
Opportunities
Trust

Item 1. Report to Stockholders:

The following is a copy of the report transmitted to stockholders pursuant to Rule 30e-1 under the Investment Company Act of 1940:

SEMIANNUAL REPORT ON PERFORMANCE AND OUTLOOK

10-31-04

[GRAPHIC OMITTED: POCKET WATCH]

[SCALE LOGO OMITTED]

From the Trustees

[GRAPHIC OMITTED: PHOTO OF JOHN A. HILL AND GEORGE PUTNAM, III]

John A. Hill and
George Putnam, III

Dear Fellow Shareholder:

During the past several months, Putnam has introduced a number of reforms for the benefit of shareholders, including increasing the amount of disclosure for our funds. We are now including additional information about your fund's management team. Following the Outlook for Your Fund, we list any changes in your fund's Portfolio Leader and Portfolio Members during the prior year period, the current Portfolio Leader's and Portfolio Members' other fund management responsibilities at Putnam, and the dollar range of fund shares owned by these individuals.

We are also pleased to announce that three new Trustees have joined your fund's Board of Trustees. Nominated by your fund's independent Trustees, these individuals have had outstanding careers as leaders in the investment management industry. Myra R. Drucker is a Vice Chair of the Board of Trustees of Sarah Lawrence College and serves as Chair of the New York Stock Exchange (NYSE) Pension Managers Advisory Committee and as a Trustee of Commonfund, a not-for-profit asset management firm. Richard B. Worley is Managing Partner of Permit Capital LLC, an investment management firm. Both Ms. Drucker and Mr. Worley are independent Trustees (i.e., Trustees who are not "interested persons" of your fund or its investment advisor). Charles E. Haldeman, Jr., the third new Trustee, is President and Chief Executive Officer of Putnam Investments.

During the period covered by the following report, Putnam Municipal Opportunities Trust delivered respectable results. In the following pages, the fund managers discuss fund performance, strategy, and their outlook for fiscal 2005.

Respectfully yours,

/S/ JOHN A. HILL   /S/ GEORGE PUTNAM, III

John A. Hill — Chairman of the Trustees
George Putnam, III — President of the Funds

December 15, 2004

Report from Fund Management

Fund highlights

* For the six months ended October 31, 2004, Putnam Municipal Opportunities Trust's total return was 6.59% at net asset value (NAV) and 4.65% at market price.

* The fund's benchmark, the Lehman Municipal Bond Index, returned 4.78% for the period.

* The average return for its Lipper category, General Municipal Debt Funds (leveraged closed-end) was 6.58%.

* The fund's dividend was reduced to $0.0735 in September. See page 6 for more information.

* See the Performance Summary beginning on page 10 for additional fund performance, comparative performance, and Lipper data.

Performance commentary

Two factors drove positive performance for the high-yield, lower-quality bonds in the fund's portfolio, enabling its results at NAV to surpass those of its benchmark during the six months ended October 31, 2004. The first factor was the improving economic climate, which increased investor confidence in the relative financial stability of many lower-rated bond issuers, lifting the price of the bonds. The second factor was investor demand for higher-yielding municipal debt, which increased while supply remained relatively small, driving up prices of these bonds. The fund's position in lower-rated bonds also helped it perform, at NAV, in line with its Lipper peer group average, in spite of the fund's relatively conservative duration during the period. It is important to note that a fund's performance at market price may differ from its results at NAV. Although market price performance generally reflects investment results, it may also be influenced by several other factors, including changes in investor perceptions of the fund or its investment advisor, market conditions, fluctuations in supply and demand for the fund's shares, and changes in fund distributions.

TOTAL RETURN FOR PERIODS ENDED 10/31/04

(inception 5/28/93)	NAV	Market price
6 months	6.59%	4.65%
1 year	8.57	6.30
5 years	47.05	45.48
Annual average	8.02	7.78

10 years	107.44	112.98
Annual average	7.57	7.85
Annual average (life of fund)	6.56	5.62

Data is historical. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares. Performance assumes reinvestment of distributions and does not account for taxes.

FUND PROFILE

Putnam Municipal Opportunities Trust seeks to provide high current income free from federal income tax consistent with the preservation of capital, by investing in investment-grade and some below-investment-grade municipal bonds. The fund may be appropriate for investors seeking tax-free income and who are willing to accept a moderate degree of risk.

Market overview

Over the past six months, which constitute the first half of your fund's 2005 fiscal year, the yield on the 10-year Treasury bond fell, and bond prices, which move in the opposite direction of yields, rose. In mid-March, the bond market had begun to anticipate a change in the Federal Reserve Board's (the Fed) monetary policy. Treasury bonds sold off sharply and pushed yields upward, as strong economic growth and rising corporate profitability increased the likelihood that the Fed would raise short-term interest rates at its June 30 meeting. Interestingly, when the Fed announced what had been a widely anticipated 25-basis-point increase, the bond market changed its course. Yields of bonds with maturities in the range of 11-21 years trended downward. At the same time, yields rose for bonds with short maturities and those with very long maturities (over 21 years). This resulted in a flattening of the yield curve -- that is, shorter- and longer-term interest rates began to converge.

Among uninsured bonds and bonds rated A and below, yield spreads remained essentially flat for the period. However, these higher-yielding securities continued to provide attractive income streams that contributed to the fund's total return during the period. Municipal bonds issued by the State of California were generally strong performers. The California economy improved to such an extent that three bond-rating agencies -- Moody's, Standard & Poor's, and Fitch -- upgraded the state's credit rating. Tobacco settlement bonds performed fairly well during the period. Yields on these bonds varied with the results of ongoing legal battles, but declined overall since May, and their prices rose accordingly. Airline-related industrial development bonds (IDBs) performed poorly in general, as the industry continued to face financial difficulties that were made worse by record high oil prices. New York City general obligation (GO) bonds rose in price over the past six months, reflecting a dearth of new issuance, as well as investors' confidence in improving economic prospects for the city.

MARKET SECTOR PERFORMANCE 6 MONTHS ENDED 10/31/04

Bonds

Lehman Municipal Bond Index (tax-exempt bonds)	4.78%
Lehman Aggregate Bond Index (broad bond market)	4.23%
Lehman Government Bond Index (U.S. Treasury and agency securities)	3.96%
JP Morgan Global High Yield Index (global high-yield corporate bonds)	6.14%
Equities	
S&P 500 Index (broad stock market)	2.96%
Russell 1000 Index (large-company stocks)	3.04%
Russell 2000 Index (stocks of small and midsize companies)	4.87%

These indexes provide an overview of performance in different market sectors for the six months ended 10/31/04.

Strategy overview

Because we believe that the Fed is likely to continue to raise short-term interest rates through mid-2005, we have positioned the portfolio more defensively. This involves shortening the fund's duration, which means reducing its sensitivity to changes in interest rates. To accomplish this, we began the process of selling longer-term bonds and replacing them with shorter-term bonds, which have a shorter duration. Meanwhile, we continued to trim and diversify the fund's positions in uninsured bonds and bonds rated A and below, which have performed strongly. We maintained a neutral position, relative to the fund's benchmark, in California municipal bonds, which were in high demand as that state got its fiscal house in order and its debt rating was upgraded by the major bond-rating agencies. The fund maintained its overweight position in tobacco settlement bonds. We closely monitored developments in that sector. The fund had less exposure to airline-related IDBs during the period than did its peers.

In previous fiscal years, the fund emphasized non-callable bonds -- bonds that the issuer is not permitted to redeem (or call) before the maturity date. These issues performed well as rates fell through March 2004, but during the spring we began to moderate this position, selling non-callable bonds and purchasing callable issues scheduled to mature in the 15- to 20-year range. We believe callable bonds may perform better than non-callable bonds if interest rates rise and the yield curve flattens further.

[GRAPHIC OMITTED: horizontal bar chart THE FUND'S MATURITY AND DURATION COMPARED]

THE FUND'S MATURITY AND DURATION COMPARED

	4/30/04	10/31/04
Average effective maturity in years	9.0	7.3

Average effective duration in years	9.2	8.3

Footnotes read:
This chart compares changes in the fund's duration (a measure of its sensitivity to interest-rate changes) and its average effective maturity (a weighted average of the holdings' maturities).

Average effective maturity also takes into account put and call features, where applicable, and reflects prepayments for mortgage-backed securities.

How fund holdings affected performance

When economic growth improves, the chances of a company or municipality defaulting on its bond payments generally decrease, which can boost the prices of lower-rated bonds significantly. The more credit-sensitive pockets of the market benefited from this trend, as well as increased demand from investors who were hungry for yield in a low-interest-rate environment. Consequently, the fund's focus on lower-rate bonds helped performance substantially. While we emphasize lower-quality bonds in this fund's portfolio, we have also been trying to manage risk exposure by diversifying holdings across a number of issuers, locations, and sectors.

The fund was more conservatively positioned than its peers in terms of its duration -- a measure of the fund's sensitivity to interest rates. We shortened duration in an effort to preserve the fund's principal value from an increase in interest rates that has yet to affect the long-term end of the market. In spite of the Federal Reserve Board's tightening, which sent short-term interest rates up, intermediate- to longer-term rates actually fell, and the fund missed some of the resulting capital appreci ation. However, we continue to believe our cautious approach is warranted, and the positives that resulted from our emphasis on yield offset any negative effects of our conservative duration.

Price appreciation of the fund's New York City's general obligation (GO) bonds illustrate the benefits of an improving economy and narrowing credit spreads. GOs are backed by taxpayer receipts and reflect investor perceptions of the financial strength of the issuing municipality. After three consecutive years of decline, New York City's employment outlook is finally improving. The private sector has been adding new jobs, boosting the city's employment rate and tax revenues. Although its per capita debt is still higher than the average for other U.S. cities, New York City's fundamental outlook has stabilized, and two major bond-rating organizations recently upgraded their outlook for the city, causing bond prices to rise and narrowing the gap between these bonds and others issued by municipalities that have higher ratings.

[GRAPHIC OMITTED: pie chart CREDIT QUALITY OVERVIEW]

CREDIT QUALITY OVERVIEW

Aaa (49.4%)

Aa (5.5%)

A (11.2%)

Baa (23.3%)

Ba (5.5%)

B (1.4%)

Other (3.7%)

Footnote reads:
As a percentage of market value as of 10/31/04. A bond rated Baa or higher is considered investment grade. The chart reflects Moody's ratings; percentages may include bonds not rated by Moody's but considered by Putnam Management to be of comparable quality. Ratings will vary over time.

The fund has a somewhat greater emphasis on tobacco settlement bonds than many of its peers, which has proved beneficial in spite of the volatile market environment for these issues. The payments from these high-yielding bonds are secured by income promised to various states through settlements from tobacco companies. This income could be jeopardized as a result of multibillion-dollar judgments against the companies, and prices in this sector have shifted as concerns about litigation overshadowed optimism. Our analyst believes that, despite several highly visible lawsuits against the tobacco industry, litigation risk is receding from where it was in 1999. Also, long-term cigarette consumption levels appear not to have been reduced. Considering the risks, we have diversified the fund's investments in tobacco settlement bonds and we remain watchful of the situation. Holdings include South Carolina Tobacco Settlement revenue bonds and Badger Tobacco Settlement Asset Securitization Corp. revenue bonds, issued in Wisconsin.

Although some airline-related industrial development bonds (IDBs) remain in the portfolio, the fund's position in these securities is relatively small. IDBs are bonds issued by municipalities but backed by the credit of the company benefiting from the financing. Investor perceptions about the backing company's health, or that of its industry group, affect the prices of these bonds, not the rating of the municipality issuing them. The airline industry has been under a cloud for several years, although it regained some ground last year. However, the industry continues to grapple with high operating costs and strong competition among carriers, which is keeping the price of airline tickets down. These problems, plus the ongoing threat of terrorism, make us cautious about the industry, so we limited the fund's airline-related investments to what we believe to be the strongest carriers.

Although high-yielding municipal securities generally performed well during the past six months, there were a few individual securities that had a negative impact on the fund's performance. Louisiana Development Authority Revenue Bonds for St. James Place hurt the fund's performance. St. James Place is a continuing-care retirement community. We purchased these bonds originally in 1996, but over time the system suffered from overly optimistic projections and marketing difficulties. We had been hopeful that a turnaround was possible. However, recently we joined the remaining bondholders in a tentative agreement to tender our bonds back to the issuer in exchange for a position in a newer bond that more closely reflects St. James's current income.

Please note that all holdings discussed in this report are subject to review in accordance with the fund's investment strategy and may vary in the future.

OF SPECIAL INTEREST

As short-term interest rates increased during the period, your fund's portfolio was structured defensively in order to protect investors' principle. This positioning helped the fund to provide positive relative returns, although it did prompt a reduction of the fund's monthly distribution from $0.0795 to $0.0735 per share in September 2004.

The outlook for your fund

The following commentary reflects anticipated developments that could affect your fund over the next six months, as well as your management team's plans for responding to them.

Judging from the flattened yield curve, the bond market appears to have largely shrugged off the recent Fed rate hikes. However, we believe that interest rates all along the yield curve are more likely to rise than fall. After the close of the fiscal period, the Fed again raised the discount rate by 25 basis points, or one quarter of a percentage point. Going forward, we anticipate greater increases for bonds with shorter maturities because we believe the Fed will continue to raise short-term rates incrementally through mid-2005. This also suggests further flattening of the yield curve. The fund is positioned defensively in terms of duration, and we will continue to monitor and adjust the fund's duration as seems appropriate. We believe inflation will remain low, despite the threat posed by high oil prices. We also anticipate that the rate of GDP growth will slow during the next two quarters, as the effects of the Fed's tightening policy are felt.

In general, these signs indicate that we are headed into a more challenging environment for bond investing. Our task will be to continue to search for the most attrac tive opportunities among tax-exempt securities and to balance the pursuit of attractive current income with prudent risk management.

The views expressed in this report are exclusively those of Putnam Management. They are not meant as investment advice. Lower-rated bonds may offer higher yields in return for more risk. Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes. Mutual funds that invest in bonds are subject to certain risks, including interest-rate risk, credit risk, and inflation risk. As interest rates rise, the prices of bonds fall. Long-term bonds are more exposed to interest-rate risk than short-term bonds. Unlike bonds, bond funds have ongoing fees and expenses.

Your fund's management

Your fund is managed by the members of the Putnam Tax Exempt Fixed-Income Team. David Hamlin is the Portfolio Leader, and Paul Drury, Susan McCormack, and James St. John are Portfolio Members of your fund. The Portfolio Leader and Portfolio Members coordinate the team's management of the fund.

For a complete listing of the members of the Putnam Tax Exempt

Fixed-Income Team, including those who are not Portfolio Leaders or Portfolio Members of your fund, visit Putnam's Individual Investor Web site at www.putnaminvestments.com.

Fund ownership

The table below shows fund ownership, in dollar ranges, by the fund's current Portfolio Leader and Portfolio Members. Information shown is for the current and prior year ended November 30.

FUND PORTFOLIO LEADER AND PORTFOLIO MEMBERS

	Year	$0	$1 - $10,000	$10,001 - $50,000	$50,001- $100,000	$100,001 - $500,000	$500,001 - $1,000,000	$1,000,001 and over
David Hamlin	2004	*						
Portfolio Leader	2003	*						
Paul Drury	2004	*						
Portfolio Member	2003	*						
Susan McCormack	2004	*						
Portfolio Member	2003	*						
James St. John	2004	*						
Portfolio Member	2003	*						

Other funds managed by the Portfolio Leader and Portfolio Members

David Hamlin is the Portfolio Leader and Paul Drury, Susan McCormack, and James St. John are Portfolio Members for Putnam's tax-exempt funds for the following states: Arizona, California, Florida, Massachusetts, Michigan, Minnesota, New Jersey, New York, Ohio, and Pennsylvania. The same group also manages Putnam AMT-Free Insured Municipal Fund*, Putnam California Investment Grade Municipal Trust, Putnam High Yield Municipal Trust, Putnam Investment Grade Municipal Trust, Putnam Managed Municipal Income Trust, Putnam Municipal Bond Fund, Putnam Municipal Income Fund, Putnam New York Investment Grade Municipal Trust, Putnam Tax Exempt Income Fund, Putnam Tax-Free Health Care Fund and Putnam Tax-Free High Yield Fund.

David Hamlin, Paul Drury, Susan McCormack, and James St. John may also manage other accounts advised by Putnam Management or an affiliate.

Changes in your fund's Portfolio Leader and Portfolio Members

During the year ended October 31, 2004, Portfolio Member Richard Wyke left your fund's management team.

* Formerly Putnam Tax-Free Insured Fund.

Performance summary

This section shows your fund's performance during the first half of its fiscal year, which ended October 31, 2004. In accordance with regulatory requirements, we also include performance for the most current calendar quarter-end. Performance should always be considered in light of a fund's investment strategy. Data represents past performance. Past performance does not guarantee future results. More recent returns may be less or more than those shown. Investment return, net asset value, and market price will fluctuate and you may have a gain or a loss when you sell your shares.

TOTAL RETURN AND COMPARATIVE INDEX RESULTS FOR PERIODS ENDED 10/31/04

	NAV	Market price	Lehman Municipal Bond Index	Lipper General Municipal Debt Funds (leveraged closed-end) category average*
6 months	6.59%	4.65%	4.78%	6.58%
1 year	8.57	6.30	6.02	8.93
5 years	47.05	45.48	41.48	52.49
Annual average	8.02	7.78	7.19	8.78
10 years	107.44	112.98	97.69	113.51
Annual average	7.57	7.85	7.05	7.86
Annual average Life of fund (since 5/28/93)	6.56	5.62	6.22	6.53

Performance assumes reinvestment of distributions and does not account for taxes.

Index and Lipper results should be compared to fund performance at net asset value.

* Over the 6-month and 1-, 5-, and 10-year periods ended 10/31/04, there were 66, 65, 51, and 46 funds, respectively, in this Lipper category.

TOTAL RETURN FOR PERIODS ENDED 9/30/04 (MOST RECENT CALENDAR QUARTER)

	NAV	Market price
6 months	1.83%	-3.79%
1 year	6.80	5.62
5 years	41.83	41.09
Annual average	7.24	7.13

10 years	99.24	106.46
Annual average	7.14	7.52
Annual average Life of fund (since 5/28/93)	6.49	5.69

PRICE AND DISTRIBUTION INFORMATION 6 MONTHS ENDED 10/31/04

Distributions from common shares			
Number		6	
Income 1		$0.465	
Capital gains 1		--	
Total		$0.465	
Distributions from preferred shares	Series A (800 shares)	Series B (1,620 shares)	Series C (1,620 shares)
Income 1	$332.29	$153.51	$153.44
Capital gains 1	--	--	--
Total	$332.29	$153.51	$153.44
Share value:		NAV	Market price
4/30/04		$12.72	$12.47
10/31/04		13.07	12.58
Current return (common shares, end of period)			
Current dividend rate 2		6.75%	7.01%
Taxable equivalent 3		10.38	10.78

1 Capital gains, if any, are taxable for federal and, in most cases, state purposes. For some investors, investment income may be subject to the federal alternative minimum tax. Income from federally exempt funds may be subject to state and local taxes.

2 Most recent distribution, excluding capital gains, annualized and divided by NAV or market price at end of period.

3 Assumes maximum 35% federal tax rate for 2004. Results for investors subject to lower tax rates would not be as advantageous.

Terms and definitions

Total return shows how the value of the fund's shares changed over time, assuming you held the shares through the entire period and reinvested all distributions in the fund.

Net asset value (NAV) is the value of all your fund's assets, minus any liabilities and the net assets allocated to auction rate municipal preferred shares, divided by the number of outstanding common shares.

Market price is the current trading price of one share of the fund. Market prices are set by transactions between buyers and sellers on exchanges such as the American Stock Exchange and the New York Stock Exchange.

Comparative indexes

JP Morgan Global High Yield Index is an unmanaged index used to mirror the investable universe of the U.S. dollar global high-yield corporate debt market of both developed and emerging markets.

Lehman Aggregate Bond Index is an unmanaged index used as a general measure of U.S. fixed-income securities.

Lehman Government Bond Index is an unmanaged index of U.S. Treasury and agency securities.

Lehman Municipal Bond Index is an unmanaged index of long-term fixed-rate investment-grade tax-exempt bonds.

Russell 1000 Index is an unmanaged index of the largest 1000 companies in the Russell 3000 Index.

Russell 2000 Index is an unmanaged index of common stocks that generally measure performance of small to midsize companies within the Russell 3000 Index.

S&P 500 Index is an unmanaged index of common stock performance.

Indexes assume reinvestment of all distributions and do not account for fees. Securities and performance of a fund and an index will differ. You cannot invest directly in an index.

Lipper is a third-party industry ranking entity that ranks funds (without sales charges) with similar current investment styles or objectives as determined by Lipper. Lipper category averages reflect performance trends for funds within a category and are based on results at net asset value.

A note about duplicate mailings

In response to investors' requests, the SEC has modified mailing regulations for proxy statements, semiannual and annual reports, and prospectuses. Putnam is now able to send a single copy of these materials to customers who share the same address. This change will automatically apply to all shareholders except those who notify us. If you would prefer to receive your own copy, please call Putnam at 1-800-225-1581.

Proxy voting

Putnam is committed to managing our mutual funds in the best interests of our shareholders. The Putnam funds' proxy voting guidelines and procedures, as well as information regarding how your fund voted proxies relating to portfolio securities during the 12-month period ended June 30, 2004, are available on the Putnam Individual Investor Web site, www.putnaminvestments.com/individual, and on the SEC's Web site, www.sec.gov. If you have questions about finding forms on the SEC's Web site, you may call the SEC at 1-800-SEC-0330. You may also obtain the Putnam funds' proxy voting guidelines and procedures at no charge by calling Putnam's Shareholder Services at 1-800-225-1581.

Fund portfolio holdings

For periods ending on or after July 9, 2004, the fund will file a complete schedule of its portfolio holdings with the SEC for the first and third quarters of each fiscal year on Form N-Q. Shareholders may obtain the fund's Forms N-Q on the SEC's Web site at www.sec.gov. In addition, the fund's Forms N-Q may be reviewed and copied at the SEC's public reference room in Washington, D.C. You may call the SEC at 1-800-SEC-0330 for information about the SEC's Web site or the operation of the public reference room.

A guide to the financial statements

These sections of the report, as well as the accompanying Notes, constitute the fund's financial statements.

The fund's portfolio lists all the fund's investments and their values as of the last day of the reporting period. Holdings are organized by asset type and industry sector, country, or state to show areas of concentration and diversification.

Statement of assets and liabilities shows how the fund's net assets and share price are determined. All investment and noninvestment assets are added together. Any unpaid expenses and other liabilities are subtracted from this total. The result is divided by the number of shares to determine the net asset value per share, which is calculated separately for each class of shares. (For funds with preferred shares, the amount subtracted from total assets includes the net assets allocated to remarketed preferred shares.)

Statement of operations shows the fund's net investment gain or loss. This is done by first adding up all the fund's earnings -- from dividends and interest income -- and subtracting its operating expenses to determine net investment income (or loss). Then, any net gain or loss the fund realized on the sales of its holdings -- as well as any unrealized gains or losses over the period -- is added to or subtracted from the net investment result to determine the fund's net gain or loss for the fiscal period.

Statement of changes in net assets shows how the fund's net assets were affected by the fund's net investment gain or loss, by distributions to shareholders, and by changes in the number of the fund's shares. It lists distributions and their sources (net investment income or realized capital gains) over the current reporting period and the most recent fiscal year-end. The distributions listed here may not match the sources listed in the Statement of operations because the distributions are determined on a tax basis and may be paid in a different period from the one in which they were earned.

Financial highlights provide an overview of the fund's investment results, per-share distributions, expense ratios, net investment income ratios, and portfolio turnover in one summary table, reflecting the five most recent reporting periods. In a semiannual report, the highlight table also includes the current reporting period. For open-end funds, a separate table is provided for each share class.

The fund's portfolio
October 31, 2004 (Unaudited)

Key to Abbreviations

AMBAC	AMBAC Indemnity Corporation
COP	Certificate of Participation
FGIC	Financial Guaranty Insurance Company
FNMA Coll.	Federal National Mortgage Association Collateralized
FSA	Financial Security Assurance
GNMA Coll.	Government National Mortgage Association Collateralized
G.O. Bonds	General Obligation Bonds
IFB	Inverse Floating Rate Bonds
IF COP	Inverse Floating Rate Certificate of Participation
MBIA	MBIA Insurance Company
PSFG	Permanent School Fund Guaranteed
U.S. Govt. Coll.	U.S. Government Collateralized
VRDN	Variable Rate Demand Notes

Municipal bonds and notes (100.0%) (a)

Principal amount		Rating (RAT)	Value
Alabama (2.7%)			
	Jefferson Cnty., Swr. Rev. Bonds		
$7,000,000	Ser. D, FGIC, 5 3/4s, 2/1/27	Aaa	$7,638,750
1,175,000	Ser. A, FGIC, U.S. Govt. Coll., 5s, 2/1/41	Aaa	1,313,063
			8,951,813
Arizona (1.1%)			
750,000	AZ Hlth. Fac. Auth. Hosp. Syst. Rev. Bonds (John C. Lincoln Hlth. Network), 6 3/8s, 12/1/37	BBB	787,500
950,000	Casa Grande, Indl. Dev. Auth. Rev. Bonds (Casa Grande Regl. Med. Ctr.), Ser. A, 7 5/8s, 12/1/29	B-/P	1,005,813
485,000	Cochise Cnty., Indl. Dev. Auth. Rev. Bonds (Sierra Vista Cmnty. Hosp.), Ser. A, 6 3/4s, 12/1/26	BB+/P	494,700
1,300,000	Scottsdale, Indl. Dev. Auth. Rev. Bonds (Westminster Village), 7 7/8s, 6/1/09	AAA/P	1,370,343
			3,658,356
Arkansas (1.2%)			
2,815,000	AR Dev. Fin. Auth. Rev. Bonds, Ser. D, GNMA/FNMA Coll., 3s, 1/1/24	AAA	2,871,300
1,000,000	Northwest Regl. Arpt. Auth. Rev. Bonds, 7 5/8s, 2/1/27	BB/P	1,081,250
			3,952,550

California (11.8%)

	CA State G.O. Bonds		
500,000	5 1/8s, 4/1/23	A	533,125
750,000	5.1s, 2/1/34	A	763,125
	CA State Dept. of Wtr. Resources Rev. Bonds, Ser. A		
2,000,000	6s, 5/1/15	A2	2,320,000
2,000,000	AMBAC, 5 1/2s, 5/1/16	Aaa	2,262,500
1,000,000	CA State Econ. Recvy. G.O. Bonds, Ser. A, 5s, 7/1/16	Aa3	1,080,000
1,750,000	CA Statewide Cmnty. Dev. Auth. COP (The Internext Group), 5 3/8s, 4/1/30	BBB-	1,743,438
4,000,000	Chula Vista COP, MBIA, 5s, 8/1/32	Aaa	4,100,000
1,475,000	Gilroy, Rev. Bonds (Bonfante Gardens Park), 8s, 11/1/25	D/P	1,043,563
3,000,000	Metropolitan Wtr. Dist. IFB (Southern CA Waterworks), 9.644s, 8/10/18	AA+	4,245,000
2,000,000	Sacramento, City Unified School Dist. G.O. Bonds (Election 1999), Ser. D, FSA, 5s, 7/1/28	Aaa	2,070,000
5,000,000	San Bernardino Cnty., COP (Med. Ctr. Fin.), Ser. A, MBIA, 6 1/2s, 8/1/17	Aaa	6,350,000
	San Diego Cnty., IF COP, AMBAC		
3,000,000	9.47s, 9/1/12	Aaa	3,945,000
3,000,000	9.22s, 9/1/07	Aaa	3,581,250
2,500,000	San Jose, Redev. Agcy. Tax Alloc. Bonds (Merged Area Redev. Project), MBIA, 5s, 8/1/32	Aaa	2,562,500
790,000	Sunnyvale, Cmnty. Fac. Dist. Special Tax Rev. Bonds, 7.65s, 8/1/21	BB-/P	796,913
1,300,000	Vallejo, COP (Marine World Foundation), 7.2s, 2/1/26	BBB-/P	1,335,750
			38,732,164

Colorado (3.2%)

10,000,000	Denver, City & Cnty. Arpt. Rev. Bonds, Ser. A, MBIA, 5.7s, 11/15/25	Aaa	10,560,700

District of Columbia (6.0%)

12,450,000	DC G.O. Bonds, Ser. A, 6s, 6/1/26	A2	13,928,437
5,550,000	DC Wtr. & Swr. Auth. Pub. Util. Rev. Bonds, FGIC, 5s, 10/1/28	Aaa	5,688,750
			19,617,187

Florida (1.3%)

1,000,000	Lee Cnty., Indl. Dev. Auth. Rev. Bonds (Alliance Cmnty. Project), Ser. C, 5 1/2s, 11/15/29	BBB-	970,000
600,000	Miami Beach, Hlth. Fac. Auth. Hosp. Rev. Bonds (Mount Sinai Med. Ctr.), Ser. A, 6.8s, 11/15/31	BB	625,500
2,700,000	Palm Coast, Util. Syst. Rev. Bonds,		

	MBIA, 5s, 10/1/33	Aaa	2,784,375
			4,379,875
Georgia (5.3%)			
3,000,000	Atlanta, Arpt. Rev. Bonds, Ser. B, FGIC, 5 5/8s, 1/1/30	Aaa	3,153,750
4,000,000	Atlanta, Waste Wtr. VRDN, Ser. C, FSA, 1.74s, 11/1/41	VMIG1	4,000,000
4,000,000	Atlanta, Wtr. & Waste Wtr. Rev. Bonds, FSA, 5s, 11/1/24	Aaa	4,230,000
1,500,000	Burke Cnty., Poll. Control Dev. Auth. Mandatory Put Bonds (GA Power Co.), 4.45s, 12/1/08	A2	1,591,875
1,400,000	Effingham Cnty., Indl. Dev. Auth. Rev. Bonds (Pacific Corp.), 6 1/2s, 6/1/31	Ba3	1,457,750
1,215,000	Rockdale Cnty., Dev. Auth. Solid Waste Disp. Rev. Bonds (Visay Paper, Inc.), 7.4s, 1/1/16	B+/P	1,255,812
1,500,000	Savannah, Econ. Dev. Auth. Poll. Control Rev. Bonds (Intl. Paper Co.), Ser. A, 5.1s, 8/1/14	Baa2	1,597,500
			17,286,687
Hawaii (0.4%)			
1,225,000	HI State Hsg. Fin. & Dev. Corp. Rev. Bonds, Ser. A, FNMA Coll., 5 3/4s, 7/1/30	Aaa	1,261,750
Illinois (3.1%)			
2,000,000	Chicago, G.O. Bonds, Ser. A, FSA, 5s, 1/1/25	Aaa	2,092,500
6,045,000	IL Hsg. Dev. Auth. Multi-Fam. Hsg. Rev. Bonds, Ser. 91-A, 8 1/4s, 7/1/16	A1	6,093,420
1,770,000	Metropolitan Pier & Exposition Auth. Rev. Bonds (McCormack Place Expansion Project), MBIA, 5s, 12/15/28	Aaa	1,823,100
			10,009,020
Indiana (3.7%)			
2,000,000	Carmel Clay, Indl. Parks Bldg. Corp. Rev. Bonds, MBIA, 5s, 1/15/26	AAA	2,085,000
3,000,000	Fairfield, School Bldg. Corp. Ind. Rev. Bonds, FGIC, 5s, 7/15/24	AAA	3,142,500
3,000,000	IN State Dev. Fin. Auth. Env. Impt. Rev. Bonds (USX Corp.), 5.6s, 12/1/32	Baa1	3,052,500
2,500,000	Indianapolis, Arpt. Auth. Rev. Bonds (Federal Express Corp.), 5.1s, 1/15/17	Baa2	2,628,125
1,300,000	Rockport, Poll. Control Mandatory Put Bonds (Indiana Michigan Pwr. Co.), Ser. C, 2 5/8s, 10/1/06	Baa2	1,296,750

			12,204,875
Iowa (0.4%)			
985,000	IA Fin. Auth. Hlth. Care Fac. Rev. Bonds (Care Initiatives), 9 1/4s, 7/1/25	BBB-/P	1,194,313
Louisiana (1.0%)			
2,000,000	LA Local Govt. Env. Fac. Cmnty. Dev. Auth. Rev. Bonds (St. James Place), Ser. A, 8s, 11/1/19	B-/P	1,345,000
2,000,000	Port of New Orleans, Indl. Dev. Rev. Bonds (Continental Grain Co.), 7 1/2s, 7/1/13	BB-	2,030,720
			3,375,720
Maine (0.2%)			
600,000	Rumford, Solid Waste Disp. Rev. Bonds (Boise Cascade Corp.), 6 7/8s, 10/1/26	Ba2	634,500
Massachusetts (3.1%)			
	MA State Hlth. & Edl. Fac. Auth. Rev. Bonds		
1,875,000	(UMass Memorial), Ser. C, 6 1/2s, 7/1/21	Baa2	2,017,969
1,300,000	(Berkshire Hlth. Syst.), Ser. E, 6 1/4s, 10/1/31	BBB+	1,363,375
1,800,000	(Hlth. Care Syst. Covenant Hlth.), Ser. E, 6s, 7/1/31	A-	1,890,000
3,685,000	MA State Hsg. Fin. Agcy. Rev. Bonds, Ser. 53, MBIA, 6.15s, 12/1/29	Aaa	3,809,369
1,000,000	MA State Indl. Fin. Agcy. Rev. Bonds (1st Mtge. Brookhaven), Ser. A, 7s, 1/1/15	BBB/P	1,027,500
			10,108,213
Michigan (3.9%)			
4,500,000	Detroit, G.O. Bonds, Ser. A, FGIC, 5s, 7/1/30	Aaa	4,618,125
3,620,000	Detroit, Swr. Disp. VRDN, Ser. B, FSA, 1.74s, 7/1/33	VMIG1	3,620,000
500,000	MI Higher Ed. Fac. Auth. Rev. Bonds (Kalamazoo College), 5 1/2s, 12/1/18	A1	550,000
1,000,000	MI State Hosp. Fin. Auth. Rev. Bonds (Oakwood Hosp.), Ser. A, 5 3/4s, 4/1/32	A2	1,045,000
1,650,000	MI State Strategic Fund, Ltd. Rev. Bonds (Worthington Armstrong Venture), U.S. Govt. Coll., 5 3/4s, 10/1/22	AAA/P	1,897,500
1,000,000	Midland Cnty., Econ. Dev. Corp. Rev. Bonds, 6 3/4s, 7/23/09	Ba3	1,043,750

			12,774,375
Minnesota (0.8%)			
2,500,000	Cohasset, Poll. Control Rev. Bonds (Allete, Inc.), 4.95s, 7/1/22	A	2,546,875
Mississippi (0.8%)			
	MS Bus. Fin. Corp. Poll. Control Rev.Bonds (Syst. Energy Resources, Inc.)		
1,000,000	5.9s, 5/1/22	BBB	1,011,250
1,580,000	5 7/8s, 4/1/22	BBB	1,590,270
			2,601,520
Missouri (2.0%)			
1,750,000	Cape Girardeau Cnty., Indl. Dev. Auth. Hlth. Care Fac. Rev. Bonds (St. Francis Med. Ctr.), Ser. A, 5 1/2s, 6/1/16	A	1,879,063
2,500,000	MO State Hlth. & Edl. Fac. Auth. Rev. Bonds (Washington U.), Ser. A, 5s, 2/15/33	Aa1	2,575,000
2,000,000	MO State Hlth. & Edl. Fac. Auth. VRDN (Christian Brothers), Ser. A, 1.79s, 10/1/32	A-1+	2,000,000
			6,454,063
Montana (0.4%)			
1,075,000	Forsyth, Poll. Control Mandatory Put Bonds (Avista Corp.), AMBAC, 5s, 12/30/08	Aaa	1,158,313
Nevada (3.7%)			
3,505,000	Clark Cnty., G.O. Bonds (Pk. & Regl. Justice Ctr.), FGIC, 5 5/8s, 11/1/19	Aaa	3,903,694
5,000,000	Clark Cnty., Arpt. Rev. Bonds, Ser. A-2, FGIC, 5 1/8s, 7/1/26	Aaa	5,231,250
3,000,000	Clark Cnty., Indl. Dev. Rev. Bonds (Southwest Gas Corp.), Ser. A, 6 1/2s, 12/1/33	Baa2	3,040,860
			12,175,804
New Hampshire (1.1%)			
	NH Higher Ed. & Hlth. Fac. Auth. Rev. Bonds		
1,450,000	(Riverwoods at Exeter), Ser. A, 6 1/2s, 3/1/23	BB/P	1,460,875
1,250,000	(NH College), 6 3/8s, 1/1/27	BBB-	1,295,312
950,000	NH State Bus. Fin. Auth. Poll. Control Rev. Bonds, 3 1/2s, 7/1/27	Baa2	957,125
			3,713,312

New Jersey (2.8%)

1,000,000	Newark, Hsg. Auth. Rev. Bonds (Port Auth. Newark Marine Terminal), MBIA, 5 1/4s, 1/1/20	AAA	1,098,750
	NJ Econ. Dev. Auth. Rev. Bonds		
1,500,000	(Cigarette Tax), 5 3/4s, 6/15/29	Baa2	1,543,125
2,000,000	(Motor Vehicle), Ser. A, MBIA, 5s, 7/1/27	Aaa	2,085,000
1,000,000	NJ Econ. Dev. Auth. Special Fac. Rev. Bonds (Continental Airlines, Inc.), 6 1/4s, 9/15/29	B	727,500
500,000	NJ State Ed. Fac. Auth. Rev. Bonds (Stevens Inst. of Tech.), Ser. C, 5 1/8s, 7/1/22	BBB+	522,500
1,840,000	NJ State Edl. Fac. Auth. Rev. Bonds (Rowan U.), Ser. C, MBIA, 5s, 7/1/23	Aaa	1,964,200
1,150,000	Tobacco Settlement Fin. Corp. Rev. Bonds, 6 3/4s, 6/1/39	BBB	1,128,438
			9,069,513

New Mexico (0.2%)

820,000	Farmington, Poll. Control Mandatory Put Bonds (Pub. Svc. San Juan), Class B, 2.1s, 4/1/06	Baa2	813,850

New York (4.9%)

1,000,000	Buffalo, G.O. Bonds, Ser. D, FGIC, 5 1/2s, 12/15/13	Aaa	1,146,250
3,000,000	NY City, G.O. Bonds, Ser. C, 5 1/4s, 8/1/11	A2	3,348,750
1,000,000	NY City, City Transitional Fin. Auth. Rev. Bonds, AMBAC, 5 1/4s, 8/1/15	Aaa	1,113,750
750,000	NY City, Indl. Dev. Agcy. Rev. Bonds (Brooklyn Navy Yard Cogen. Partners), 6.2s, 10/1/22	BBB-	759,375
2,100,000	NY City, Indl. Dev. Agcy. Special Arpt. Fac. Rev. Bonds (Airis JFK I LLC), Ser. A, 5 1/2s, 7/1/28	Baa3	2,086,875
700,000	NY City, Indl. Dev. Agcy. Special Fac. Rev. Bonds (British Airways), 5 1/4s, 12/1/32	BB+	511,875
1,500,000	NY Cntys., Tobacco Trust III Rev. Bonds, 6s, 6/1/43	BBB	1,423,125
2,000,000	NY State Dorm. Auth. Rev. Bonds, Ser. A, 5 1/2s, 3/15/13	AA	2,290,000
800,000	Onondaga Cnty., Indl. Dev. Agcy. Rev. Bonds (Solvay Paperboard, LLC), 7s, 11/1/30 (acquired 6/30/04, cost $830,184) (RES)	BB-/P	847,000
2,500,000	Triborough Bridge & Tunnel Auth. Rev. Bonds, Ser. A, 5s, 1/1/32	Aa3	2,556,250
			16,083,250

North Carolina (2.0%)

	NC Eastern Muni. Pwr. Agcy. Syst. Rev. Bonds		
2,000,000	Ser. B, MBIA, 6s, 1/1/22	Aaa	2,465,000
2,000,000	AMBAC, 6s, 1/1/18	Aaa	2,447,500
1,500,000	NC State Muni. Pwr. Agcy. Rev. Bonds (No. 1, Catawba Elec.), Ser. B, 6 1/2s, 1/1/20	Baa1	1,695,000
			6,607,500
Ohio (3.0%)			
5,700,000	Cleveland, Muni. School Dist. G.O. Bonds, FSA, 5s, 12/1/27	Aaa	5,935,125
1,000,000	Montgomery Cnty., Hosp. Rev. Bonds (Kettering Med. Ctr.), 6 3/4s, 4/1/22	A3	1,088,750
500,000	OH State Wtr. Dev. Auth. Poll. Control Fac. Mandatory Put Bonds (OH Edison Co.), Ser. A, 2 1/4s, 6/1/05	Baa1	499,310
2,165,000	Rickenbacker, Port Auth. Rev. Bonds (OASBO Expanded Asset Pooled), Ser. A, 5 3/8s, 1/1/32	A2	2,275,956
			9,799,141
Oklahoma (0.3%)			
950,000	OK Dev. Fin. Auth. Rev. Bonds (Hillcrest Hlth. Care Syst.), Ser. A, U.S. Govt. Coll., 5 5/8s, 8/15/29	AAA	1,078,250
Pennsylvania (7.1%)			
5,000,000	Allegheny Cnty., Hosp. Dev. Auth. Rev. Bonds (Pittsburgh Mercy Hlth. Syst.), AMBAC, 5 5/8s, 8/15/26	Aaa	5,262,500
1,350,000	Beaver Cnty., Indl. Dev. Auth. Poll. Control Mandatory Put Bonds (Cleveland Elec.), 1.76s, 10/1/08	Baa2	1,351,688
890,000	Carbon Cnty., Indl. Dev. Auth. Rev. Bonds (Panther Creek Partners), 6.65s, 5/1/10	BBB-	964,538
750,000	Delaware Cnty., Indl. Dev. Auth. Resource Recvy. Rev. Bonds, Ser. A, 6.1s, 7/1/13	BBB	805,313
4,000,000	Hempfield, Area School Dist. G.O. Bonds (Westmoreland Cnty.), Ser. A, FGIC, 5 1/4s, 3/15/21	AAA	4,430,000
1,500,000	Lancaster Cnty., Hosp. Auth. Rev. Bonds (Gen. Hosp.), 5 1/2s, 3/15/26	A-	1,539,375
1,000,000	Lehigh Cnty., Gen. Purpose Auth. Rev. Bonds (Lehigh Valley Hosp. Hlth. Network), Ser. A, 5 1/4s, 7/1/32	A2	1,020,000
3,000,000	PA Econ. Dev. Fin. Auth. Wastewtr. Treatment Rev. Bonds (Sun Co., Inc.), Ser. A, 7.6s, 12/1/24	Baa2	3,073,380
	PA State Econ. Dev. Fin. Auth. Resource Recvy. Rev. Bonds (Colver)		

3,000,000	Ser. E, 8.05s, 12/1/15	BBB-/P	3,069,390
100,000	Ser. D, 7.15s, 12/1/18	BBB-	102,389
1,450,000	Sayre, Hlth. Care Fac. Auth. Rev. Bonds (Guthrie Hlth.), Ser. A, 5 7/8s, 12/1/31	A-	1,509,813
			23,128,386

Rhode Island (0.1%)

200,000	Tobacco Settlement Fin. Corp. Rev. Bonds, Ser. A, 6 1/4s, 6/1/42	BBB	179,500

South Carolina (4.2%)

750,000	Lexington Cnty. Hlth. Svcs. Dist. Inc. Hosp. Rev. Bonds, 5 1/2s, 5/1/37	A2	771,563
1,250,000	SC Jobs Econ. Dev. Auth. Hosp. Fac. Rev. Bonds (Palmetto Hlth. Alliance), Ser. C, 6s, 8/1/20	Baa2	1,350,000
5,000,000	SC State Pub. Svcs. Auth. Rev. Bonds, Ser. A, AMBAC, 5s, 1/1/29	Aaa	5,187,500
3,000,000	SC Tobacco Settlement Rev. Mgt. Rev. Bonds, Ser. B, 6 3/8s, 5/15/30	BBB	2,801,250
2,460,000	SC Trans. Infrastructure Bk. Rev. Bonds, Ser. A, AMBAC, 5s, 10/1/27	Aaa	2,573,775
1,000,000	Spartanburg Cnty., Solid Waste Disp. Rev. Bonds (BMW Project), 7.55s, 11/1/24	A1	1,032,600
			13,716,688

South Dakota (0.1%)

450,000	SD Edl. Enhancement Funding Corp. Rev. Bonds, Ser. B, 6 1/2s, 6/1/32	BBB	428,063

Tennessee (1.0%)

2,750,000	Johnson City, Hlth. & Edl. Fac. Board Hosp. Rev. Bonds (Mountain States Hlth.), Ser. A, 7 1/2s, 7/1/33	BBB+	3,231,250

Texas (8.4%)

1,000,000	Alliance, Arpt. Auth. Rev. Bonds (American Airlines, Inc.), 7 1/2s, 12/1/29	Caa2	641,250
12,000,000	Bexar Cnty., Hlth. Fac. Dev. Corp. Rev. Bonds (St. Luke's Hlth. Syst.), FSA, 6.1s, 11/15/23	Aaa	12,646,320
1,000,000	Comal Cnty., Hlth. Fac. Dev. Corp. Rev. Bonds (Hlth. Care Syst. - McKenna Memorial), Ser. A, 6 1/4s, 2/1/32	Baa2	1,028,750
2,020,000	Edgewood, Indpt. School Dist. Bexar Cnty. G.O. Bonds, Ser. A, PSFG, 5s, 2/15/26	Aaa	2,093,225

2,345,000	El Paso, Indpt. School Dist. G.O. Bonds, Ser. A, PSFG, 5 1/4s, 8/15/21	AAA	2,579,500
750,000	Gateway, Pub. Fac. Corp. Rev. Bonds (Stonegate Villas Apt.), FNMA Coll., 4.55s, 7/1/34	Aaa	780,000
610,000	Harris Cnty., Hlth. Fac. Dev. Corp. Hosp. Rev. Bonds (Memorial Hermann Hlth. Care Syst.), Class A, 5 1/4s, 12/1/18	A2	652,700
3,000,000	Lower Neches Valley Indl. Dev. Swr. Auth. Rev. Bonds (Mobil Oil Refining Corp.), 6.4s, 3/1/30	Aaa	3,080,490
2,000,000	San Antonio Wtr. Rev. Bonds, Ser. A, FSA, 5s, 5/15/32	Aaa	2,047,500
2,000,000	Tomball, Hosp. Auth. Rev. Bonds (Tomball Regl. Hosp.), 6s, 7/1/29	Baa3	1,997,500
			27,547,235

Utah (0.3%)

1,000,000	Salt Lake City, Hosp. IFB (IHC Hosp. Inc.), AMBAC, 11.725s, 5/15/20 (acquired 6/6/97, cost $1,168,906) (RES)	Aaa	1,006,250

Virginia (2.1%)

500,000	Fredericksburg, Indl. Dev. Auth. Rev. Bonds (Medicorp Hlth. Syst.), Ser. B, 5 1/8s, 6/15/33	A3	504,375
2,500,000	Front Royal & Warren Cnty., Indl. Dev. Auth. Lease Rev. Bonds (School Cap. Impt.), Ser. B, FSA, 5s, 4/1/29	Aaa	2,590,625
1,000,000	Henrico Cnty. Econ. Dev. Auth. Rev. Bonds (United Methodist), Ser. A, 6.7s, 6/1/27	BB+/P	1,027,500
2,500,000	VA College Bldg. Auth. Rev. Bonds (Washington and Lee U.), MBIA, 5 1/4s, 1/1/26	Aaa	2,796,875
			6,919,375

Washington (3.7%)

4,000,000	Chelan Cnty. Dev. Corp. Rev. Bonds (Alcoa), 5.85s, 12/1/31	A2	4,139,160
2,250,000	King Cnty., G.O. Bonds, Ser. C, 6 1/4s, 1/1/32	Aa1	2,475,000
1,265,000	Tobacco Settlement Auth. of WA Rev. Bonds, 6 1/2s, 6/1/26	BBB	1,249,181
4,000,000	WA State G.O. Bonds (Motor Vehicle Fuel), Ser. B, MBIA, 5s, 7/1/24	Aaa	4,195,000
			12,058,341

West Virginia (0.3%)

1,300,000	Princeton, Hosp. Rev. Bonds (Cmnty. Hosp. Assn., Inc.), 6.1s, 5/1/29	B2	971,750

Wisconsin (2.3%)

	Badger Tobacco Settlement Asset Securitization Corp. Rev. Bonds		
2,600,000	7s, 6/1/28	BBB	2,609,750
2,500,000	6 3/8s, 6/1/32	BBB	2,340,625
2,400,000	WI State Hlth. & Edl. Fac. Auth. Rev. Bonds (Wheaton Franciscan), 5 3/4s, 8/15/30	A2	2,532,000
			7,482,375
	Total Investments (cost $313,767,908)		$327,472,702

(a) Percentages indicated are based on portfolio market value.

(RAT) The Moody's or Standard & Poor's ratings indicated are believed to be the most recent ratings available at October 31, 2004 for the securities listed. Ratings are generally ascribed to securities at the time of issuance. While the agencies may from time to time revise such ratings, they undertake no obligation to do so, and the ratings do not necessarily represent what the agencies would ascribe to these securities at October 31, 2004. Securities rated by Putnam are indicated by "/P" .

(NON) Non-income-producing security.

(RES) Restricted, excluding 144A securities, as to public resale. The total market value of restricted securities held at October 31, 2004 was $1,853,250 or 0.6% of portfolio market value.

The rates shown on IFB and IF COP, which are securities paying interest rates that vary inversely to changes in the market interest rates, and VRDN and mandatory put bonds are the current interest rates at October 31, 2004.

The fund had the following industry group concentrations greater than 10% at October 31, 2004 (as a percentage of portfolio market value):

Health care	16.2%
Utilities	13.5
Water and sewer	12.3
Transportation	10.7

The fund had the following insurance concentrations greater than 10% at October 31, 2004 (as a percentage of portfolio market value):

MBIA	12.7%
FGIC	12.1
FSA	11.4

The dates shown on mandatory put bonds are the next mandatory put dates.

The accompanying notes are an integral part of these financial statements.

Statement of assets and liabilities
October 31, 2004 (Unaudited)

Assets	
Investments in securities, at value (identified cost $313,767,908) (Note 1)	$327,472,702
Cash	1,032,020
Interest and other receivables	5,578,316
Total assets	334,083,038
Liabilities	
Distributions payable to shareholders	1,187,460
Accrued preferred shares distribution payable (Note 1)	41,184
Payable for compensation of Manager (Note 2)	544,006
Payable for investor servicing and custodian fees (Note 2)	45,751
Payable for Trustee compensation and expenses (Note 2)	33,924
Payable for administrative services (Note 2)	1,524
Other accrued expenses	68,516
Total liabilities	1,922,365
Series A remarketed preferred shares: (800 shares authorized and issued at $50,000 per share (Note 4)	40,000,000
Series B and C remarketed preferred shares: (3,240 shares authorized and issued at $25,000 per share (Note 4)	81,000,000
Net assets	$211,160,673
Represented by	
Paid-in capital -- common shares (unlimited shares authorized) (Note 1)	$218,575,029
Undistributed net investment income (Note 1)	560,700
Accumulated net realized loss on investments (Note 1)	(21,679,850)
Net unrealized appreciation of investments	13,704,794
Total -- Representing net assets applicable to common shares outstanding	$211,160,673
Computation of net asset value	
Net asset value per common share ($211,160,673 divided by 16,157,092 shares)	$13.07

The accompanying notes are an integral part of these financial statements.

Statement of operations
Six months ended October 31, 2004 (Unaudited)

Interest income:	$9,011,267
Expenses:	
Compensation of Manager (Note 2)	1,063,088
Investor servicing fees (Note 2)	51,595
Custodian fees (Note 2)	58,967
Trustee compensation and expenses (Note 2)	7,419
Administrative services (Note 2)	4,561
Preferred share remarketing agent fees	173,029
Other	114,057
Total expenses	1,472,716
Expense reduction (Note 2)	(20,648)
Net expenses	1,452,068
Net investment income	7,559,199
Net realized loss on investments (Notes 1 and 3)	(1,635,608)
Net unrealized appreciation of investments during the period	7,941,526
Net gain on investments	6,305,918
Net increase in net assets resulting from operations	$13,865,117
Distributions to Series A, B, and C remarketed preferred shareholders: (Note 1)	
From tax exempt income	(763,094)
Net increase in net assets resulting from operations (applicable to common shareholders)	$13,102,023

The accompanying notes are an integral part of these financial statements.

Statement of changes in net assets

Increase (decrease) in net assets	Six months ended October 31 2004*	Year ended April 30 2004
Operations:		

Net investment income	$7,559,199	$16,110,203
Net realized loss on investments	(1,635,608)	(6,531,161)
Net unrealized appreciation of investments	7,941,526	2,904,581
Net increase in net assets resulting from operations	13,865,117	12,483,623
Distributions to Series A, B, and C remarketed preferred shareholders: (Note 1)		
From tax exempt income	(763,094)	(1,196,387)
Net increase in net assets resulting from operations (applicable to common shareholders)	13,102,023	11,287,236
Distributions to common shareholders: (Note 1)		
From tax exempt income	(7,512,505)	(15,412,973)
Total increase (decrease) in net assets	5,589,518	(4,125,737)
Net assets		
Beginning of period	205,571,155	209,696,892
End of period (including undistributed net investment income of $560,700 and $1,277,100, respectively)	$211,160,673	$205,571,155
Number of fund shares		
Common shares outstanding at beginning and end of period	16,157,092	16,157,092
Remarketed preferred shares outstanding at beginning and end of period	4,040	4,040

* Unaudited

The accompanying notes are an integral part of these financial statements.

Financial highlights
(For a common share outstanding throughout the period)

Per-share operating performance	Six months ended October 31 (Unaudited) 2004	2004	2003	Year ended April 2002
Net asset value,				

beginning of period (common shares)	$12.72	$12.98	$13.00	$13.00
Investment operations:				
Net investment income (a)	.47	1.00	1.09	1.16
Net realized and unrealized gain (loss) on investments	.40	(.24)	(.10)	(.10)
Total from investment operations	.87	.76	.99	1.06
Distributions to preferred shareholders:				
From net investment income	(.05)	(.07)	(.10)	(.15)
Total from investment operations applicable to common shareholders	.82	.69	.89	.91
Distributions to common shareholders:				
From net investment income	(.47)	(.95)	(.91)	(.91)
Total distributions:	(.47)	(.95)	(.91)	(.91)
Net asset value, end of period (common shares)	$13.07	$12.72	$12.98	$13.00
Market price, end of period (common shares)	$12.580	$12.470	$12.480	$12.500
Total return at market price (%) (common shares) (b)	4.65*	7.49	7.35	(1.57)
Ratios and supplemental data				
Net assets, end of period (common shares) (in thousands)	$211,161	$205,571	$209,697	$210,081
Ratio of expenses to average net assets (%)(c)(d)	.71*	1.37	1.41	1.43
Ratio of net investment income to average net assets (%)(d)	3.29*	7.05	7.65	7.63
Portfolio turnover (%)	22.98*	19.19	12.30	20.84

* Not annualized.

(a) Per share net investment income has been determined on the basis of the weighted average number of shares outstanding during the period.

(b) Total return assumes dividend reinvestment.

(c) Includes amounts paid through expense offset arrangements (Note 2).

(d) Ratios reflect net assets available to common shares only: net investment income ratio also reflects reduction for dividend payments to preferred shareholders.

The accompanying notes are an integral part of these financial statements.

Notes to financial statements
October 31, 2004 (Unaudited)

Note 1
Significant accounting policies

Putnam Municipal Opportunities Trust (the "fund"), a Massachusetts business trust, is registered under the Investment Company Act of 1940, as amended, as a non-diversified, closed-end management investment company. The fund's investment objective is to seek a high level of current income exempt from federal income tax and consistent with the preservation of capital. The fund intends to achieve its objective by investing primarily in a portfolio of investment grade municipal bonds that Putnam Investment Management, LLC ("Putnam Management"), the fund's manager, an indirect wholly-owned subsidiary of Putnam, LLC, believes to be consistent with preservation of capital.

The following is a summary of significant accounting policies consistently followed by the fund in the preparation of its financial statements. The preparation of financial statements is in conformity with accounting principles generally accepted in the United States of America and requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements and the reported amounts of increases and decreases in net assets from operations during the reporting period. Actual results could differ from those estimates.

A) Security valuation Tax-exempt bonds and notes are valued at fair value on the basis of valuations provided by an independent pricing service, approved by the Trustees. Such services use information with respect to transactions in bonds, quotations from bond dealers, market transactions in comparable securities and various relationships between securities in determining value. Other investments are valued at fair value following procedures approved by the Trustees. Such valuations and procedures are reviewed periodically by the Trustees.

B) Security transactions and related investment income Security transactions are recorded on the trade date (date the order to buy or sell is exe cuted). Gains or losses on securities sold are determined on the identified cost basis.

Interest income is recorded on the accrual basis. All premiums/discounts are amortized/accreted on a yield-to-maturity basis. The premium in excess of the call price, if any, is amortized to the call date; thereafter, any remaining premium is amortized to maturity.

C) Federal taxes It is the policy of the fund to distribute all of its income within the prescribed time and otherwise comply with the provisions of the Internal Revenue Code of 1986 (the "Code") applicable to regulated investment companies. It is also the intention of the fund to distribute an amount sufficient to avoid imposition of any excise tax under Section 4982 of the Code, as amended. Therefore, no provision has been made for federal taxes on income, capital gains or unrealized appreciation on securities held nor for excise tax on income and capital gains.

At April 30, 2004, the fund had a capital loss carryover of $19,135,231 available to the extent allowed by tax law to offset future net capital gain, if any. The amount of the carryover and the expiration dates are:

Loss Carryover	Expiration
$126,586	April 30, 2007
2,788,662	April 30, 2008
1,503,027	April 30, 2009
2,243,569	April 30, 2010
3,588,009	April 30, 2011
8,885,378	April 30, 2012

Pursuant to federal income tax regulations applicable to regulated investment companies, the fund has elected to defer to its fiscal year ending April 30, 2005, $515,102 of losses recognized during the period November 1, 2003 to April 30, 2004.

The aggregate identified cost on a tax basis is $313,824,574, resulting in gross unrealized appreciation and depreciation of $17,215,324 and $3,567,196, respectively, or net unrealized appreciation of $13,648,128.

D) Distributions to shareholders Distributions to common and preferred shareholders from net investment income are recorded by the fund on the ex-dividend date. Distributions from capital gains, if any, are recorded on the ex-dividend date and paid at least annually. Dividends on remarketed preferred shares become payable when, as and if declared by the Trustees. Each dividend period for the remarketed preferred shares is generally a 28-day period for Series A and a 7-day period for Series B and Series C. The applicable dividend rate for the remarketed preferred shares on October 31, 2004 was 1.39% for Series A, 1.70% for Series B and 1.65% for Series C. The amount and character of income and gains to be distributed are determined in accordance with income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations.

E) Determination of net asset value Net asset value of the common shares is determined by dividing the value of all assets of the fund, less all liabilities and the liquidation preference of any outstanding remarketed preferred shares, by the total number of common shares outstanding as of period end.

Note 2
Management fee, administrative services and other transactions

Putnam Management is paid for management and investment advisory services quarterly based on the average net assets of the fund. Such fee is based on 0.65% of the fund's average weekly net assets attributable to common and preferred shares outstanding.

If dividends payable on remarketed preferred shares during any dividend payment period plus any expenses attributable to remarketed preferred shares for that period exceed the fund's gross income attributable to the proceeds of the remarketed preferred shares during that period, then the fee payable to Putnam Management for that period will be reduced by the amount of the excess (but not more than 0.65% of the liquidation preference of the remarketed preferred shares outstanding during the period).

The fund reimburses Putnam Management an allocated amount for the compensation and related expenses of certain officers of the fund and their staff who provide administrative services to the fund. The aggregate amount of all such reimbursements is determined annually by the Trustees.

Custodial functions for the fund's assets are provided by Putnam Fiduciary Trust Company ("PFTC"), a subsidiary of Putnam, LLC. Putnam Investor Services, a division of PFTC, provides investor servicing agent functions to the fund. During the six months ended October 31, 2004, the fund paid PFTC $110,562 for these services.

The fund has entered into an arrangement with PFTC whereby credits realized as a result of uninvested cash balances are used to reduce a portion of the fund's expenses. For the six months ended October 31, 2004, the fund's expenses were reduced by $20,648 under these arrangements.

Each independent Trustee of the fund receives an annual Trustee fee, of which $710, as a quarterly retainer, has been allocated to the fund, and an additional fee for each Trustees meeting attended. Trustees receive additional fees for attendance at certain committee meetings.

The fund has adopted a Trustee Fee Deferral Plan (the "Deferral Plan") which allows the Trustees to defer the receipt of all or a portion of Trustees fees payable on or after July 1, 1995. The deferred fees remain invested in certain Putnam funds until distribution in accordance with the Deferral Plan.

The fund has adopted an unfunded noncontributory defined benefit pension plan (the "Pension Plan") covering all Trustees of the fund who have served as a Trustee for at least five years. Benefits under the Pension Plan are equal to 50% of the Trustee's average total retainer and meeting fees for the three years preceding retirement. Pension expense for the fund is included in Trustee compensation and expenses in the statement of operations. Accrued pension liability is included in Payable for Trustee compensation and expenses in the statement of assets and liabilities.The Trustees have terminated the Pension Plan with respect to any Trustee first elected after 2003.

Note 3
Purchases and sales of securities

During the six months ended October 31, 2004, cost of purchases and proceeds from sales of investment securities other than short-term investments aggregated $72,373,893 and $76,495,542, respectively. There were no purchases or sales of U.S. government securities.

Note 4
Preferred shares

The Series A, B and C shares are redeemable at the option of the fund on any dividend payment date at a redemption price of $50,000, $25,000 and $25,000, respectively per share, plus an amount equal to any dividends accumulated on a daily basis but unpaid through the redemption date (whether or not such dividends have been declared) and, in certain circumstances, a call premium.

It is anticipated that dividends paid to holders of remarketed preferred shares will be considered tax-exempt dividends under the Internal

Revenue Code of 1986. To the extent that the fund earns taxable income and capital gains by the conclusion of a fiscal year, it may be required to apportion to the holders of the remarketed preferred shares throughout that year additional dividends as necessary to result in an after-tax equivalent to the applicable dividend rate for the period.

Under the Investment Company Act of 1940, the fund is required to maintain asset coverage of at least 200% with respect to the remarketed preferred shares as of the last business day of each month in which any such shares are outstanding. Additionally, the fund is required to meet more stringent asset coverage requirements under terms of the remarketed preferred shares and the shares' rating agencies. Should these requirements not be met, or should dividends accrued on the remarketed preferred shares not be paid, the fund may be restricted in its ability to declare dividends to common shareholders or may be required to redeem certain of the remarketed preferred shares. At October 31, 2004, no such restrictions have been placed on the fund.

Note 5
Regulatory matters and litigation

On April 8, 2004, Putnam Management entered into agreements with the Securities and Exchange Commission ("SEC") and the Massachusetts Securities Division representing a final settlement of all charges brought against Putnam Management by those agencies on October 28, 2003 in connection with excessive short-term trading by Putnam employees and, in the case of the charges brought by the Massachusetts Securities Division, by participants in some Putnam-administered 401(k) plans. The settlement with the SEC requires Putnam Management to pay $5 million in disgorgement plus a civil monetary penalty of $50 million, and the settlement with the Massachusetts Securities Division requires Putnam Management to pay $5 million in restitution and an administrative fine of $50 million. The settlements also leave intact the process established under an earlier partial settlement with the SEC under which Putnam Management agreed to pay the amount of restitution determined by an independent consultant, which may exceed the disgorgement and restitution amounts specified above, pursuant to a plan to be developed by the independent consultant.

Putnam Management, and not the investors in any Putnam fund, will bear all costs, including restitution, civil penalties and associated legal fees stemming from both of these proceedings. The SEC's and Massachusetts Securities Division's allegations and related matters also serve as the general basis for numerous lawsuits, including purported class action lawsuits filed against Putnam Management and certain related parties, including certain Putnam funds. Putnam Management has agreed to bear any costs incurred by Putnam funds in connection with these lawsuits. Based on currently available information, Putnam Management believes that the likelihood that the pending private lawsuits and purported class action lawsuits will have a material adverse financial impact on the fund is remote, and the pending actions are not likely to materially affect its ability to provide investment management services to its clients, including the Putnam funds.

Results of October 14, 2004 shareholder meeting
(Unaudited)

An annual meeting of shareholders of the fund was held on October 14, 2004. At the meeting, each of the nominees for Trustees was elected, as follows:

	Common shares	
	Votes for	Votes withheld
Jameson Adkins Baxter	14,387,628	311,413
Charles B. Curtis	14,375,407	323,634
Myra R. Drucker	14,381,237	317,804
Charles E. Haldeman, Jr.	14,395,640	303,401
Ronald J. Jackson	14,390,638	308,403
Paul L. Joskow	14,387,628	311,413
Elizabeth T. Kennan	14,375,579	323,462
John H. Mullin, III	14,380,396	318,645
George Putnam, III	14,382,069	316,972
A.J.C. Smith	14,384,612	314,429
W. Thomas Stephens	14,373,209	325,832
Richard B. Worley	14,386,872	312,169

	Preferred Shares	
	Votes for	Votes withheld
Jameson Adkins Baxter	3,668	74
Charles B. Curtis	3,668	74
Myra R. Drucker	3,668	74
Charles E. Haldeman, Jr.	3,668	74
John A. Hill	3,668	74
Ronald J. Jackson	3,668	74
Paul L. Joskow	3,668	74
Elizabeth T. Kennan	3,668	74
John H. Mullin, III	3,668	74
Robert E. Patterson	3,668	74
George Putnam, III	3,668	74
A.J.C. Smith	3,668	74
W. Thomas Stephens	3,668	74
Richard B. Worley	3,668	74

All tabulations are rounded to nearest whole number.

Fund information

About Putnam Investments

One of the largest mutual fund families in the United States, Putnam Investments has a heritage of investment leadership dating back to Judge Samuel Putnam, whose Prudent Man Rule has defined fiduciary tradition and practice since 1830. Founded over 65 years ago, Putnam Investments was built around the concept that a balance between risk and reward is the hallmark of a well-rounded financial program. We presently manage over 100 mutual funds in growth, value, blend, fixed income, and international.

Investment Manager

Putnam Investment
Management, LLC
One Post Office Square
Boston, MA 02109

Marketing Services

Putnam Retail Management
One Post Office Square
Boston, MA 02109

Custodian

Putnam Fiduciary Trust Company

Legal Counsel

Ropes & Gray LLP

Trustees

Officers

George Putnam, III
President

Charles E. Porter
Executive Vice President, Associate Treasurer and Principal Executive Officer

Jonathan S. Horwitz
Senior Vice President and Treasurer

Steven D. Krichmar
Vice President and Principal Financial Officer

Michael T. Healy
Assistant Treasurer and Principal Accounting Officer

Daniel T. Gallagher
Vice President and Legal and Compliance Liaison Officer

Beth S. Mazor
Vice President

James P. Pappas
Vice President

Richard S. Robie, III
Vice President

Mark C. Trenchard
Vice President and BSA Compliance Officer

Francis J. McNamara, III
Vice President and Chief Legal Officer

Charles A. Ruys de Perez
Vice President and Chief Compliance Officer

Judith Cohen
Clerk and Assistant Treasurer

Call 1-800-225-1581 weekdays from 9 a.m. to 5 p.m. Eastern Time, or visit our Web site (www.putnaminvestments.com) anytime for up-to-date information about the fund's NAV.

[LOGO OMITTED]

PUTNAM INVESTMENTS

The Putnam Funds
One Post Office Square
Boston, Massachusetts 02109

Do you want to save paper and receive this document faster? Shareholders can sign up for email delivery of shareholder reports on www.putnaminvestments.com.

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Item 2. Code of Ethics:

Not applicable

Item 3. Audit Committee Financial Expert:

Not applicable

Item 4. Principal Accountant Fees and Services:

Not applicable

Item 5. Audit Committee: Not applicable

Item 6. Schedule of Investments: Not applicable

Item 7. Disclosure of Proxy Voting Policies and Procedures For Closed-End Management Investment Companies: Not applicable

Item 8. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers: Not applicable

Item 9. Submission of Matters to a Vote of Security Holders:

Not applicable

Item 10. Controls and Procedures:

(a) The registrant's principal executive officer and principal financial officer have concluded, based on their evaluation of the effectiveness of the design and operation of the registrant's disclosure controls and procedures as of a date within 90 days of the filing date of this report on Form N-CSR, that the design and operation of such procedures are generally effective to provide reasonable assurance that information required to be disclosed by the investment company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms.

(b) Changes in internal control over financial reporting:
Not applicable

Item 11. Exhibits:

(a) Not applicable

(b) A separate certification for each principal executive officer and principal financial officer of the registrant as required by Rule 30a-2 under the Investment Company Act of 1940, as amended, and the officer certifications as required by Section 906 of the Sarbanes-Oxley Act of 2002 are filed herewith.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 an 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.

NAME OF REGISTRANT

By (Signature and Title): /s/Michael T. Healy

Michael T. Healy
Principal Accounting Officer

Date: December 29, 2004

Pursuant to the requirements of the Securities Exchange Act of 1934 an 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/Charles E. Porter

Charles E. Porter
Principal Executive Officer

Date: December 29, 2004

```
By (Signature and Title):          /s/Steven D. Krichmar
                                   ---------------------------
                                   Steven D. Krichmar
                                   Principal Financial Officer
Date: December 29, 2004
```

Company recognizes an expense in accordance with SFAS No. 123 and values the equity securities based on the fair value of the security on the date of grant. For stock-based awards the value is based on the market value for the stock on the date of grant and if the stock has restrictions as to transferability a discount is provided for lack of tradability. Stock option awards are valued using the Black- Scholes option-pricing model. If the Company had elected to recognize compensation expense based upon the fair value at the grant date consistent with the methodology prescribed by SFAS No. 123, the Company's net loss and loss per share would be reduced to the pro forma amounts indicated below for the years ended December 31, 2003 and 2002 and the nine months ended September 30, 2004 and 2003 (unaudited): Year Ended December 31, Nine Months Ended September 30, --------------------------- ------------------------------ 2003 2002 2004 2003 ------------ ------------ ------------ -------------- (unaudited) (unaudited) Net loss: As reported $(12,626,935) $ (23,128) $ (517,061) $ (129,554) Compensation recognized under APB 25 10,475,130 - - 14,300 Compensation recognized under SFAS 123 (11,039,994) - - (28,600) ------------ ------------ ------------ -------------- Pro forma $(13,191,799) $ (23,128) $ (517,061) $ (143,854) ============ ============ ============ ============== Basic and diluted loss per common share: As reported $ (0.22) $ (0.00) $ (0.00) $ (0.00) Pro forma $ (0.23) $ (0.00) $ (0.00) $ (0.00) F-8 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) This option valuation model requires input of highly subjective assumptions. Because the options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing model does not necessarily provide a reliable single measure of the fair value of its employee stock options. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2003: risk-free interest rate of 3.5 %; dividend yields of 0%; volatility factors of the expected market price of the Company's common stock of 468%; and a weighted average expected life of the option of 4 years. In 2003, the Company recognized an expense of $1,872,999 related to options issued to non- employees. Use of Estimates ---------------- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. As of December 31, 2003, the Company used estimates in determining the realization of its other receivable and valuation of real estate and other investments. Actual results could differ from these estimates. Risks and Uncertainties ---------------------- The business in which the Company engages is significantly competitive. Each of the Company's primary business operations is subject to competition from companies which, in some instances, have greater production, distribution and capital resources. The Company competes for relationships with a limited supply of facilities and talented creative personnel to produce its films. Fair Value of Financial Instruments ---------------------------------- For certain of the Company's financial instruments, including cash and cash equivalents, other receivables, accounts payable and accrued expenses, the carrying amounts approximate fair value due to their short maturities. Cash and Cash Equivalents ------------------------ For purposes of the statements of cash flows, the Company defines cash equivalents as all highly liquid debt instruments purchased with a maturity of three months or less, plus all certificates of deposit maturing within one year. F-9 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Restricted Cash -------------- Restricted cash represents an amount on deposit with a financial institution that secures the Company's employee credit cards. Restricted through July 2005. Concentration of Credit Risk --------------------------- Financial instruments, which potentially subjects the Company to concentrations of credit risk, consist of cash and cash equivalents and accounts receivables. The Company places its cash with high quality financial institutions which deposits exceed the FDIC $100,000 insurance limit. The Company extends credit based on an evaluation of the customer's financial condition, generally without collateral. Exposure to losses on receivables is principally dependent on each customer's financial condition. The Company monitors its exposure for credit losses and maintains allowances for anticipated losses, as required. As of September 30, 2004, the Company had balance with one bank amounting $4,116,000. Property and Equipment --------------------- Property and equipment are stated at cost and are depreciated using the straight-line method over their estimated useful lives as follows: Computers 3 years Automobile 5 years Furniture and fixtures 5 years Expenditures for maintenance and repairs are charged to operations as incurred while renewals and betterments are capitalized. Gains and losses on disposals are included in the results of operations. Real Estate Investments ---------------------- Real estate investments are stated at the lower of cost or net realizable value. Investment in SMS Musicmaker Ltd. ------------------------------- The Company is a 50% owner of SMS Musicmaker Ltd, a newly formed United Kingdom company. The Company accounts for this investment on the equity method. As of September 30, 2004, SMS had not commenced operations. F-10 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Revenue Recognition ------------------- Revenues from the theatrical distribution of motion pictures are recognized when motion pictures are exhibited. Revenues from video sales are recognized on the date that video units are made widely available for sale by retailers. Revenues from the licensing of feature films and television programming are recorded when the material is available for telecast by the licensee and when any restrictions regarding the exhibition or exploitation of the product lapse. Film Costs ---------- Film costs related to theatrical and television product (which includes direct production costs, production overhead and acquisition costs) are stated at the lower of unamortized cost or estimated fair value and classified as non-current assets. Film costs are amortized, and the estimated liabilities for residuals and participations are accrued, for an individual product based on the proportion that current period actual revenues bear to the estimated remaining total lifetime revenues. These estimates are reviewed on a periodic basis. Impairment of Long-Lived Assets ------------------------------ SFAS No. 144 requires that long-lived assets to be disposed of by sale, including those of discontinued operations, be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. SFAS No. 144 broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. SFAS No. 144 also establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. Income Taxes ------------ The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes." Deferred taxes are provided on the liability method whereby deferred tax assets are recognized for deductible temporary differences, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. F-11 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Profit Participation Obligations ------------------------------- The Company has received funds from investors to finance specific productions. Generally, the terms of the profit participation obligations provide the investor with a return of their investment plus a percentage of the profits on the specific production financed by the investor. If the production does not generate a profit, the Company is under no obligation to repay the investor. Earnings (Loss) Per Share ------------------------ The Company reports earnings (loss) per share in accordance with SFAS No. 128, "Earnings per Share." Basic earnings (loss) per share is computed by dividing income loss) available to common shareholders by the weighted average number of common shares available. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. Diluted earnings (loss) per share has not been presented since the effect of the assumed conversion of options and warrants to purchase common shares would have an anti-dilutive effect. At December 31, 2003 and September 30, 2004 there were 86,432,000 and 83,919,500 (unaudited) options outstanding that have been excluded from the computation of diluted net loss per share because the effect would have been anti- dilutive. Comprehensive Income ------------------- SFAS No. 130, "Reporting Comprehensive Income," establishes standards for the reporting and display of comprehensive income and its components in the financial statements. For the years ended December 31, 2003 and 2002, the Company does not have items that represented other comprehensive income and, accordingly, has not included in the consolidated statement of stockholders' equity the change in comprehensive income. Recently Issued Accounting Pronouncements --------------------------------------- In November 2004, the FASB issued SFAS No. 151, entitled Inventory Costs -- An Amendment of ARB No. 43, Chapter 4. SFAS No. 151 amends the guidance in ARB No. 43, Chapter 4, entitled Inventory Pricing [June 1953], to clarify the accounting for "abnormal amounts" of idle facility expense, freight, handling costs, and wasted material [spoilage]. Before revision by SFAS No. 151, the guidance that existed in ARB No. 43 stipulated that these type items may be "so abnormal" that the appropriate accounting treatment would be to expense these costs as incurred [i.e., these costs would be current-period charges]. SFAS No. 151 requires that these type items be recognized as current-period charges F-12 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) without regard to whether the "so abnormal" criterion has been met. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The adoption of SFAS 151 did not impact the consolidated financial statements. In December 2004, the FASB issued SFAS No. 152, entitled Accounting for Real Estate Time-Sharing Transactions -- An Amendment of FASB Statements No. 66 and 67. SFAS No. 152 amends SFAS No. 66 to reference the financial accounting and reporting guidance for real estate time-sharing transactions that is provided in AICPA Statement of Position 04-2. SFAS No. 152 also amends SFAS No. 67 to state that the guidance for (a) incidental operations and (b) costs incurred to sell real estate projects does not apply to real estate time- sharing transactions. The accounting for those operations and costs is subject to the guidance of SOP 04-2. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. The adoption of SFAS 152 did not impact the consolidated financial statements. In December 2004, the FASB issued SFAS No. 153, entitled Exchanges of Nonmonetary Assets -- An Amendment of APB Opinion No.29. SFAS No. 153 amends Opinion 29 to eliminate the exception for nonmonetary exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The adoption of SFAS 153 did not impact the consolidated financial statements. In December 2004, the FASB issued SFAS No. 123 (Revised), entitled Share-Based Payment. This revised Statement eliminates the alternative to use APB Opinion No. 25's intrinsic value method of accounting that was provided in SFAS No. 123 as originally issued. Under Opinion 25, issuing stock options to employees generally resulted in recognition of no compensation cost. This Statement requires entities to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards. For public companies that file as a small business issuer, this Statement is effective as of the beginning of the first interim or annual reporting period that begins after December 15, 2005. The adoption of SFAS 123 (Revised) will have an impact the consolidated financial statements. If the Statement had been in effect for the year ended December 31, 2003, the Company would have recognized an additional expense of $564,864. Note 2 - Acquisition In October, 2003 the Company purchased all the outstanding stock of Miracle Productions Inc. ("Miracle"), a California corporation newly formed to receive from Miracle Entertainment, Inc. (MEMI:PK) ("MEI") certain of MEI's current film production and distribution projects. After the acquisition Miracle changed its name to Celebration Productions, Inc. The acquisition price was 18,347,175 shares, as amended, of the Company's common stock and ongoing royalties from the exploitation of Miracle's film assets. The total purchase price was $2,752,076 which equals the 18,347,175 shares of the Company's common stock times the market value on the date of acquisition of $0.15 per share. As part of the acquisition agreement, MEI agreed to pay the Company, $217,963, as amended. MEI's historical F-13 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) cost basis in the film production and distribution projects acquired by the Company through Miracle was $0. The allocation of the purchase price was based on historical cost basis rather than fair market value since Mr. John Daly, who is the Company's Chairman, President and CEO was at the time also the President of MEI. The excess of the purchase price over the historical cost basis of the net assets acquired has been shown as a deemed dividend. The allocation of the purchase price is as follows: Receivable from MEI $ 217,963 Deemed dividend 2,534,113 ----------- Purchase price $ 2,752,076 =========== Note 3 - Loan Receivable from Miracle Entertainment, Inc. As of December 31, 2003, Miracle Entertainment, Inc. owed the Company, $66,317. This amount was considered a short-term loan, non-interest bearing and unsecured. During June 2004, the Company executed a secured promissory note with Miracle Entertainment Inc. The repayment terms call for two equal payments of $25,000. The first payment is due April 15, 2005. The second payment is due December 15, 2005. The promissory note is non-interest bearing and is secured by 5,000,000 shares of the Company's stock. As of the September 30, 2004 the market value of the Company's stock exceeded the carrying value of the note. Therefore, no write down of the note was deemed necessary. Note 4 - Property and Equipment The cost of property and equipment at December 31, 2003 and September 30, 2004 (unaudited) consisted of the following: December 31, September 30, 2003 2004 ------------ ------------- (unaudited) Computers $ 3,330 $ 3,330 Automobile - 32,065 Furniture and fixtures - 10,000 ------------ ------------- 3,330 45,395 Less accumulated depreciation (92) (3,861) ------------ ------------- $ 3,238 $ 41,534 ============ ============= Depreciation expense for the years ended December 31, 2003 and 2002 was $92 and $0, respectively, and for the nine months ended September 30, 2004 and 2003 was $3,769 (unaudited) and $0 (unaudited), respectively. F-14 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Note 5 - Real Estate Investments In May, 2003 the Company entered into agreements for the acquisition of two private companies, Myrob Properties, Inc., a California corporation, and East Mojave Corporation, a Nevada corporation. The assets acquired with these two private companies consisted of real estate located in California and Arizona. The other assets and liabilities of these private companies were insignificant. In connection with these transactions, the Company issued a total of 36,000,000 shares of common stock to acquire these two private companies. The Company has valued the real estate assets acquired in these transactions at the value of the 36,000,000 shares of the Company's common stock on the transaction date of $0.02 per share or $720,000. During the nine months ended September 30, 2004, the Company purchased the un-owned percentage of a parcel previously owned for $373,001 (unaudited). Note 6 - Stockholders' Equity Common stock During the year ended December 31, 2003, the Company has the following transactions in its common stock: * issued 7,078,689 share of its common stock for services valued at $116,584. The value was determined based on the market price of the Company's stock at the date of grant; * issued 1,347,364 shares of its common stock for the conversion of a note payable and convertible debentures totaling$271,435; * issued 544,120 shares of its common stock for accrued interest and financing costs totaling $72,651; * issued 3,235,000 shares of its common stock for the conversion of accounts payable totaling $389,441; * issued 36,000,000 shares of its common stock for two private real estate companies that contained real estate investments totaling $720,000. The value was determined based on the market price of the Company's stock at the date of acquisition; * issued 3,575,000 shares of its common stock for the exercise of stock options. The exercise price was paid by reducing accrued expenses by $1,788; * issued 3,000,000 shares of its common stock for the exercise of stock options. The exercise price was paid for consulting services valued at $30,000; * issued 18,347,175 shares of its common stock for all the issued and outstanding share of Celebration Production, Inc. The value of $2,752,076 was based on the market price of the Company's stock at the transaction date; and * issued 1,800,000 shares of its common stock for film costs. The value of $75,000 was based on the market price of the Company's stock at the transaction date. During the nine months ended September 30, 2004, the Company has the following transactions in its common stock (unaudited): * issued 50,000,000 shares of its common stock for cash in the amount of $5,000,000; F-15 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) * issued 2,450,000 shares of its common stock in the exercise of stock options. The exercise price was paid by reducing accrued expenses by $1,225; * issued 62,500 shares of its common stock in the exercise of stock options. The exercise price was paid in cash in the amount of $625; and * issued 90,000 shares of its common stock for services rendered valued at $3,700. Options The following table summarizes the options outstanding: Weighted Average Exercise Options Price ----------- ------------ Balance, December 31, 2002 - $ - Granted 93,007,000 $ 0.0071 Exercised (6,575,000) $ 0.0048 ----------- Balance, December 31, 2003 86,432,000 $ 0.0072 Exercised (unaudited) (2,512,500) $ 0.007 ----------- Balance, September 30, 2004 (unaudited) 83,919,500 $ 0.0074 =========== Exercisable, December 31, 2003 86,432,000 $ 0.0072 =========== The weighted average remaining contractual life of options outstanding is 3.69 years at December 31, 2003. The exercise price for the options outstanding at December 31, 2003 were as follows: Number of Exercise Options Price ---------- -------- 25,025,000 $ 0.005 61,407,000 $ 0.0100 ---------- 86,432,000 ========== Compensation expense was recognized as a result of the issuance of stock options issued to employees of the Company of $10,475,130 for the year ended December 31, 2003. For options granted during the year ended December 31, 2003 where the exercise price was less than the stock price at the date of the grant, the weighted-average fair value of such options was $0.1388 and the weighted-average exercise price of such options was $0.0071. No options were granted during the year ended December 31, 2003, where the exercise price was less than the stock price at the date of the grant or the exercise price was equal to the stock price at the date of grant. F-16 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Note 7 - Commitments and Contingencies Litigation ---------- In the ordinary course of business, the Company is generally subject to claims, complaints, and legal actions. At December 31, 2003, management believes that the Company is not a party to any action which would have a material impact on its financial condition, operations, or cash flows. Miracle Entertainment, Inc. et. al v. Filmstar Releasing --- Corporation et. al., Los Angeles Superior Court, Case No. ------------------- BC302233 This is a complaint for unlawful conversion, breach of contract and fraud, commenced in September, 2003 by Miracle Entertainment, Inc., a company of which John Daly was Chairman, against a firm and several individuals who had previously contracted to raise funds for productions sponsored by Miracle Entertainment. A counter-claim was filed by the defendants in March, 2004, adding the Company as a defendant. It alleged that the funds had been raised and provided to the plaintiffs and counterclaim defendants, who had unlawfully diverted them to their own use and failed to produce the promised films. Both the complaint and the counter-claim demand approximately $8 million in damages. The Company never had a contractual relationship with any of the cross-complainants and asserts that no facts exist to support any cause of action asserted by cross-complainants. The Company moved to dismiss the cross-complaint and moved to strike all references to punitive damages. The dismissal was granted by the Court with leave to amend. The Court also sustained the dismissal without leave to amend as to the civil conspiracy cause of action. On or about November 1, 2004, Filmstar, Denise Gentile and Jon Gentile filed a second amended cross-complaint alleging the same causes of action as before. Again the Company moved to dismiss and filed a motion to strike punitive damages claims. The hearing is set for January 3, 2005. The parties are now engaged in pre-trial discovery. The Court sent the case to mediation to be completed by March 2005. The post-mediation conference is set for March 3, 2005. The final status conference is set for May 13, 2005; trial-May 23, 2005. Carol Lefko v. Film and Music Entertainment, Inc., Celebration -- Pictures,Inc., John Daly and Peter Beale, Los Angeles Superior -- Court, Case No. BC318753. This is a complaint for breach of an alleged oral agreement commenced July 20, 2004 between the plaintiff and the defendants whereby the plaintiff would provide services as casting director of a film to be called "Host" and produced by Celebration Productions, Inc. which was added as a party to this lawsuit by amendment in February 2005. The plaintiff alleges that she performed the services but was not paid and is owed $12,000 for breach of contract plus $60,000 for "waiting time." The defendants have answered denying any liability, that no contract existed and that no services could have been rendered to the Company since the film never went into pre-production. The Company is informed and believes that Kevin Lewis and Peter Beale, in their individual capacity, were to be co-producers of the film "Host." Mr. Lewis was also to be the director of the film and that any agreement with plaintiff is between plaintiff and Mr. Lewis. The Company maintains that no contract exists between Ms. Lefko and either FAME or Celebration or both. The Company maintains that Ms. Lefko has never been employed by any of these entities, as indicated by Company records and that neither the Company nor Celebration Pictures, Inc. ever hired any casting director. All the Defendants except Beale filed their general denial with affirmative defenses on September 1, 2004. Film And Music responded to plaintiff's first set of written discovery. The Court ordered the case into mediation to be completed by February 28, 2005. The post-mediation date is March 4, 2005. The final status conference is set for July 5, 2005; trial - July 13, 2005. Leases ------ The Company leases its corporate office under a non- cancelable operating lease that expires in February 2006. Future minimum lease payments applicable to non-cancelable operating leases as of December 31, 2003, are as follows: Operating Leases --------- Year ending December 31, 2004 $ 75,138 2005 85,404 2006 15,569 --------- Net Minimum Lease Payments $ 176,111 ========= The Company incurred rent expense of $20,206 and $0 for the years ended December 31, 2003 and 2002, respectively and $52,016 (unaudited) and $0 (unaudited) for the nine months ended September 30, 2004 and 2003, respectively. F-17 Film and Music Entertainment and Subsidiaries Notes to Consolidated Financial Statements For the Years Ended December 31, 2003 and 2002 And the Nine Months Ended September 30, 2004 and 2003 (unaudited) Note 8 - Income Taxes Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets as of December 31, 2003 are as follows: Deferred tax assets: Federal net operating loss $ 473,000 State net operating loss 42,000 ----------- Total deferred tax assets 515,000 Less valuation allowance (515,000) ----------- $ -- ============ At December 31, 2003, the Company had federal and state net operating loss ("NOL") carryforwards of approximately $1,390,000 and $700,000, respectively. Federal NOLs could, if unused, expire in varying amounts in the years 2014 through 2018. State NOLs, if unused, could expire in varying amounts from 2014 through 2018. The valuation allowance increased by $100,000 and $8,000 during 2003 and 2002, respectively. The Company has provided a 100% valuation allowance on the deferred tax assets at December 31, 2003 to reduce such asset to zero, since there is no assurance that the Company will generate future taxable income to utilize such asset. Management will review this valuation allowance requirement periodically and make adjustments as warranted. The reconciliation of the effective income tax rate to the federal statutory rate for the years ended December 31, 2003 and 2002 is as follows: 2003 2002 ------- ------- Federal income tax rate (34.0%) (34.0%) State tax, net of federal benefit 6.0%) (6.0%) Value of below market options/warrants 39.1% 0.0% Increase in valuation allowance 0.9% 40.0% ------- ------ Effective income tax rate 0.0% 0.0% ======= ====== Note 9 - Subsequent Events (unaudited) On November 16, 2004, the Company settled a dispute with a stockholder whereby the stockholder agreed to surrender to the Company 13,500,000 shares of the Company's common stock owned by the stockholder and the Company agreed to give up any rights it has in certain real estate located in Riverside, California that the Company has recorded on its books at $180,000. In the fourth quarter of 2004, the Company will remove the real estate investment of $180,000 from its books and cancel 13,500,000 shares of its common stock. No gain or loss will be recognized as a result of this settlement. On February 3, 2005, the Company entered into an agreement with a stockholder whereby the stockholder agreed to surrender to Company 15,750,000 shares of the Company's common stock owned by the stockholder and the Company agreed to give up any rights it has to a hypothecated money interest relating to certain real estate located in Cochise County, Arizona that the Company the Company has recorded on its books at $264,000. In the first quarter of 2005, the Company will remove the real Estate investment of $264,000 from its books and cancel 15,750,000 Shares of its common stock. No gain or loss will be recognized as a result of this agreement. F-18 22 PART III Item 1. Index to Exhibits Copies of the following documents are filed with this Registration Statement, Form 10-SB, as exhibits: 3.1 Articles of Incorporation 3.2 Certificate of Amendment of Articles of Incorporation of Imporex Investments, Corp. 3.3 Certificate of Amendment of Articles of Incorporation of DVBS, Inc. 3.4 Certificate of Amendment of Articles of Incorporation of Pervasys, Inc. 3.5 Bylaws 10.1 Contracts 10.1.1 Stock Swap Agreement dated May 21, 2003 for acquisition of Myrob Properties, Inc. 10.1.2 Stock Swap Agreement dated May 21, 2003 for acquisition of East Mojave Corporation. 10.1.3 Stock Purchase Agreement dated October 27, 2003 for acquisition of Miracle Productions, Inc. 10.1.4 Stock Purchase Agreement dated May 4, 2004 for issuance of shares to Lesteron, Ltd. 10.1.5 John Daly Voting Trust dated May 23, 2003 for 18,000,000 options 10.1.6 Real Estate Purchase Agreement dated September 22, 2003 for Purchase of 1120 Acres of land, San Bernadino County by Myrob Properties, Inc, 10.1.7 License Agreement dated October 27, 2003 between The Company and Western Media Group Corporation for F.E.L.I.X technology. 10.1.8 Voting Trust dated October 21, 2003, covering options on 18,000,000 shares of Common Stock issued to John Daly. 10.1.9 Voting Trust dated October 21, 2003, covering options on 25,000,000 shares of Common Stock issued to John Daly. 10.1.10 Assignment Agreement to Celebration International Pictures, Ltd. dated August 23,2004 of rights to "The Aryan Couple." 10.1.11 Literary Purchase Agreement dated December 23, 2003 for "The Harder they Fall." 10.1.12 Voting Trust dated May 21, 2003 covering 18,000,000 shares of Common Stock issued to Satish Patel 10.1.13 Voting Trust dated May 21, 2003 covering 9,000,000 shares of Common Stock issued to Michel Meyer 10.1.14 Voting Trust dated May 21, 2003 covering 18,000,000 shares of Common Stock issued to Criscione family trust. 10.1.15 Voting Trust dated May 23, 2003 covering 1,600,000 shares of Common Stock issued to Lawrence Lotman. 10.1.16 Voting Trust dated October 31, 2003 covering 10,000,000 shares of Common Stock issued to John Daly 10.1.17 Sublease of space, 5670 Wilshire Blvd, Los Angeles, CA dated October 28, 2003 23 10.1.18 Agreement dated October 27, 2003 between the Company and Michael Myers and Michael Criscione to produce pictures. 10.1.19 Settlement Agreement dated May 12, 2004 with Miracle Entertainment. 10.1.20 Settlement Agreement dated November 16, 2004 between the Company and Michael Criscione. 10.1.21 Producer/Distributor Agreement dated ______, 200___ "At First Dawn" (*) 10.1.22 Producer/Distributor Agreement dated July 25, 2003 "Tournament of Dreams" 10.1.23 Producer/Distributor Agreement dated November 12, 2002 "Petersburg-Cannes Express" 10.2.1 Employment Agreement dated May 23, 2003 with John Daly 10.2.2 Stock Option Agreement dated May 23, 2003 with John Daly 10.2.3 Employment Agreement dated May 23, 2003 with Lawrence Lotman 10.2.4 Stock Option agreement dated May 23, 2003 with Lawrence Lotman 10.2.5 Employment Agreement dated May 23, 2003 with Satish Patel 10.2.6 Stock Option agreement dated May 23, 2003 with Michael Meyer 10.2.7 Employment Agreement dated May 23, 2003 with Michael Meyer 10.2.8 Employment Loanout Agreement dated July 1, 2004 between Film & Music Entertainment, Inc. and Red Giants Productions, Inc. 10.2.9 Employment Agreement dated May 23, 2003 with Michael Criscione 99.1 Correspondence from former accountants (*) SIGNATURES In accordance with the provisions of Section 12 of the Securities Exchange Act of 1934, Film and Music Entertainment, Inc., has duly caused this Registration Statement On Form 10-SB to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Los Angeles, California, on February 14, 2005. Film and Music Entertainment, Inc., a Nevada corporation By: /s/John Daly -------------------------------- John Daly Its: Chairman, President and CEO * To be filed by amendment