GABELLI EQUITY TRUST INC
Form 497
November 08, 2006

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PROSPECTUS

$150,000,000

The Gabelli Equity Trust Inc.

6,000,000 Shares, 6.20% Series F Cumulative Preferred Stock
(Liquidation Preference $25 Per Share)

The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities. Income is a secondary investment objective. Gabelli Funds, LLC (the Investment Adviser) serves as investment adviser to the Fund. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The Fund was organized as a Maryland corporation on May 20, 1986 and commenced its investment operations on August 21, 1986. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund s investment objectives will be achieved.

This prospectus describes the Fund s 6.20% Series F Cumulative Preferred Stock (the Series F Preferred), liquidation preference $25 per share. Distributions on the Series F Preferred are cumulative from their original issue date at the annual rate of 6.20% of the liquidation preference of $25 per share and are payable quarterly on March 26, June 26, September 26, and December 26 of each year, commencing on December 26, 2006.

Investing in the Series F Preferred involves risks that are described in the Risk Factors and Special Considerations section beginning on page 21 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Series F Preferred Per Share	**Total**
Public Offering Price (1)	$ 25.0000	$ 150,000,000
Underwriting Discount (2)	$ 0.7875	$ 4,725,000
Proceeds to the Fund (before expenses) (3)	$ 24.2125	$ 145,275,000

(1) Plus accumulated distributions, if any, from November 10, 2006.

(2) The Fund and the Investment Adviser have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

(3) Offering expenses payable by the Fund (excluding underwriting discount) are estimated at $510,000.

Citigroup	**Merrill Lynch & Co.**
A.G. Edwards & Sons	**Gabelli & Company, Inc.**

November 7, 2006

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The Series F Preferred being offered by this prospectus is being offered by the underwriters listed in this prospectus, subject to prior sale, when, as and if accepted by them and subject to certain conditions. The Fund expects that delivery of any Series F Preferred will be made in book-entry form through The Depository Trust Company on or about November 10, 2006.

A preliminary application has been made to list the Series F Preferred on the New York Stock Exchange (the NYSE). Subject to notice of issuance, trading of the Series F Preferred on the NYSE is expected to commence within 30 days from the date of this prospectus. Prior to this offering, there has been no public market for the Series F Preferred. See Underwriting.

The net proceeds of the offering are estimated at approximately $144,765,000, after deduction of the estimated underwriting discounts and estimated offering expenses payable by the Fund. The Fund intends to use the net proceeds to redeem shares of the Series B Preferred, of which there are currently 4,950,000 shares outstanding with a liquidation preference of $25 per share. If the amount raised in the offering exceeds the amount of Series B Preferred outstanding, the excess amount will be invested in accordance with the investment objectives and policies of the Fund. The Fund intends to redeem shares of Series B Preferred (and, if there are excess proceeds, invest those proceeds in accordance with the Fund s investment objectives and policies) within three months of the completion of the offering; however, changes in market conditions, including, in particular, factors affecting interest rates and the securities in which the Fund invests, could result in this period being as long as six months. See Use of Proceeds.

The Fund expects that distributions made on the Series F Preferred will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations, provided certain holding period and other requirements are met by both the Fund and the shareholder), and (iii) investment company taxable income (other than qualified dividend income, including interest income, short-term capital gain and income from certain hedging and interest rate transactions). For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2010. We cannot assure you, however, as to what percentage of future distributions made on the Series F Preferred will consist of long-term capital gain, which is currently taxed at lower rates for individuals than ordinary income, and qualified dividend income, which is currently eligible to be taxed at the lower long-term capital gain rates. For a more detailed discussion, see Taxation.

In order to be issued, the Series F Preferred must receive a rating of Aaa by Moody s Investors Service, Inc. (Moody s). In order to keep this rating, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series F Preferred under guidelines established by Moody s. See Description of the Series F Preferred Rating Agency Guidelines. The Fund is also required to maintain a minimum asset coverage by the 1940 Act. If the Fund fails to maintain any of these minimum asset coverage requirements, the Fund may at its option (and in certain circumstances must) require, in accordance with its charter (together with any amendments or supplements thereto, including any articles supplementary, the Charter) and the requirements of the 1940 Act, that some or all of its outstanding preferred stock, including the Series F Preferred, be redeemed. Otherwise, prior to November 10, 2011 the Series F Preferred will be redeemable at the option of the Fund only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. Subject to certain notice and other requirements (including those set forth in Section 23(c) of the 1940 Act), the Fund, at its option, may redeem the Series F Preferred beginning on November 10, 2011. In the event the Fund redeems the Series F Preferred, such redemption will be for cash at a redemption price equal to $25 per share plus accumulated but unmade distributions (whether or not earned or declared).

This prospectus concisely sets forth important information about the Fund that you should know before deciding whether to invest in Series F Preferred. You should read this prospectus and retain it for future reference.

The Fund has also filed with the Securities and Exchange Commission a Statement of Additional Information (the SAI), dated November 7, 2006, which contains additional information about the Fund. The

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SAI is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI that is filed with this prospectus. You may request a free copy of the SAI by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or calling the Fund toll-free at (800) 422-3554. You can also call the toll-free number to request copies of the Fund s annual and semi-annual reports, to request other information about the Fund, or to make stockholder inquiries. The SAI and the Fund s reports are also available at the website http://www.gabelli.com. You may also obtain the SAI and reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the Securities and Exchange Commission on the Securities and Exchange Commission s web site (http://www.sec.gov).

The Fund s Series F Preferred does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution, and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither the fund nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither the fund nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.

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SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund s Series F Preferred, in particular the risks associated with such an investment. For a more detailed discussion of these risks, see Risk Factors and Special Considerations. You should review the more detailed information contained in this prospectus, the Statement of Additional Information (the SAI), and the Fund s Articles Supplementary for the 6.20% Series F Cumulative Preferred Stock (the Series F Articles Supplementary) on file with the Securities and Exchange Commission (the Commission).

The Fund

The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company organized as a Maryland corporation on May 20, 1986.

The Fund s outstanding shares of common stock, par value $0.001 per share, are listed and traded on the New York Stock Exchange (the NYSE) under the symbol GAB. As of September 30, 2006, the net assets of the Fund attributable to its common stock were $1,458,720,807. As of September 30, 2006, the Fund had outstanding 167,642,009 shares of common stock; 4,950,000 shares of 7.20% Tax Advantaged Series B Cumulative Preferred Stock, liquidation preference $25 per share (the Series B Preferred); 5,200 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference $25,000 per share (the Series C Auction Rate Preferred); 2,949,700 shares of 5.875% Series D Cumulative Preferred Stock, liquidation preference $25 per share (the Series D Preferred); and 2,000 shares of Series E Auction Rate Cumulative Preferred Stock, liquidation preference $25,000 per share (the Series E Auction Rate Preferred). The Fund completed its redemption of 100% of its outstanding 7.25% Tax Advantaged Cumulative Preferred Stock (the Series A Preferred) on June 17, 2003. The Fund s outstanding Series B Preferred became redeemable at the option of the Fund beginning June 20, 2006 and the Fund redeemed 25% of its then outstanding Series B Preferred on June 26, 2006. The Series B Preferred, the Series C Auction Rate Preferred, the Series D Preferred and the Series E Auction Rate Preferred (collectively, the Existing Preferred) have the same seniority with respect to distributions and liquidation preference.

The Offering

The Fund offers by this prospectus $150,000,000 of 6.20% Series F Cumulative Preferred Stock (the Series F Preferred). The Series F Preferred is being offered by a group of underwriters led by Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book running managers, and together with A.G. Edwards & Sons, Inc. and Gabelli & Company, Inc., as representatives of the other underwriters named herein. Upon issuance, the Series F Preferred will have equal seniority with respect to distributions and liquidation preference to the Fund s Existing Preferred. See Description of the Series F Preferred.

The Fund is offering 6,000,000 shares of 6.20% Series F Cumulative Preferred Stock, par value $0.001 per share, liquidation preference $25 per share, at a purchase price of $25 per share. Distributions on the shares of Series F Preferred will accumulate from the date on which such stock is issued. A preliminary application has been made to list the Series F Preferred on the NYSE. Subject to notice of issuance, trading of the Series F Preferred on the NYSE will commence within 30 days from the date of this prospectus.

Generally, investors in Series F Preferred will not receive certificates representing ownership of their stock. The Depository Trust Company (DTC), any successor or its nominee for the account of the investor s broker-dealer will maintain record ownership of the preferred stock in book-entry form. An investor s broker-dealer, in turn, will maintain records of that investor s beneficial ownership of preferred stock.

Investment Objectives

The Fund s primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable

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securities and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities (the 80% Policy). The 80% Policy may be changed without stockholder approval. The Fund will provide stockholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in a portfolio consisting primarily of high-yielding, fixed-income securities, such as corporate bonds, debentures, notes, convertible securities, preferred stocks and domestic and foreign government obligations. Fixed-income securities purchased by the Fund may be rated as low as C by Moody s or D by Standard & Poor s Ratings Services (S&P) or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody s are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

No assurance can be given that the Fund s investment objectives will be achieved. See Investment Objectives and Policies.

Dividends and Distributions

Distributions on the Series F Preferred, at the annual rate of 6.20% of its $25 per share liquidation preference, are cumulative from the original issue date and are payable, when, as and if declared by the Board of Directors of the Fund (the Board), out of funds legally available therefor, quarterly on March 26, June 26, September 26, and December 26 of each year, commencing on December 26, 2006.

Preferred Stock Distributions. In accordance with the Charter (together with any amendments or supplements thereto, including any articles supplementary, the Charter), all preferred stock of the Fund must have the same seniority with respect to distributions. Accordingly, no full distribution will be declared or paid on any series of preferred stock of the Fund for any dividend period, or part thereof, unless full cumulative dividends and distributions due through the most recent dividend payment dates for all series of outstanding preferred stock of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred stock of the Fund ranking on a parity with the Series F Preferred as to distributions, any distributions on such preferred stock (including any outstanding Series F Preferred) will be made as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date.

In the event that for any calendar year the total distributions on shares of the Fund s preferred stock exceed the Fund s ordinary income and net capital gain allocable to such shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the stockholder s tax basis in the shares). The amount treated as a tax-free return of capital will reduce a stockholder s adjusted tax basis in the preferred stock, thereby increasing the stockholder s potential gain or reducing the potential loss on the sale of the shares.

Common Stock Distributions. In order to allow its common stockholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a managed distribution policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund s Series F Preferred (as well as the Existing Preferred). Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2005, the Fund made distributions of $0.85 per share of common stock, none of which constituted a return of capital. The Fund has made distributions of $0.58 per share of common stock for the current year through September 30, 2006. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common stockholders during nine of the twenty fiscal years since the Fund s inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year s distributions will be based on the Fund s investment activity through December 31, 2006.

Tax Treatment of Preferred Share Distributions

The Fund expects that distributions made on the Series F Preferred will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations, provided certain holding period and other requirements are met by both the Fund and the shareholder), and (iii) investment company taxable income (other than qualified dividend income, including interest income, short-term capital gain and income from certain hedging and interest rate transactions). For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2010. During the three year period from 2003-2005, approximately 91% of the Fund s distributions to common and preferred stockholders consisted of long-term capital gain and the remaining 9% distributed to stockholders constituted qualified dividend income taxable at the 15% rate for individuals. During 2005, approximately 89% of the Fund s distributions to common and preferred stockholders consisted of long-term capital gain and the remaining 11% distributed to stockholders constituted qualified dividend income taxable at the 15% rate for individuals. We cannot assure you, however, as to what percentage of future distributions made on the Series F Preferred will consist of long-term capital gain, which is currently taxed at lower rates for individuals than ordinary income; and qualified dividend income, which is currently eligible to be taxed at the lower long-term capital gain rates. For a more detailed discussion, see Taxation.

Rating and Asset Coverage Requirements

In order to be issued, the Series F Preferred must receive a rating of Aaa from Moody s. The Series F Articles Supplementary setting forth the rights and preferences of the Series F Preferred contain certain tests that the Fund must satisfy to obtain and maintain a rating of Aaa from Moody s on the Series F Preferred. See Description of the Series F Preferred Rating Agency Guidelines.

Asset Coverage Requirements. Under the asset coverage tests to which the Series F Preferred is subject, the Fund is required to maintain (i) assets having in the aggregate a discounted value greater than or equal to a Basic Maintenance Amount (as described under Description of the Series F Preferred Rating Agency Guidelines) for each such series calculated pursuant to the applicable rating agency guidelines and (ii) an asset coverage of at least 200% (or such higher or lower percentage as may be required at the time under the Investment Company Act of 1940 (the 1940 Act)) with respect to all outstanding preferred stock of the Fund, including the Series F Preferred. See Description of the Series F Preferred Asset Maintenance Requirements.

The Fund estimates that if the shares offered hereby had been issued and sold as of September 30, 2006, the asset coverage under the 1940 Act would have been approximately 376% immediately following such issuance (and after giving effect to the deduction of the estimated underwriting discounts of $4,725,000 and

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estimated offering expenses for such shares of $510,000). The asset coverage would have been computed as follows:

Value of Fund assets less liabilities and indebtedness not constituting senior securities	=	$1,980,978,307	=	376%
Senior securities representing indebtedness plus aggregate involuntary liquidation preference of each class of senior security which is stock		$ 527,492,500		

The Series F Articles Supplementary, which contain the technical provisions of the various components of the asset coverage tests, will be filed as an exhibit to this registration statement and may be obtained through the web site of the Commission (http://www.sec.gov).

Redemption

Mandatory Redemption. The Series F Preferred may be subject to mandatory redemption by the Fund to the extent the Fund fails to maintain the asset coverage requirements described above in accordance with the rating agency guidelines or the 1940 Act and does not cure such failure by the applicable cure date. If the Fund redeems preferred stock mandatorily, it may, but is not required to, redeem a sufficient number of such shares so that after the redemption the Fund exceeds the asset coverage required by the guidelines of each of the applicable rating agencies and the 1940 Act by 10%.

With respect to the Series F Preferred, any such redemption will be made for cash at a redemption price equal to $25 per share, plus an amount equal to accumulated and unmade distributions (whether or not earned or declared) to the redemption date. See Description of the Series F Preferred Redemption.

In the event of a mandatory redemption, such redemption will be made from the Series F Preferred or other preferred stock of the Fund in such proportions as the Fund may determine, subject to the limitations of the Charter, the 1940 Act and Maryland law.

Optional Redemption. Subject to the limitations of the Charter, the 1940 Act and Maryland law, the Fund may, at its option, redeem the Series F Preferred as follows:

Commencing November 10, 2011 and at any time thereafter, the Fund at its option may redeem the Series F Preferred, in whole or in part, for cash at a redemption price per share equal to $25, plus an amount equal to accumulated and unmade distributions (whether or not earned or declared) to the redemption date. If fewer than all of the shares of the Series F Preferred are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. Prior to November 10, 2011, the Series F Preferred will be subject to optional redemption by the Fund at the redemption price only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. See Description of the Series F Preferred Redemption Optional Redemption of the Series F Preferred.

Series A Preferred, Series B Preferred, Series C Auction Rate Preferred, Series D Preferred, and Series E Auction Rate Preferred. The Fund redeemed 100% of its outstanding Series A Preferred on June 17, 2003. The Fund s outstanding Series B Preferred became redeemable at the option of the Fund beginning June 20, 2006 and the Fund redeemed 25% of its then outstanding Series B Preferred on June 26, 2006. The Fund generally may redeem the outstanding Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Fund s outstanding Series D Preferred will be redeemable at the option of the Fund beginning October 7, 2008. The Fund generally may redeem the outstanding Series E Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. Such redemptions are subject to the limitations of the Charter, the 1940 Act and Maryland law. See Description of the Series F Preferred Redemption.

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Voting Rights

At all times, holders of the Fund s outstanding preferred stock (including the Series F Preferred), voting together as a single class, will be entitled to elect two members of the Board, and holders of the preferred stock and common stock, voting together as a single class, will elect the remaining directors. However, upon a failure by the Fund to make distributions on any of its shares of preferred stock in an amount equal to two full years of distributions, holders of the preferred stock, voting together as a single class, will have the right to elect additional directors that would then constitute a simple majority of the Board until all cumulative distributions on all shares of preferred stock have been made or provided for. Holders of outstanding shares of Series F Preferred and any other preferred stock will vote separately as a class on certain other matters as required under the Charter, the 1940 Act and Maryland law. Except as otherwise indicated in this prospectus and as otherwise required by applicable law, holders of Series F Preferred will be entitled to one vote per share on each matter submitted to a vote of stockholders and will vote together with holders of common stock and any other preferred stock as a single class. See Description of the Series F Preferred Voting Rights.

Liquidation Preference

The liquidation preference of the Series F Preferred is $25. Upon liquidation, holders of the Series F Preferred will be entitled to receive the liquidation preference with respect to their shares of preferred stock plus an amount equal to accumulated but unmade distributions with respect to such shares (whether or not earned or declared) to the date of liquidation. See Description of the Series F Preferred Liquidation Rights.

Use of Proceeds

The net proceeds of the offering are estimated at approximately $144,765,000, after deduction of the estimated underwriting discounts and estimated offering expenses payable by the Fund. The Fund intends to use the net proceeds to redeem shares of the Series B Preferred, of which there are currently 4,950,000 shares outstanding with a liquidation preference of $25 per share. If the amount raised in the offering exceeds the amount of Series B Preferred outstanding, the excess amount will be invested in accordance with the investment objectives and policies of the Fund. The Fund intends to redeem shares of Series B Preferred (and, if there are excess proceeds, invest those proceeds in accordance with the Fund s investment objectives and policies) within three months of the completion of the offering; however, changes in market conditions, including, in particular, factors affecting interest rates and the securities in which the Fund invests, could result in this period being as long as six months. See Use of Proceeds.

Listing of the Series F Preferred

Following its issuance, the Series F Preferred is expected to be listed on the NYSE. However, during an initial period which is not expected to exceed 30 days after the date of its initial issuance, the Series F Preferred will not be listed on any securities exchange and consequently may be illiquid during that period. Prior to this offering, there has been no public market for the Series F Preferred. There can be no assurance that a secondary market will provide owners with liquidity.

Special Characteristics and Risks

Risk is inherent in all investing. Therefore, before investing in the Series F Preferred you should consider the risks carefully. See Risk Factors and Special Considerations. Primary risks specially associated with an investment in the Series F Preferred include:

The market price for the Series F Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series F Preferred and other factors. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Fluctuations in Market Price.

Prior to this offering, there has been no public market for the Series F Preferred. A preliminary application has been made to list the Series F Preferred on the NYSE. However, during an initial period which is not expected to exceed 30 days after the date of its issuance, the Series F Preferred will not be listed on any securities exchange. During such 30-day period, the underwriters may make a market in the Series F Preferred; however, they have no obligation to do so. Consequently, the Series F Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series F Preferred being liquid at any time. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Illiquidity Risk.

You will have no right to require the Fund to repurchase or redeem your shares of Series F Preferred at any time.

The credit rating on the Series F Preferred could be reduced or withdrawn while an investor holds shares, and the credit rating does not eliminate or mitigate the risks of investing in the Series F Preferred. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series F Preferred.

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to make distributions on the Series F Preferred.

The value of the Fund s investment portfolio may decline, reducing the asset coverage for the Series F Preferred. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer s preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and asset value of the Fund s investment portfolio. In such circumstances, the Fund may be forced to mandatorily redeem shares of the Series F Preferred.

The Fund generally may redeem the Series F Preferred at any time after November 10, 2011 and may at any time redeem shares of Series F Preferred to meet regulatory or rating agency requirements. The Series F Preferred is subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series F Preferred. Subject to such circumstances, the Series F Preferred is perpetual.

The Series F Preferred is not an obligation of the Fund. The Series F Preferred is junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund. Although unlikely, precipitous declines in the value of the Fund s assets could result in the Fund having insufficient assets to redeem all of the Series F Preferred for the full redemption price.

The Fund currently uses, and intends to continue to use, financial leverage for investment purposes by issuing preferred stock. It is currently anticipated that, taking into account the Series F Preferred, the amount of leverage will represent approximately 27% of the Fund s managed assets (as defined below). If the proposed spin-off of a portion of the Fund s assets (see Additional Information) were to occur, subject to receipt of regulatory and shareholder approval, the amount of leverage as a percentage of Fund total assets would increase because the Fund s managed assets would decrease by the amount contributed to the spin-off fund. The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage for the Series F Preferred. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make distributions on the preferred stock, or to redeem preferred stock when it may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions and such a failure to make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the Code). See Taxation. As used in this prospectus, the Fund s managed assets include the aggregate net asset value of the Fund s common stock plus assets attributable to its outstanding preferred stock, with no deduction for the liquidation preference of such preferred stock.

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund s assets, which include for this purpose assets attributable to the aggregate net asset value of the common stock plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any preferred stock, the fee may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Existing Preferred and the Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for any series of preferred stock exceeds the total return (based on net asset value) on the Fund s common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder s total return. This fee waiver is voluntary and may be discontinued at any time. The Fund s total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Leverage Risk.

Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund s ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem shares of its preferred stock (including the Series F Preferred) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See Taxation in the SAI.

The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Series F Preferred (as well as the Existing Preferred). Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2005, the Fund made distributions of $0.85 per share of common stock, none of which constituted a return of capital. The Fund has made distributions of $0.58 per share of common stock for the current year through September 30, 2006. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to holders of common stock during nine of the twenty fiscal years since the Fund s inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year s distributions will be based on the Fund s investment activity through December 31, 2006.

As a non-diversified, closed-end management investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a more limited number of issuers than may a diversified fund, and accordingly, an investment in the Fund may, under certain circumstances, present greater risk to an investor than an investment in a diversified company. See Risk Factors and Special Considerations Risks of Investing in the Fund Non-Diversified Status.

The Fund may invest up to 25% of its assets in the securities of companies principally engaged in a single industry. In the event the Fund makes substantial investments in a single industry, the Fund would become more susceptible to adverse economic or regulatory occurrences affecting that industry. See Risk Factors and Special Considerations Risks of Investing in the Fund Industry Concentration Risk.

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The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred and may enter into an interest rate swap or cap transaction with respect to all or a portion of its outstanding Series E Auction Rate Preferred. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See How the Fund Manages Risk Interest Rate Transactions.

The Fund may invest up to 35% of its total assets in securities of foreign issuers. Investing in securities of foreign companies (or foreign governments), which are generally denominated in foreign currencies, may involve certain risks and opportunities not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluation of currencies. See Risk Factors and Special Considerations Risks of Investing in the Fund Foreign Securities.

The Fund may invest up to 10% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, also sometimes referred to as junk bonds. Such securities are subject to greater risks than investment grade securities, which reflect their speculative character, including (i) greater volatility; (ii) greater credit risk; (iii) potentially greater sensitivity to general economic or industry conditions; (iv) potential lack of attractive resale opportunities (illiquidity); and (v) additional expenses to seek recovery from issuers who default. Fixed-income securities purchased by the Fund may be rated as low as C by Moody s or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody s are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. See Risk Factors and Special Considerations Risks of Investing in the Fund Lower Rated Securities.

The Fund may participate in certain derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser s prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. See Risk Factors and Special Considerations Risks of Investing in the Fund Special Risks of Derivative Transactions.

The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. See Risk Factors and Special Considerations Risks of Investing in the Fund Management Risk.

The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund s investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See Risk Factors and Special Considerations Risks of Investing in the Fund Dependence on Key Personnel. The Fund s Charter and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund s Charter and By-Laws.

The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock if the Fund fails to satisfy the 1940 Act s asset coverage requirements could jeopardize the Fund s ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See Taxation for a more complete discussion of these and other federal income tax considerations.

Management and Fees

Gabelli Funds, LLC serves as the Fund s investment adviser. The Investment Adviser s fee is computed weekly and paid monthly at the annual rate of 1.00% of the Fund s average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. The fee paid by the Fund may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Existing Preferred and the Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for any series of preferred stock exceeds the total return (based on net asset value) on the Fund s common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder s total return. This fee waiver is voluntary and may be discontinued at any time. The Fund s total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets.

For the year ended December 31, 2005, the Fund s total return on the net asset value of the common stock exceeded the stated dividend rate or net swap expense of the Series C Auction Rate Preferred and Series E Auction Rate Preferred. Thus, management fees were accrued on these assets. The Fund s total return on the net asset value of the common stock did not exceed the stated dividend rate or net swap expense of the Series B Preferred and Series D Preferred. Thus, management fees with respect to the liquidation value of those preferred stock assets were reduced by $2,387,425. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Leverage Risk.

A discussion regarding the basis for the Board s approval of the investment advisory contract of the Fund is available in the Fund s semi-annual report to shareholders dated June 30, 2006.

Over the past several years, the staff of the Commission (the Staff), the staff of the New York Attorney General s office (the NYAG) and officials of other states have been conducting industry-wide inquiries into, and bringing enforcement and other proceedings regarding, trading abuses involving open-end investment companies. The Investment Adviser and its affiliates have received information requests and subpoenas from the Staff and the NYAG in connection with these inquiries and have been complying with these requests for documents and testimony. The Investment Adviser has implemented additional compliance policies and procedures in response to recent industry initiatives and its internal reviews of its mutual fund practices in a variety of areas. For further details regarding the Investment Adviser s review in connection with these requests, see Management of the Fund Regulatory Matters.

Repurchase of Common Stock

The Fund s Board has authorized the Fund to repurchase shares of its common stock in the open market when the shares are trading at a discount of 10% or more from net asset value. Such repurchases are subject to certain notice and other requirements under the 1940 Act. Through September 30, 2006, the Fund has not repurchased shares of its common stock under this authorization.

Anti-Takeover Provisions of the Fund s Charter and By-Laws

Certain provisions of the Fund s Charter and By-Laws may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of the three classes of directors is elected each year, and the affirmative vote of the holders of 662/3% of the Fund s outstanding shares of each class (voting separately) is required to authorize the conversion of the Fund from a closed-end to an open-end investment company or generally to authorize any of the following transactions:

(1) the merger or consolidation of the Fund with any entity;

(2) the issuance of any securities of the Fund for cash to any entity or person;

(3) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any entity or person (except assets having an aggregate fair market value of less than $1,000,000); or

(4) the sale, lease or exchange to the Fund, in exchange for its securities, of any assets of any entity or person (except assets having an aggregate fair market value of less than $1,000,000);

if such person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of any class of capital stock of the Fund. However, such vote would not be required when, under certain conditions, the Board approves the transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal stockholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium above the prevailing market price. See Anti-Takeover Provisions of the Fund s Charter and By-Laws.

Custodian, Transfer Agent, Auction Agent and Dividend Disbursing Agent

Mellon Trust of New England, N.A. (the Custodian), located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian of the Fund s assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund s assets in compliance with the 1940 Act. For its services, the Custodian receives a monthly fee based upon the month end value of the total assets of the Fund, plus certain charges for securities transactions.

Computershare Trust Company, N.A. (Computershare), located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund s dividend disbursing agent, as agent under the Fund s automatic dividend reinvestment and voluntary cash purchase plan (the Plan) and as transfer agent and registrar with respect to the common stock of the Fund.

Computershare will serve as the transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series F Preferred. Computershare currently serves in such capacities with respect to the Series B Preferred and the Series D Preferred.

The Bank of New York, located at 100 Church Street, New York, New York 10286, serves as the auction agent, transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series C Auction Rate Preferred and the Series E Auction Rate Preferred.

Interest Rate Transactions

The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred, and may enter into an interest rate swap or cap transaction with respect to all or a portion of its outstanding Series E Auction Rate Preferred. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred or the Series E Auction Rate Preferred (collectively, the Auction Rate Preferred) that is lower than the Fund would have to pay if it issued fixed rate preferred stock. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Swap agreements may involve, to varying degrees, elements of marketing and counterparty risk, and exposure to loss in excess of the related amounts reflected in the Fund s Statement of Assets and Liabilities.

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In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund s variable rate payment obligation on a series of the Auction Rate Preferred. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, the Fund would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock distributions when due in accordance with the Articles Supplementary of each of the series of Auction Rate Preferred even if the counterparty defaulted. If there is a default by the counterparty to a swap contract, the Fund will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that the swap contract counterparties will be able to meet their obligations pursuant to a swap contract or that, in the event of a default, the Fund will succeed in pursuing contractual remedies. The Fund assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to a swap contract. The creditworthiness of the swap contract counterparties is closely monitored in order to minimize this risk. Depending on the general state of short-term interest rates and the returns on the Fund s portfolio securities at that point in time, such a default could negatively affect the Fund s ability to make distributions on its auction rate preferred stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund s ability to make distributions on its auction rate preferred stock.

A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. If the Fund fails to maintain the required asset coverage on its outstanding preferred stock or fails to comply with other covenants, the Fund may, at its option (and in certain circumstances must) require, consistent with its Charter and the requirements of the 1940 Act, that some or all of its outstanding shares of preferred stock (including the Series F Preferred) be redeemed. Such redemption likely would result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could require the Fund to make a termination payment to the counterparty.

The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund s net payment obligations under any swap transaction, marked to market daily. See How the Fund Manages Risk Interest Rate Transactions.

FINANCIAL HIGHLIGHTS

The table below sets forth selected financial data for the periods presented. The per share operating performance and ratios for the fiscal periods ended December 31, 2005, 2004, 2003, 2002 and 2001, have been audited by PricewaterhouseCoopers LLP, the Fund s Independent Registered Public Accounting Firm, as stated in its report which is incorporated by reference into the SAI. The per share operating performance and ratios for the six months ended June 30, 2006 are unaudited and are as stated in the Fund s semi-annual report which is incorporated by reference into the SAI. The following information should be read in conjunction with the Financial Statements and Notes thereto, which are incorporated by reference into the SAI.

	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005	2004	2003	2002	2001
Selected data for a share of common stock outstanding throughout each period:						
OPERATING PERFORMANCE:						
Net asset value, beginning of period	$ 8.10	$ 8.69	$ 7.98	$ 6.28	$ 8.97	$ 10.89
Net investment income	0.12	0.09	0.02	0.04	0.07	0.08
Net realized and unrealized gain (loss) on investments	0.77	0.47	1.63	2.50	(1.65)	(0.16)
Total from investment operations	0.89	0.56	1.65	2.54	(1.58)	(0.08)
DISTRIBUTIONS TO PREFERRED SHAREHOLDERS[a]						
Net investment income	(0.02)[e]	(0.01)	(0.00)[f]	(0.00)[f]	(0.01)	(0.01)
Net realized gain on investments	(0.05)[e]	(0.14)	(0.14)	(0.14)	(0.16)	(0.11)
Total distributions to preferred shareholders	(0.07)	(0.15)	(0.14)	(0.14)	(0.17)	(0.12)
NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO COMMON SHAREHOLDERS RESULTING FROM OPERATIONS	0.82	0.41	1.51	2.40	(1.75)	(0.20)
DISTRIBUTIONS TO COMMON SHAREHOLDERS:						
Net investment income	(0.10)[e]	(0.08)	(0.01)	(0.01)	(0.05)	(0.06)

Net realized gain on investments	(0.24)[e]	(0.77)	(0.79)	(0.68)	(0.90)	(1.02)
Return of capital	(0.04)[e]			(0.00)[f]	(0.00)[f]	
Total distributions to common shareholders	(0.38)	(0.85)	(0.80)	(0.69)	(0.95)	(1.08)
CAPITAL SHARE TRANSACTIONS:						
Increase (decrease) in net asset value from common share transactions	(0.00)[f]	(0.00)[f]	0.00[f]	0.01	0.02	0.03
Decrease in net asset value from shares issued in rights offering		(0.15)				(0.62)
Increase in net asset value from repurchase of preferred shares			0.00[f]			
Offering costs for preferred shares charged to paid-in capital	0.00[f]	(0.00)[f]	0.00[f]	(0.02)	(0.01)	(0.05)
Offering costs for issuance of rights charged to paid-in capital	(0.00)[f]	(0.00)[f]				
Total capital share transactions	(0.00)	(0.15)	0.00[f]	(0.01)	0.01	(0.64)
NET ASSET VALUE ATTRIBUTABLE TO COMMON SHAREHOLDERS, END OF PERIOD	$ 8.54	$ 8.10	$ 8.69	$ 7.98	$ 6.28	$ 8.97
Net Asset Value Total Return+	10.30%	5.50%	19.81%	39.90%	(21.00)%	(3.68)%
Market Value, End of Period	$ 8.21	$ 8.03	$ 9.02	$ 8.00	$ 6.85	$ 10.79
Total Investment Return++	6.93%	0.66%	24.04%	28.58%	(28.36)%	10.32%

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	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005	2004	2003	2002	2001
RATIOS AND SUPPLEMENTAL DATA:						
Net assets including liquidation value of preferred shares, end of period (in 000 s)	$ 1,802,858	$ 1,764,634	$ 1,638,225	$ 1,514,525	$ 1,271,600	$ 1,465,369
Net assets attributable to common shares, end of period (in 000 s)	$ 1,425,366	$ 1,345,891	$ 1,219,483	$ 1,094,525	$ 842,403	$ 1,166,171
Ratio of net investment income to average net assets attributable to common shares	2.82%[g]	1.27%	0.64%	0.67%	0.99%	0.81%
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction[b]	1.45%[g]	1.39%	1.57%	1.62%	1.19%	1.12%
RATIOS AND SUPPLEMENTAL DATA:						
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction[b]	1.12%[g]	1.04%	1.14%	1.14%	0.87%	0.95%
Portfolio turnover rate	7.4%	22.4%	28.6%	19.2%	27.1%	23.9%
PREFERRED STOCK:						
7.25% CUMULATIVE PREFERRED STOCK						
Liquidation value, end of period (in 000 s)					$ 134,198	$ 134,198
Total shares outstanding (in 000 s)					5,368	5,368
Liquidation preference per share					$ 25.00	$ 25.00
Average market value[c]					$ 25.75	$ 25.39
Asset coverage per share					$ 74.07	$ 122.44
7.20% CUMULATIVE PREFERRED STOCK						

Liquidation value, end of period (in 000 s)	$	123,750	$	165,000	$	165,000	$	165,000	$	165,000	$	165,000
Total shares outstanding (in 000 s)		4,950		6,600		6,600		6,600		6,600		6,600
Liquidation preference per share	$	25.00	$	25.00	$	25.00	$	25.00	$	25.00	$	25.00
Average market value[c]	$	25.23	$	25.92	$	26.57	$	27.06	$	26.40	$	25.60
Asset coverage per share	$	119.40	$	105.35	$	97.81	$	90.15	$	74.07	$	122.44
AUCTION RATE SERIES C CUMULATIVE PREFERRED STOCK												
Liquidation value, end of period (in 000 s)	$	130,000	$	130,000	$	130,000	$	130,000	$	130,000		
Total shares outstanding (in 000 s)		5		5		5		5		5		
Liquidation preference per share	$	25,000	$	25,000	$	25,000	$	25,000	$	25,000		
Average market value[c]	$	25,000	$	25,000	$	25,000	$	25,000	$	25,000		
Asset coverage per share	$	119,397	$	105,353	$	97,806	$	90,150	$	74,068		
5.875% SERIES D CUMULATIVE PREFERRED STOCK												
Liquidation value, end of period (in 000 s)	$	73,743	$	73,743	$	73,743	$	75,000				
Total shares outstanding (in 000 s)		2,950		2,950		2,950		3,000				
Liquidation preference per share	$	25.00	$	25.00	$	25.00	$	25.00				
Average market value[c]	$	23.87	$	24.82	$	24.81	$	25.10				
Asset coverage per share	$	119.40	$	105.35	$	97.81	$	90.15				
AUCTION RATE SERIES E CUMULATIVE PREFERRED STOCK												
Liquidation value, end of period (in 000 s)	$	50,000	$	50,000	$	50,000	$	50,000				
Total shares outstanding (in 000 s)		2		2		2		2				
Liquidation preference per share	$	25,000	$	25,000	$	25,000	$	25,000				
Average market value[c]	$	25,000	$	25,000	$	25,000	$	25,000				
Asset coverage per share	$	119,397	$	105,353	$	97,806	$	90,150				
ASSET COVERAGE[d]		478%		421%		391%		361%		296%		490%

+ Based on net asset value per share, adjusted for reinvestment of distributions, at prices dependent upon the relationship of the net asset value per share and the market value per share on the ex-dividend dates, including the effect of shares issued pursuant to 2001 and 2005 rights offerings, assuming full subscription by shareholder. Total return for the period of less than one year is not annualized.

++ Based on market value per share, adjusted for reinvestment of distributions, including the effect of shares issued pursuant to 2001 and 2005 rights offerings, assuming full subscription by shareholder. Total return for the period of less than one year is not annualized.

(a) Calculated based upon average common shares outstanding on the record dates throughout the periods.

(b) The ratios do not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including such custodian fee credits for the six months ended June 30, 2006 and the years ended December 31, 2002 and 2001, the ratios of operating expenses to average net assets attributable to common

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shares net of fee reduction would have been 1.44%, 1.19% and 1.11%, respectively, and the ratios of operating expenses to average total net assets including liquidation value of preferred shares net of fee reduction would have been 1.12%, 0.87%, and 0.94%, respectively. For the fiscal years ended December 31, 2005, 2004 and 2003, the effect of the custodian fee credits was minimal.

(c) Based on weekly prices.

(d) Asset coverage is calculated by combining all series of preferred stock.

(e) Based on fiscal year to date book income. Amounts are subject to change and recharacterization at fiscal year-end.

(f) Amount represents less than $0.005 per share.

(g) Annualized.

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USE OF PROCEEDS

The net proceeds of the offering are estimated at approximately $144,765,000, after deduction of the estimated underwriting discounts and estimated offering expenses payable by the Fund. The Fund intends to use the net proceeds to redeem shares of the Series B Preferred, of which there are currently 4,950,000 shares outstanding with a liquidation preference of $25 per share. If the amount raised in the offering exceeds the amount of Series B Preferred outstanding, the excess amount will be invested in accordance with the investment objectives and policies of the Fund. The Fund intends to redeem shares of Series B Preferred (and, if there are excess proceeds, invest those proceeds in accordance with the Fund s investment objectives and policies) within three months of the completion of the offering; however, changes in market conditions, including, in particular, factors affecting interest rates and the securities in which the Fund invests, could result in this period being as long as six months.

THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Maryland corporation on May 20, 1986. The Fund commenced its investment operations on August 21, 1986. The Fund s principal office is located at One Corporate Center, Rye, New York 10580-1422.

As of September 30, 2006, the Fund had 167,642,009 shares of common stock outstanding. Pursuant to an amendment to the Fund s Articles of Incorporation that was approved by stockholders in 2004, the Board may increase or decrease the aggregate number of shares of stock of the Fund or the number of shares of stock of any class or series that the Fund has authority to issue without stockholder approval. The Fund is currently authorized to issue 252,000,000 shares of common stock, par value $0.001 per share. The common stock currently trades on the NYSE under the symbol GAB. Prior to its redemption on June 17, 2003, the Series A Preferred was listed and traded on the NYSE under the symbol GAB Pr. The Series B Preferred is listed and traded on the NYSE under the symbol GAB PrB and Series D Preferred is listed and traded on the NYSE under the symbol GAB PrD . The Series C and Series E Auction Rate Preferred are not traded on any exchange.

The following table provides information about the Fund s outstanding stock as of September 30, 2006.

Title Of Class	**Amount Authorized ***	**Amount Outstanding ***
Common Stock	252,000,000	167,642,009
Series A Preferred	5,367,900	0
Series B Preferred	6,600,000	4,950,000
Series C Auction Rate Preferred	5,200	5,200
Series D Preferred	3,000,000	2,949,700
Series E Auction Rate Preferred	2,000	2,000
Preferred Stock	3,024,900	0

* Does not include the Series F Preferred being offered pursuant to this prospectus.

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CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of September 30, 2006, and its adjusted capitalization assuming the Series F Preferred offered in this prospectus had been issued.

	As of September 30, 2006 Actual	As of September 30, 2006 As Adjusted
	(Unaudited)	
Preferred stock, $0.001 par value per share, 18,000,000 shares authorized as of September 30, 2006 and 24,000,000 shares As Adjusted (the Actual column reflects the Fund s outstanding capitalization as of September 30, 2006; the As Adjusted column assumes the issuance of 6,000,000 shares of Series F Preferred, $25 liquidation preference)	$ 377,492,500	$ 527,492,500
Shareholders equity applicable to common stock:		
Common stock, $0.001 par value per share; 252,000,000 shares authorized as of September 30, 2006; and 246,000,000 shares As Adjusted ; 167,642,009 shares outstanding	167,642	167,642
Paid-in surplus *	1,069,995,506	1,064,760,506
Distribution in excess of net investment income and net realized gains on investments	(7,800,361)	(7,800,361)
Net unrealized appreciation	396,358,020	396,358,020
Net assets attributable to common stock	1,458,720,807	1,453,485,807
Liquidation preference of preferred stock	377,492,500	527,492,500
Net assets, plus the liquidation preference of preferred stock	$ 1,836,213,307	$ 1,980,978,307

* Paid-in surplus, as adjusted, reflects a deduction for the estimated underwriting discounts of $4,725,000 and estimated offering expenses of the Series F Preferred issuance of $510,000.

For financial reporting purposes, the Fund is required to deduct the liquidation preference of its outstanding preferred stock from net assets, so long as the senior securities have redemption features that are not solely within the control of the Fund. For all regulatory purposes, the Fund s preferred stock will be treated as equity (rather than debt).

INVESTMENT OBJECTIVES AND POLICIES

Investment Objectives

The Fund s primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective. The investment objectives of long-term growth of capital and income are fundamental policies of the Fund. These fundamental policies and the investment limitations described in the SAI under the caption Investment Restrictions cannot be changed without the approval of the holders of a majority of the Fund s outstanding shares of preferred stock voting as a separate class and the approval of the holders of a majority of the Fund s outstanding voting securities. Such majority votes require, in each case, the lesser of (i) 67% of the Fund s applicable shares represented at a meeting at which more than 50% of the Fund s applicable shares outstanding are represented, whether in person or by proxy, or (ii) more than 50% of the outstanding shares of the applicable class.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The 80% Policy may be changed without stockholder approval. The Fund will provide stockholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

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The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in fixed-income securities rated as low as C by Moody s or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody s are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

No assurance can be given that the Fund s investment objectives will be achieved.

Investment Methodology of the Fund

In selecting securities for the Fund, the Investment Adviser normally will consider the following factors, among others:

- the Investment Advisers own evaluations of the private market value, cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;
- the potential for capital appreciation of the securities;
- the interest or dividend income generated by the securities;
- the prices of the securities relative to other comparable securities;
- whether the securities are entitled to the benefits of call protection or other protective covenants;
- the existence of any anti-dilution protections or guarantees of the security; and
- the diversification of the portfolio of the Fund as to issuers.

The Investment Adviser s investment philosophy with respect to equity securities is to identify assets that are selling in the public market at a discount to their private market value. The Investment Adviser defines private market value as the value informed purchasers are willing to pay to acquire assets with similar characteristics. The Investment Adviser also normally evaluates an issuer s free cash flow and long-term earnings trends. Finally, the Investment Adviser looks for a catalyst, something indigenous to the company, its industry or country, that will surface additional value.

Certain Investment Practices

Foreign Securities. The Fund may invest up to 35% of its total assets in foreign securities. Among the foreign securities in which the Fund may invest are those issued by companies located in developing countries, which are countries in the initial stages of their industrialization cycles. Investing in the equity and debt markets of developing countries involves exposure to economic structures that are generally less diverse and less mature, and to political systems that may have less stability, than those of developed countries. The markets of developing countries historically have been more volatile than the markets of the more mature economies of developed countries, but often have provided higher rates of return to investors.

The Fund may also invest in the debt securities of foreign governments. Although such investments are not a principal strategy of the Fund, there is no independent limit on its ability to invest in the debt securities of foreign governments.

Temporary Defensive Investments. Subject to the Fund s investment restrictions, when a temporary defensive period is believed by the Investment Adviser to be warranted (temporary defensive periods), the Fund may, without limitation, hold cash or invest its assets in securities of United States government sponsored instrumentalities, in repurchase agreements in respect of those instruments, and in certain high-grade commercial paper instruments. During temporary defensive periods the Fund may also invest in money market mutual funds that invest primarily in securities of United States government sponsored instrumentalities and repurchase agreements in respect of those instruments. Under current law, in the absence of an exemptive order, such money market mutual funds will not be affiliated with the Investment Adviser. Obligations of certain agencies and instrumentalities of the United States government, such as the Government National Mortgage Association, are supported by the full faith and credit of the United States government; others, such as those of the Export-Import Bank of the United States, are supported by the right of the issuer to borrow from the United States Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the United States government to purchase the agency s obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the United States government would provide financial support to United States government sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may be less likely to achieve its secondary investment objective of income.

Lower Rated Securities. The Fund may invest up to 10% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, including securities rated as low as C by Moody s or D by S&P or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody s are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date.

Generally, lower rated securities and unrated securities of comparable quality offer a higher current yield than is offered by higher rated securities, but also (i) will likely have some quality and protective characteristics that, in the judgment of the ratings organizations, are outweighed by large uncertainties or major risk exposures to adverse conditions and (ii) are predominantly speculative with respect to the issuer s capacity to pay interest and repay principal in accordance with the terms of the obligation. The market values of certain of these securities also tend to be more sensitive to individual corporate developments and changes in economic conditions than higher quality bonds. In addition, such lower rated securities and comparable unrated securities generally present a higher degree of credit risk. The risk of loss due to default by these issuers is significantly greater because such lower rated securities and unrated securities of comparable quality generally are unsecured and frequently are subordinated to the prior payment of senior indebtedness. In light of these risks, the Investment Adviser, in evaluating the creditworthiness of an issue, whether rated or unrated, will take various factors into consideration, which may include, as applicable, the issuer s operating history, financial resources, its sensitivity to economic conditions and trends, the market support for the facility financed by the issue, the perceived ability and integrity of the issuer s management and regulatory matters.

In addition, the market value of securities in lower rated categories is more volatile than that of higher quality securities, and the markets in which such lower rated or unrated securities are traded are more limited than those in which higher rated securities are traded. The existence of limited markets may make it more difficult for the Fund to obtain accurate market quotations for purposes of valuing its portfolio and calculating its net asset value. Moreover, the lack of a liquid trading market may restrict the availability of securities for the Fund to purchase and may also have the effect of limiting the ability of the Fund to sell securities at their fair value to respond to changes in the economy or the financial markets.

Lower rated debt obligations also present risks based on payment expectations. If an issuer calls the obligation for redemption (often a feature of fixed income securities), the Fund may have to replace the security with a lower yielding security, resulting in a decreased return for investors. Also, in the event of rising interest rates, as the principal values of bonds move inversely with movements in interest rates, the value of the securities held by the Fund may decline proportionately more than a portfolio consisting of higher rated securities. Investments in zero coupon bonds may be more speculative and subject to greater fluctuations in value due to changes in interest rates than bonds that pay interest currently.

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As part of its investments in lower grade fixed-income securities, the Fund may invest in securities of issuers in default. The Fund will only make an investment in securities of issuers in default when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection and that the value of these securities will appreciate. By investing in the securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not appreciate.

Futures Contracts and Options on Futures. On behalf of the Fund, the Investment Adviser may, subject to the Fund s investment restrictions and guidelines of the Board, purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes. These futures contracts and related options may be on debt securities, financial indices, securities indices, United States government securities and foreign currencies. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future.

The Investment Adviser has claimed an exclusion from the definition of the term commodity pool operator under the Commodity Exchange Act and therefore is not subject to the registration requirements under the Commodity Exchange Act. Accordingly, the Fund s investments in derivative instruments are not limited by or subject to regulation under the Commodity Exchange Act or otherwise regulated by the Commodity Futures Trading Commission. Nevertheless, the Fund s investment restrictions place certain limitations and prohibitions on its ability to purchase or sell commodities or commodity contracts. In addition, investment in futures contracts and related options generally will be limited by the rating agency guidelines applicable to any of the Fund s outstanding preferred stock.

Forward Currency Exchange Contracts. Subject to guidelines of the Board, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of currency exchange rates. The Fund may enter into such contracts on a spot, i.e., cash, basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund s dealings in forward contracts generally will be limited to hedging involving either specific transactions or portfolio positions. The Fund does not have an independent limitation on its investments in foreign currency futures contracts and options on foreign currency futures contracts.

Repurchase Agreements. The Fund may enter into repurchase agreements with banks and non-bank dealers of United States government securities which are listed as reporting dealers of the Federal Reserve Bank and which furnish collateral at least equal in value or market price to the amount of their repurchase obligation. In a repurchase agreement, the Fund purchases a debt security from a seller who undertakes to repurchase the security at a specified resale price on an agreed future date. Repurchase agreements are generally for one business day and generally will not have a duration of longer than one week. The Commission has taken the position that, in economic reality, a repurchase agreement is a loan by a fund to the other party to the transaction secured by securities transferred to the fund. The resale price generally exceeds the purchase price by an amount which reflects an agreed upon market interest rate for the term of the repurchase agreement. The Fund s risk is primarily that, if the seller defaults, the proceeds from the disposition of the underlying securities and other collateral for the seller s obligation may be less than the repurchase price. If the seller becomes insolvent, the Fund might be delayed in or prevented from selling the collateral. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. To the extent that the proceeds from any sale of the collateral upon a default in the obligation to repurchase is less than the repurchase price, the Fund will experience a loss. If the financial institution that is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund s ability to sell the collateral and the Fund could suffer a loss.

Loans of Portfolio Securities. To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan will cause the value of all loaned securities to exceed 20% of the value of its total assets. If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially.

While these loans of portfolio securities will be made in accordance with guidelines approved by the Fund s Board, there can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Fund, and any gain or loss in the market price during the loan would inure to the Fund. If the counterparty to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the Fund s rights is unsettled. As a result, under these circumstances, there may be a restriction on the Fund s ability to sell the collateral and it would suffer a loss.

Borrowing. The Fund may borrow money in accordance with its investment restrictions, including as a temporary measure for extraordinary or emergency purposes. It may not borrow for investment purposes.

Leveraging. As provided in the 1940 Act, and subject to compliance with the Fund s investment limitations, the Fund may issue senior securities representing stock, such as preferred stock, so long as immediately following such issuance of stock, its total assets exceed 200% of the amount of such stock. The use of leverage magnifies the impact of changes in net asset value. For example, a fund that uses 33% leverage will show a 1.5% increase or decline in net asset value for each 1% increase or decline in the value of its total assets. In addition, if the cost of leverage exceeds the return on the securities acquired with the proceeds of leverage, the use of leverage will diminish, rather than enhance, the return to the Fund. The use of leverage generally increases the volatility of returns to the Fund.

Further information on the investment objectives and policies of the Fund is set forth in the SAI.

Investment Restrictions. The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Fund s respective Articles Supplementary of the Series B, C, D, E, and F Preferred, a majority, as defined in the 1940 Act, of the outstanding preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy, as defined in the 1940 Act. The Fund s investment restrictions are more fully discussed under Investment Restrictions in the SAI.

Portfolio Turnover. The Fund does not engage in the trading of securities for the purpose of realizing short-term profits, but adjusts its portfolio as it deems advisable in view of prevailing or anticipated market conditions to accomplish its investment objectives. A high rate of portfolio turnover involves correspondingly greater brokerage commission expenses than a lower rate, and such expenses must be borne by the Fund and its stockholders. High portfolio turnover may also result in the realization of substantial net short-term capital gains and any distributions resulting from such gains will be taxable at ordinary income rates for United States federal income tax purposes. The Fund s portfolio turnover rates for the fiscal years ended December 31, 2004 and 2005 were 28.6% and 22.4%, respectively. The portfolio turnover rate is calculated by dividing the lesser of sales or purchases of portfolio securities by the average monthly value of a fund s portfolio securities. For purposes of this calculation, portfolio securities exclude purchases and sales of debt securities having a maturity at the date of purchase of one year or less.

RISK FACTORS AND SPECIAL CONSIDERATIONS

Investors should consider the following risk factors and special considerations associated with investing in the Fund:

Risks Associated with the Series F Preferred

There are a number of risks associated with an investment in the Series F Preferred:

The market price for the Series F Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series F Preferred and other factors.

A preliminary application has been made to list the Series F Preferred on the NYSE. Prior to this offering, there has been no public market for the Series F Preferred. However, during an initial period which is not expected to exceed 30 days after the date of its issuance, the Series F Preferred will not be listed on any securities exchange. During such 30-day period, the underwriters may make a market in the Series F Preferred; however, they have no obligation to do so. Consequently, the Series F Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series F Preferred being liquid at any time.

The credit rating on the Series F Preferred could be reduced or withdrawn while an investor holds shares, and the credit rating does not eliminate or mitigate the risks of investing in the Series F Preferred. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series F Preferred.

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to make distributions on the Series F Preferred.

The value of the Fund s investment portfolio may decline, reducing the asset coverage for the Series F Preferred. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer s preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income received from and/or asset value of the Fund s investment portfolio. In such circumstances, the Fund may be forced to mandatorily redeem shares of the Series F Preferred.

The Fund generally may redeem the Series F Preferred at any time after November 10, 2011 and may at any time redeem shares of Series F Preferred to meet regulatory or rating agency requirements. The Series F Preferred is subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series F Preferred. Subject to such circumstances, the Series F Preferred is perpetual.

The Series F Preferred is not an obligation of the Fund. The Series F Preferred would be junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund. Although unlikely, precipitous declines in the value of the Fund s assets could result in the Fund having insufficient assets to redeem all of the Series F Preferred for the full redemption price.

Leverage Risk. The Fund uses financial leverage for investment purposes by issuing preferred stock. It is currently anticipated that taking into account the Series F Preferred being offered in this prospectus, the amount of leverage will represent approximately 27% of the Fund s total assets. If the proposed spin-off of a portion of the Fund s assets (see

Additional Information) were to occur, subject to regulatory and shareholder approval, the amount of leverage as a percentage of Fund total assets would increase because the Fund s managed assets would decrease by the amount contributed to the spin-off fund. The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage for the Series F Preferred. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make distributions on the preferred stock, or to redeem preferred stock, when it may be disadvantageous to do so. Also, if the Fund

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is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions and such a failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code. See Taxation.

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund s net assets, which include for this purpose assets attributable to the aggregate net asset value of the common stock plus assets attributable to any outstanding preferred stock with no deduction for the liquidation preference of any preferred stock, the fee may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Existing Preferred and the Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for any series of preferred stock exceeds the total return (based on net asset value) on the Fund s common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder s total return. This fee waiver is voluntary and may be discontinued at any time. The Fund s total return on the net asset value of common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets.

For the year ended December 31, 2005, the Fund s total return on the net asset value of the common stock exceeded the stated dividend rate or net swap expense of the Series C Auction Rate Preferred and Series E Auction Rate Preferred. Thus, management fees were accrued on these assets. The Fund s total return on the net asset value of the common stock did not exceed the stated dividend rate or net swap expense of the Series B Preferred and Series D Preferred. Thus, management fees with respect to the liquidation value of those preferred assets were reduced by $2,387,425.

Restrictions on Dividends and Other Distributions. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the common stock and preferred stock (including the Series F Preferred), both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund s ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred stock (including the Series F Preferred) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See Taxation in the SAI.

Risks of Investing in the Fund

Common Stock Distribution Policy Risk. The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Series F Preferred (as well as the Existing Preferred). Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2005, the Fund made distributions of $0.85 per share of common stock, none of which constituted a return of capital. The Fund has made distributions of $0.58 per share of common stock for the current year through September 30, 2006. The

Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to holders of common stock during nine of the twenty fiscal years since the Fund s inception has constituted a return of capital. The composition

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of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year s common stock distributions will be based on the Fund s investment activity through December 31, 2006.

Value Investing Risk. The Fund invests in dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks. These securities generally are selected on the basis of an issuer s fundamentals relative to current market price. Such securities are subject to the risk of mis-estimation of certain fundamental factors. In addition, during certain time periods market dynamics may strongly favor growth stocks of issuers that do not display strong fundamentals relative to market price based upon positive price momentum and other factors. Disciplined adherence to a value investment mandate during such periods can result in significant underperformance relative to overall market indices and other managed investment vehicles that pursue growth style investments and/or flexible equity style mandates.

Non-Diversified Status. The Fund is classified as a non-diversified investment company under the 1940 Act, which means it is not limited by the 1940 Act as to the proportion of its assets that may be invested in the securities of a single issuer. However, the Fund has in the past conducted and intends to conduct its operations so as to qualify as a regulated investment company, or RIC, for purposes of the Code, which will relieve it of any liability for federal income tax to the extent its earnings are distributed to stockholders. To qualify as a regulated investment company, among other requirements, the Fund will limit its investments so that, with certain exceptions, at the close of each quarter of the taxable year:

not more than 25% of the value of its total assets will be invested in the securities (other than United States government securities or the securities of other RICs) of a single issuer, or of any two or more issuers that the Fund controls and which are determined to be engaged in the same, similar or related trades or businesses or in the securities of one or more qualified publicly traded partnerships (as defined in the Code); and

at least 50% of the value of the Fund s assets will be represented by cash, securities of other regulated investment companies, United States government securities and other securities, with such other securities limited in respect of any one issuer to an amount not greater than 5% of the value of the Fund s assets and not more than 10% of the outstanding voting securities of such issuer.

As a non-diversified investment company, the Fund may invest in the securities of individual issuers to a greater degree than a diversified investment company. As a result, the Fund may be more vulnerable to events affecting a single issuer and therefore subject to greater volatility than a fund that is more broadly diversified. Accordingly, an investment in the Fund may present greater risk to an investor than an investment in a diversified company.

Market Value and Net Asset Value. The Fund is a non-diversified, closed-end management investment company. Shares of closed-end funds are bought and sold in the securities markets and may trade at either a premium to or discount from net asset value. Listed shares of closed-end investment companies often trade at discounts from net asset value. This characteristic of stock of a closed-end fund is a risk separate and distinct from the risk that its net asset value will decrease. The Fund cannot predict whether its listed stock will trade at, below or above net asset value. Since inception, the Fund s shares of common stock have traded at both premiums to and discounts from net asset value. As of September 30, 2006, the shares traded at a premium of 0.69%. Stockholders desiring liquidity may, subject to applicable securities laws, trade their Fund stock on the NYSE or other markets on which such stock may trade at the then-current market value, which may differ from the then-current net asset value. Stockholders will incur brokerage or other transaction costs to sell stock.

Industry Concentration Risk. The Fund may invest up to 25% of its total assets in securities of a single industry. Should the Fund choose to do so, the net asset value of the Fund will be more susceptible to factors affecting those particular types of companies, which, depending on the particular industry, may include, among others: governmental regulation; inflation; cost increases in raw materials, fuel and other operating expenses;

technological innovations that may render existing products and equipment obsolete; and increasing interest rates resulting in high interest costs on borrowings needed for capital investment, including costs associated with compliance with environmental and other regulations. In such circumstances the Fund s investments may be subject to greater risk and market fluctuation than a fund that had securities representing a broader range of industries.

Special Risks Related to Preferred Securities. There are special risks associated with the Fund s investing in preferred securities, including:

Deferral. Preferred securities may include provisions that permit the issuer, at its discretion, to defer dividends or distributions for a stated period without any adverse consequences to the issuer. If the Fund owns a preferred security that is deferring its dividends or distributions, the Fund may be required to report income for tax purposes although it has not yet received such income.

Non-Cumulative Dividends. Some preferred securities are non-cumulative, meaning that the dividends do not accumulate and need not ever be paid. A portion of the portfolio may include investments in non-cumulative preferred securities, whereby the issuer does not have an obligation to make up any arrearages to its shareholders. Should an issuer of a non-cumulative preferred security held by the Fund determine not to pay dividends or distributions on such security, the Fund s return from that security may be adversely affected. There is no assurance that dividends or distributions on non-cumulative preferred securities in which the Fund invests will be declared or otherwise made payable.

Subordination. Preferred securities are subordinated to bonds and other debt instruments in an issuer s capital structure in terms of priority to corporate income and liquidation payments, and therefore will be subject to greater credit risk than more senior debt security instruments.

Liquidity. Preferred securities may be substantially less liquid than many other securities, such as common stocks or U.S. Government securities.

Limited Voting Rights. Generally, preferred security holders (such as the Fund) have no voting rights with respect to the issuing company unless preferred dividends have been in arrears for a specified number of periods, at which time the preferred security holders may be entitled to elect a number of trustees to the issuer s board. Generally, once all the arrearages have been paid, the preferred security holders no longer have voting rights.

Special Redemption Rights. In certain varying circumstances, an issuer of preferred securities may redeem the securities prior to a specified date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. A redemption by the issuer may negatively impact the return of the security held by the Fund.

Market Disruption Risk. Certain events have a disruptive effect on the securities markets, such as terrorist attacks, war and other geopolitical events. The Fund cannot predict the effects of similar events in the future on the U.S. economy. Lower rated securities and securities of issuers with smaller market capitalizations tend to be more volatile than higher rated securities and securities of issuers with larger market capitalizations so that these events and any actions resulting from them may have a greater impact on the prices and volatility of lower rated securities and securities of issuers with smaller market capitalizations than on higher rated securities and securities of issuers with larger market capitalization.

Interest Rate Transactions. The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred and may enter into an interest rate swap or cap transaction with respect to its outstanding Series E Auction Rate Preferred. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See How the Fund Manages Risk Interest Rate Transactions.

Foreign Securities. The Fund may invest up to 35% of its total assets in securities of foreign issuers. Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to United States companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad and it may be difficult to effect repatriation of capital invested in certain countries. With respect to certain countries, there are also risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries. Dividend income the Fund receives from foreign securities may not be eligible for the special tax treatment applicable to qualified dividend income.

There may be less publicly available information about a foreign company than a United States company. Foreign securities markets may have substantially less volume than United States securities markets and some foreign company securities are less liquid than securities of otherwise comparable United States companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-United States securities markets and the increased costs of maintaining the custody of foreign securities.

The Fund also may purchase sponsored American Depositary Receipts (ADRs) or United States dollar denominated securities of foreign issuers. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs. In addition, the underlying issuers of certain depositary receipts, particularly unsponsored or unregistered depositary receipts, are under no obligation to distribute shareholder communications to the holders of such receipts, or to pass through to them any voting rights with respect to the deposited securities.

Smaller Companies. The Fund may invest in smaller companies which may benefit from the development of new products and services. These smaller companies may present greater opportunities for capital appreciation, and may also involve greater investment risk than larger, more established companies. For example, smaller companies may have more limited product lines, market or financial resources and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of other issuers.

Investment Companies. The Fund may invest in the securities of other investment companies to the extent permitted by law. To the extent the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment company s expenses, including management fees. The Fund will also remain obligated to pay management fees to the Investment Adviser with respect to the assets invested in the securities of other investment companies. In these circumstances holders of the Fund s common stock will be subject to duplicative investment expenses.

Lower Rated Securities. The Fund may invest up to 10% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies. These high yield securities, also sometimes referred to as junk bonds, generally pay a premium above the yields of United States government securities or debt securities of investment grade issuers because they are subject to greater risks than these securities. These risks, which reflect their speculative character, include the following:

greater volatility;

greater credit risk;

potentially greater sensitivity to general economic or industry conditions;

potential lack of attractive resale opportunities (illiquidity); and

additional expenses to seek recovery from issuers who default.

The market value of lower rated securities may be more volatile than the market value of higher rated securities and generally tends to reflect the market s perception of the creditworthiness of the issuer and short-term market developments to a greater extent than more highly rated securities, which primarily reflect fluctuations in general levels of interest rates.

Ratings are relative and subjective, and are not absolute standards of quality. Securities ratings are based largely on the issuer s historical financial condition and the rating agencies analysis at the time of rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer s current financial condition.

As a part of its investment in lower rated fixed-income securities, the Fund may invest in the securities of issuers in default. The Fund will invest in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations and emerge from bankruptcy protection and that the value of such issuers securities will appreciate. By investing in the securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of these securities will not appreciate.

Special Risks of Derivative Transactions. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser s prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. Risks inherent in the use of options, foreign currency, futures contracts and options on futures contracts, securities indices and foreign currencies include:

dependence on the Investment Adviser s ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;

the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

the possible absence of a liquid secondary market for any particular instrument at any time;

the possible need to defer closing out certain hedged positions to avoid adverse tax consequences; and

the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain cover or to segregate securities in connection with the hedging techniques.

Futures Transactions. Futures and options on futures entail certain risks, including but not limited to the following:

no assurance that futures contracts or options on futures can be offset at favorable prices;

possible reduction of the returns of the Fund due to the use of hedging;

possible reduction in value of both the securities hedged and the hedging instrument;

possible lack of liquidity due to daily limits or price fluctuations;

imperfect correlation between the contracts and the securities being hedged; and

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losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

For a further description, see Investment Objectives and Policies Investment Practices in the SAI.

Forward Currency Exchange Contracts. The use of forward currency contracts may involve certain risks, including the failure of the counterparty to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see Investment Objectives and Policies Investment Practices in the SAI.

Counterparty Risk. The Fund will be subject to credit risk with respect to the counterparties to the derivative contracts purchased by the Fund. If a counterparty becomes bankrupt or otherwise fails to perform its obligations under a derivative contract due to financial difficulties, the Fund may experience significant delays in obtaining any recovery under the derivative contract in bankruptcy or other reorganization proceedings. The Fund may obtain only a limited recovery or may obtain no recovery in such circumstances.

Loans of Portfolio Securities. Consistent with applicable regulatory requirements and the Fund s investment restrictions, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions, provided that such loans are callable at any time by the Fund (subject to notice provisions described in the SAI) and are at all times secured by cash or cash equivalents, which are maintained in a segregated account pursuant to applicable regulations and that are at least equal to the market value, determined daily, of the loaned securities. The advantage of such loans is that the Fund continues to receive the income on the loaned securities while at the same time earning interest on the cash amounts deposited as collateral, which will be invested in short-term obligations. The Fund will not lend its portfolio securities if such loans are not permitted by the laws or regulations of any state in which its shares are qualified for sale. The Fund s loans of portfolio securities will be collateralized in accordance with applicable regulatory requirements.

For a further description of such loans of portfolio securities, see Investment Objective and Policies Certain Investment Practices Loans of Portfolio Securities.

Management Risk. The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results.

Dependence on Key Personnel. Mario J. Gabelli serves as the Fund s portfolio manager. The Investment Adviser is dependent upon the expertise of Mr. Gabelli in providing advisory services with respect to the Fund s investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

Anti-Takeover Provisions of the Fund s Charter and By-Laws. The Fund s Charter and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund s Charter and By-Laws.

Status as A Regulated Investment Company. The Fund has qualified, and intends to remain qualified, for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions on the common stock if the Fund fails to satisfy the 1940 Act s asset coverage requirements could jeopardize the Fund s ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See Taxation for a more complete discussion of these and other federal income tax considerations.

HOW THE FUND MANAGES RISK

Investment Restrictions

The Fund has adopted certain investment limitations, some of which are fundamental policies of the Fund, designed to limit investment risk and maintain portfolio diversification. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority, as defined in the 1940 Act, of the outstanding voting securities of the Fund (voting together as a single class). In addition, pursuant to the Articles Supplementary of each of the series of preferred stock, a majority, as defined in the 1940 Act, of the outstanding shares of preferred stock of the Fund (voting separately as a single class) is also required to change a fundamental policy. The Fund may become subject to guidelines that are more limiting than its current investment restrictions in order to obtain and maintain ratings from Moody s and S&P on its preferred stock.

Interest Rate Transactions

The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred. The Fund may enter into interest rate swap or cap transactions with respect to all or a portion of its outstanding Series E Auction Rate Preferred. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for a series of the Auction Rate Preferred that is lower than the Fund would have to pay if it issued fixed rate preferred stock.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund s variable rate payment obligation on a series of the Auction Rate Preferred. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock dividends or distributions when due in accordance with the Articles Supplementary of the relevant series of the Auction Rate Preferred even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund s portfolio securities at that point in time, such a default could negatively affect the Fund s ability to make dividend or distribution payments on the Auction Rate Preferred. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund s ability to make dividend or distribution payments on the Auction Rate Preferred. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Auction Rate Preferred. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Articles Supplementary for each series of the preferred stock (including the Series F Preferred), if the Fund fails to maintain the required asset coverage on the outstanding preferred stock or fails to comply with other covenants, the Fund may, at its option (and in certain circumstances will be required to), mandatorily redeem some or all of these shares. The Fund generally may redeem either or both series of the Auction Rate Preferred, in whole or in part, at its option at any time (usually on a dividend or distribution payment date), other than during a non-call period. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund s net payment obligations under any swap transaction, marked to market daily. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

MANAGEMENT OF THE FUND

The Board (who, with its officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser.

Investment Management

Gabelli Funds, LLC, located at One Corporate Center, Rye, New York 10580-1422, serves as the investment adviser to the Fund pursuant to an investment advisory agreement (described below in Advisory Agreement). The Investment Adviser was organized in 1999 and is the successor to Gabelli Funds, Inc., which was organized in 1980. As of June 30, 2006, the Investment Adviser acted as registered investment adviser to 27 management investment companies with aggregate net assets of $13.5 billion. The Investment Adviser, together with other affiliated investment advisers, had assets under management totaling approximately $26.8 billion as of June 30, 2006. GAMCO Asset Management Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments, and as a sub-adviser to management investment companies having aggregate assets of $12.3 billion under management as of June 30, 2006. Gabelli Securities, Inc., an affiliate of the Investment Adviser, acts as investment adviser for investment partnerships and entities having aggregate assets of approximately $500 million under management as of June 30, 2006. Gabelli Fixed Income LLC, an affiliate of the Investment Adviser, acts as investment adviser for separate accounts having aggregate assets of approximately $55 million under management as of June 30, 2006. Gabelli Advisers, Inc., an affiliate of the Investment Adviser, acts as investment manager to the Westwood Funds having aggregate assets of approximately $400 million under management as of June 30, 2006.

The Investment Adviser is a wholly-owned subsidiary of GAMCO Investors, Inc., a New York corporation whose Class A Common Stock is traded on the NYSE under the symbol GBL. Mr. Mario J. Gabelli may be deemed a controlling person of the Investment Adviser on the basis of his ownership of a majority of the stock of GGCP, Inc., which owns a majority of the capital stock of GAMCO Investors, Inc.

The Investment Adviser has sole investment discretion for the Fund s assets under the supervision of the Fund s Board and in accordance with the Fund s stated policies. The Investment Adviser will select investments for the Fund and will place purchase and sale orders on behalf of the Fund.

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Advisory Agreement, including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administration of the Fund (but excluding costs associated with the calculation of the net asset value), and the fees of all Directors of the Fund who are affiliated with the Investment Adviser. The Fund pays all other expenses incurred in its operation including, among other things, offering expenses, expenses for legal and Independent Registered Public Accounting Firm services, rating agency fees, costs of printing proxies, stock certificates and stockholder reports, charges of the custodian, any subcustodian, auction agent, transfer agent(s) and dividend disbursing agent expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, Commission fees, fees and expenses of unaffiliated directors, accounting and pricing costs, including costs of calculating the net asset value of the Fund, membership fees in trade associations, fidelity bond coverage for its officers and employees, directors and officers errors and omission insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses,

expenses of

qualifying its shares for sale in various states, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

Advisory Agreement

Under the terms of the Fund s Investment Advisory Agreement (the Advisory Agreement), the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, places orders to purchase and sell securities on behalf of the Fund and manages the Fund s other business and affairs, all subject to the supervision and direction of its Board. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund s business and affairs and provides, or arranges for others to provide, at the Investment Adviser s expense, certain enumerated services, including maintaining the Fund s books and records, preparing reports to its stockholders and supervising the calculation of the net asset value of its stock. All expenses of computing the Fund s net asset value, including any equipment or services obtained solely for the purpose of pricing shares of stock or valuing the Fund s investment portfolio, will be an expense of the Fund under the Advisory Agreement unless the Investment Adviser voluntarily assumes responsibility for such expense. During fiscal 2005, the Fund reimbursed the Investment Adviser $45,000 in connection with the cost of computing the Fund s net asset value.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed weekly and paid monthly at the annual rate of 1.00% of the Fund s average weekly net assets plus the liquidation value of any outstanding preferred stock. The Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Existing Preferred and the Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and management fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for any series of preferred stock exceeds the total return (based on net asset value) on the Fund s common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder s total return. This fee waiver is voluntary and may be discontinued at any time. The Fund s total return on the net asset value of its common stock is monitored on a monthly basis to assess whether the total return on the net asset value of its common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of outstanding preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those assets.

For the year ended December 31, 2005, the Fund s total return on the net asset value of the common stock exceeded the stated dividend rate or net swap expense of the Series C Auction Rate Preferred and Series E Auction Rate Preferred. Thus, management fees were accrued on these assets. The Fund s total return on the net asset value of the common stock did not exceed the stated dividend rate or net swap expense of the Series B Preferred and Series D Preferred. Thus, management fees with respect to the liquidation value of those preferred assets were reduced by $2,387,425.

The Advisory Agreement provides that in the absence of willful misfeasance, bad faith, gross negligence or reckless disregard of its obligations and duties thereunder, the Investment Adviser is not liable for any error of judgment or mistake of law or for any loss suffered by the Fund. As part of the Advisory Agreement, the Fund has agreed that the name Gabelli is the Investment Adviser s property, and that in the event the Investment Adviser ceases to act as an investment adviser to the Fund, the Fund will change its name to one not including Gabelli.

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Pursuant to its terms, the Advisory Agreement will remain in effect with respect to the Fund from year to year if approved annually (i) by the Fund s Board or by the holders of a majority of the Fund s outstanding voting securities and (ii) by a majority of the Directors who are not interested persons (as defined in the 1940 Act) of any party to the Advisory Agreement, by vote cast in person at a meeting called for the purpose of voting on such approval.

A discussion regarding the basis of the Board s approval of the Advisory Agreement is available in the Fund s semi-annual report to shareholders for the six months ended June 30, 2006.

Selection of Securities Brokers

The Advisory Agreement contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to Gabelli & Company, Inc. or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than Gabelli & Company, Inc. that are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Advisory Agreement, including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

Portfolio Managers

Mario J. Gabelli is currently and has been responsible for the day-to-day management of the Fund since its formation. Mr. Gabelli has served as Chief Investment Officer Value Portfolios of the Investment Adviser and its predecessor since 1980. Mr. Gabelli also serves as Portfolio Manager for several other funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli s responsibilities, he will devote less than all of his time to the day-to-day management of the Fund. Over the past five years, Mr. Gabelli has served as Chairman of the Board and Chief Executive Officer of GAMCO Investors, Inc.; Chief Investment Officer Value Portfolios of GAMCO Asset Management Inc; Vice Chairman of the Board of LGL Group, Inc. (until 2004), a diversified manufacturing company; and Chairman of the Board of Lynch Interactive Corporation, a multimedia and communications services company.

Additionally, as of September 30, 2006, Mr. Caesar M.P. Bryan managed approximately $93 million of the Fund s assets. Mr. Bryan has been a Senior Vice President and Portfolio Manager with GAMCO Asset Management Inc. (a wholly-owned subsidiary of GAMCO Investors, Inc.) and Portfolio Manager of the GAMCO Gold Fund, Inc. since May 1994 and the GAMCO International Growth Fund, Inc. since June 1995, Co-Portfolio Manager of the GAMCO Global Opportunity Fund since May 1998, Gold Companies Portfolio Manager of the Gabelli Global Gold, Natural Resources & Income Trust since March 2005, and a member of the GAMCO Global Growth Fund portfolio management team since September 2000.

The SAI provides additional information about the Portfolio Managers compensation, other accounts managed by the Portfolio Managers and the Portfolio Managers ownership of securities in the Fund.

Sub-Administrator

PFPC, Inc. (PFPC), located at 400 Bellevue Parkway, Wilmington, Delaware, 19809, serves as the Fund s sub-administrator. For these services and the related expenses borne by PFPC, the Investment Adviser pays a prorated monthly fee at the annual rate of 0.0275% of the first $10 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and administered by PFPC, 0.0125% of the aggregate average net assets exceeding $10 billion, and 0.01% of the aggregate average net assets in excess of $15 billion.

Regulatory Matters

The Fund received the following information from the Investment Adviser.

Over the past several years, the staff of the Commission (the Staff), the staff of the New York Attorney General s office (the NYAG) and officials of other states have been conducting industry-wide inquiries into, and bringing enforcement and other proceedings regarding, trading abuses involving open-end investment companies. The Investment Adviser and its affiliates have received information requests and subpoenas from the Staff and the NYAG in connection with these inquiries and have been complying with these requests for documents and testimony. The Investment Adviser has implemented additional compliance policies and procedures in response to recent industry initiatives and its internal reviews of its mutual fund practices in a variety of areas. The Investment Adviser has not found any information that it believes would be material to the ability of the Investment Adviser to fulfill its obligations under the Advisory Agreement. More specifically, the Investment Adviser has found no evidence of arrangements for trading in the Gabelli mutual funds after the 4:00 p.m. pricing time and no evidence of improper short-term trading in these funds by its investment professionals or senior executives. The Investment Adviser did find that one investor, who had been engaged in short-term trading in one of the Gabelli mutual funds (the prospectus of which did not at that time impose limits on short-term trading) and who had subsequently made an investment in a hedge fund managed by an affiliate of the Investment Adviser, was banned from the mutual fund only after certain other investors were banned. The Investment Adviser believes that this relationship was not material to the Investment Adviser. The Investment Adviser also found that certain discussions took place in 2002 and 2003 between the Investment Adviser s staff and personnel of an investment advisor regarding possible frequent trading in certain Gabelli domestic equity funds. In June 2006, the Investment Adviser began discussions with the Staff regarding a possible resolution of their inquiry. Since these discussions are ongoing, the Investment Adviser cannot determine whether they will ultimately result in a settlement of this matter and, if so, what the terms of the settlement might be. There can be no assurance that any resolution of this matter will not have a material adverse impact on the Investment Adviser or on its ability to fulfill its obligations under the Advisory Agreement.

The Investment Adviser was informed by the Staff that they may recommend to the Commission that the Investment Adviser be held accountable for the actions of two of the seven closed-end funds managed by the Investment Adviser relating to Section 19(a) and Rule 19a-1 of the 1940 Act. These provisions require registered investment companies to provide written statements to shareholders when a distribution is made from a source other than net investment income. While the two funds sent annual statements containing the required information and Form 1099-DIV statements as required by the IRS, the funds did not send written statements to shareholders with each distribution in 2002 and 2003. The closed-end funds managed by the Investment Adviser changed their notification procedures in 2004 and the Investment Adviser believes that all of the funds have been in compliance with Section 19(a) and Rule 19a-1 of the 1940 Act since that time. The Staff s notice to the Investment Adviser did not relate to the Fund. The Staff indicated that they may recommend to the Commission that administrative remedies be sought, including a monetary penalty. The Investment Adviser cannot predict whether an administrative proceeding will be instituted and, if so, what the ultimate resolution might be. The Investment Adviser currently expects that any resolution of this matter will not have a material effect on the Investment Adviser s ability to fulfill its obligations under the Advisory Agreement. If the Commission were to revoke the exemptive order that the Fund relies upon to make distributions of capital gains more frequently than annually, the Board may consider whether to modify or possibly eliminate the Fund s current distribution policy.

PORTFOLIO TRANSACTIONS

Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, Inc., an affiliate of the Investment Adviser, may execute portfolio transactions on stock exchanges and in the over-the-counter markets on an agency basis and receive a stated commission therefore. For a more detailed discussion of the Fund s brokerage allocation practices, see Portfolio Transactions in the SAI.

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DIVIDENDS AND DISTRIBUTIONS

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