GABELLI CONVERTIBLE & INCOME SECURITIES FUND INC
Form N-2/A
July 22, 2011

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As filed with the Securities and Exchange Commission on July 22, 2011

Securities Act File No. 333-174924

Investment Company Act File No. 811-05715

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form N-2

þ Registration Statement under the Securities Act of 1933

þ Pre-Effective Amendment No. 1

o Post-Effective Amendment No.

and/or

þ Registration Statement under the Investment Company Act of 1940

þ Amendment No. 14

(Check Appropriate Box or Boxes)

THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.
(Exact Name of Registrant as Specified in Charter)

One Corporate Center
Rye, New York 10580-1422
(Address of Principal Executive Offices)

(800) 422-3554
(Registrant s Telephone Number, Including Area Code)

Bruce N. Alpert
The Gabelli Convertible and Income Securities Fund Inc.
One Corporate Center
Rye, New York 10580-1422

(914) 921-5100
(Name and Address of Agent for Service)

Copies to:

Richard T. Prins, Esq.
Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

David M. Goldman, Esq.
The Gabelli Convertible and Income Securities Fund Inc.
One Corporate Center
Rye, New York 10580-1422
(914) 921-5100

Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. þ

It is proposed that this filing will become effective (check appropriate box)

þ When declared effective pursuant to section 8(c).

If appropriate, check the following box:

[ ] This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

[ ] This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount being Registered	Proposed Maximum Offering Price per Share	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee (1)
Common Shares, $0.001 par value (2)				
Preferred Shares, $0.001 par value (2)				
Notes (2)				
Subscription Rights for Common Shares (2)				
Subscription Rights for Preferred Shares (2)				

Total	[ ] Shares	$[ ]	$100 million	$11,610 (3)

(1) Estimated pursuant to Rule 457 solely for the purpose of determining the registration fee. The proposed maximum offering price per security will be determined, from time to time, by the Registrant in connection with the sale by the Registrant of the securities registered under this registration statement.

(2) There is being registered hereunder an indeterminate principal amount of common or preferred shares, notes, or subscription rights to purchase common or preferred shares as may be sold, from time to time. In no event will the aggregate offering price of all securities issued from time to time pursuant to this registration statement exceed $100,000,000.

(3) Previously paid in connection with the filing of the initial registration statement for these securities on May 17, 2011 (including an unused registration fee that was previously paid in connection with the filing of a registration statement for the Registrant on March 28, 2008).

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE SECURITIES AND EXCHANGE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer and sale is not permitted.

Subject to Completion,
Preliminary Base Prospectus dated July 22, 2011

PROSPECTUS

$100,000,000

The Gabelli Convertible and Income Securities Fund Inc.

Common Stock
Preferred Stock
Notes
Subscription Rights for Common or Preferred Shares

Investment Objectives. The Gabelli Convertible and Income Securities Fund Inc. (the Fund) is a diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund s investment objective is to seek a high level of total return on its assets. The Fund s investments are selected by its Investment Adviser, Gabelli Funds, LLC (the Investment Adviser). The Fund seeks to achieve its investment objective through a combination of current income and capital appreciation. Under normal circumstances the Fund will invest at least 80% of its total assets in securities that are convertible into or represent the right to acquire common stock, and in other debt or equity securities that are expected to periodically accrue or generate income for their holders. We cannot assure you that the Fund will achieve its investment objective.

We may offer, from time to time, in one or more offerings, our common stock or preferred stock, each with a par value of $0.001 per share (together, shares), our promissory notes (notes), or our subscription rights to purchase our common or preferred shares, which we refer to collectively as the securities. Securities may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our securities.

Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us, or to or through underwriters or dealers. The Prospectus Supplement relating to the offering will identify any agents or underwriters involved in the sale of our securities, and will set forth any applicable purchase price, fee, commission, or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred shares will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any sale of notes will set forth the principal amount, interest rate, interest payment dates, prepayment protections (if any) and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of common or preferred shares issuable upon the exercise of each right and the other terms of such rights offering. We may not sell any of our securities through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering of our securities. Our common shares are listed on the New York Stock Exchange (the NYSE) under the symbol GCV and our Series B Preferred Shares (Series B Preferred) are listed on the NYSE under the symbol GCV Pr B . On July 21, 2011, the last reported sale price of our common shares was $6.04 and the last reported sale prices of our Series B Preferred was $25.47. The net asset value of the Fund s common shares at the close of business on July 21, 2011 was $6.06 per share.

Shares of closed-end funds often trade at a discount from net asset value. This creates a risk of loss for an investor purchasing shares in a public offering.

Investing in the Fund s securities or notes involves risks. See Risk Factors and Special Considerations on page 28 for factors that should be considered before investing in securities or notes of the Fund.

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

This Prospectus may not be used to consummate sales of securities by us through agents, underwriters or dealers unless accompanied by a Prospectus Supplement.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing. You should read this Prospectus, which contains important information about the Fund, before deciding whether to invest in the securities, and retain it for future reference. A Statement of Additional Information, dated July 22, 2011, containing additional information about the Fund, has been filed with the SEC and is incorporated by reference in its entirety into this Prospectus. You may request a free copy of our annual and semi-annual reports, request a free copy of the Statement of Additional Information, the table of contents of which is on page 56 of this Prospectus, request other information about us and make shareholder inquiries by calling (800) GABELLI (422-3554) or by writing to the Fund, or obtain a copy (and other information regarding the Fund) from the SEC s web site (http://www.sec.gov).

Our securities do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are 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 or incorporated by reference in this Prospectus. The Fund has not authorized anyone to provide you with different information. The Fund is not making an offer to sell these securities in any state where the offer or sale is not permitted. You should not assume that the information contained in this Prospectus is accurate as of any date other than the date of this Prospectus.

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PROSPECTUS SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in our shares or notes. You should review the more detailed information contained in this Prospectus and the Statement of Additional Information, dated July 22, 2011 (the SAI).

The Fund

The Gabelli Convertible and Income Securities Fund Inc. is a closed-end, diversified management investment company organized as a Maryland corporation on December 19, 1988. Prior to March 31, 1995, The Gabelli Convertible and Income Securities Fund Inc. operated as an open-end, diversified, management investment company. Throughout this prospectus, we refer to The Gabelli Convertible and Income Securities Fund Inc. as the Fund or as we. See The Fund.

The Fund s outstanding common stock (common shares), par value $0.001 per share, is listed on the New York Stock Exchange under the symbol GCV. On July 21, 2011, the last reported sale price of our common shares was $$6.04. The net asset value of the Fund s common shares at the close of business on July 21, 2011 was $6.06 per share. As of June 30, 2011, the net assets of the Fund attributable to its common shares were $81,431,109. As of June 30, 2011, the Fund had outstanding 13,516,406 common shares and 965,548 shares of 6% Series B Cumulative Preferred Stock, liquidation preference $25 per share (the Series B Preferred). The Fund previously had 600,000 shares of Series A Preferred Stock (the Series A Preferred) outstanding and 1,000 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference $25,000 per share (the Series C Auction Rate Preferred); however all 600,000 shares of the Series A Preferred were redeemed by the Fund on February 11, 2003, and all 1,000 shares of Series C Auction Rate Preferred were redeemed by the Fund on June 25, 2008.

The Offering

We may offer, from time to time, in one or more offerings, our common or preferred shares (together, shares), each $0.001 par value per share, our notes, or our subscription rights to purchase our common or preferred shares. The preferred shares may either be fixed rate preferred shares or variable rate preferred shares, which are sometimes referred to as auction rate preferred shares. The securities may be offered at prices and on terms to be set forth in one or more supplements to this Prospectus (each a Prospectus Supplement). The offering price per share of our common stock will not be less than the net asset value per share of our common stock at the time we make the offering, exclusive of any underwriting commissions or discounts, provided that transferable rights offerings that meet certain conditions may be offered at a price below the then current net asset value. See Rights Offerings. You should read this Prospectus and the applicable Prospectus Supplement carefully before you invest in our securities. Our securities may be offered directly to one or more purchasers, through agents designated from time to time by us or to or through underwriters, or dealers. The Prospectus Supplement relating to the offering will identify any agents, underwriters, or dealers involved in the sale of our shares or notes, and will set forth any applicable purchase price, fee, commission or discount arrangement between us and our agents or underwriters, or among our underwriters, or the basis upon which such amount may be calculated. The Prospectus Supplement relating to any sale of preferred shares will set forth the liquidation preference and information about the dividend period, dividend rate, any call protection or non-call period and other matters. The Prospectus Supplement relating to any sale of notes will set forth the principal amount, interest rate, interest payment dates, prepayment protections (if any) and other matters. The Prospectus Supplement relating to any offering of subscription rights will set forth the number of common or preferred shares issuable upon the exercise of each right and the other terms of such rights offering. We may not sell any of our shares or notes through agents, underwriters or dealers without delivery of a Prospectus Supplement describing the method and terms of the particular offering.

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Investment Objective and Policies

The investment objective of the Fund is to seek a high level of total return on its assets. The Fund will seek to achieve this objective through a combination of current income and capital appreciation by investing primarily in convertible and other income producing securities.

Under normal circumstances the Fund will invest at least 80% of the value of its total assets (taken at current value) in convertible securities, (as described below), and income securities, i.e., nonconvertible debt or equity securities having a history of regular payments or accrual of income to holders. A convertible security is a bond, debenture, note, stock or other similar security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. Before conversion, convertible securities have characteristics similar to nonconvertible debt securities in that they ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities are senior in rank to common stock in a corporation s capital structure and, therefore, generally entail less risk than the corporation s common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security.

Convertible securities are generally not investment grade, that is, not rated within the four highest categories by S&P and Moody s. It is expected that not more than 50% of the Fund s portfolio will consist of securities rated CCC or lower by S&P or Caa or lower by Moody s or, if unrated, are of comparable quality as determined by the Investment Adviser.

The Fund may invest up to 20% of its total assets (taken at current value and subject to any restrictions appearing elsewhere in this Registration Statement) in any combination and quantity of securities that do not generate any income, such as common stocks that do not pay dividends. In selecting any of the foregoing securities for investment, the factors that will be considered by the Investment Adviser include the Investment Adviser s evaluation of the underlying value of the assets and business of the issuers of the securities, the potential for capital appreciation, the price of the securities, the issuer s balance sheet characteristics and the perceived skills and integrity of the issuer s management.

During periods when it is deemed necessary for temporary defensive purposes, the Fund may invest without limit in high quality money market instruments, including commercial paper of domestic and foreign corporations, certificates of deposit, bankers acceptances and other obligations of domestic and foreign banks and obligations issued or guaranteed by the United States government, its instrumentalities or agencies and, subject to statutory limitations, unaffiliated money market mutual funds, unless an exemptive order permits the Fund to invest in affiliated money market funds. The yield on these securities will, as a general matter, tend to be lower than the yield on other securities to be purchased by the Fund.

The Fund may invest up to 25% of its total assets in foreign securities. The Fund may also purchase sponsored American Depository Receipts (ADRs) or U.S. denominated securities of foreign issuers, which will not be included in the Fund s 25% foreign securities limitation. Among the foreign securities in which the Fund may invest are those issued by companies located in emerging markets.

The Fund will invest in securities across all market capitalization ranges. No assurance can be given that the Fund will achieve its investment objective.

Preferred Shares

Currently, 1,995,000 shares of the Fund s capital stock, which include the preferred shares being registered by this registration statement, have been classified by the Board of Directors of the Fund (the Board) or any duly authorized committee thereof as preferred shares, par value $0.001 per share. The Fund s Board may reclassify authorized and unissued shares of the Fund, previously classified as common shares, as preferred shares prior to the completion of any offering. The terms of each series of preferred shares may be fixed by the Board and may materially limit and/or qualify the rights of holders of the Fund s common shares. If the Fund s Board determines that it may be advantageous to the holders of the Fund s common shares for the Fund to utilize additional leverage, the Fund may issue additional series of fixed rate preferred shares or additional series of variable rate preferred shares. Any fixed rate preferred shares or variable rate preferred shares issued by the Fund will pay, as applicable, distributions at a fixed rate or at rates that will be reset frequently based on short-term interest rates. Leverage creates a greater risk of loss as well as a potential for more gains for the common shares than if leverage were not used. See Risk Factors and Special Considerations Leverage Risk.

Payments on Notes

General. Under Maryland law and our charter, we may borrow money without prior approval of holders of common and preferred shares. We may issue debt securities, including notes, or other evidence of indebtedness and may secure any such notes or borrowings by mortgaging, pledging or otherwise subjecting as security our assets to the extent permitted by the Investment Company Act of 1940, as amended (the 1940 Act) or rating agency guidelines. Any borrowings, including, without limitation, the notes, will rank senior to the preferred shares and the common shares.

Interest. The Prospectus Supplement will describe the interest payment provisions relating to notes. Interest on notes will be payable when due as described in the related Prospectus Supplement. If we do not pay interest when due, it will trigger an event of default and we will be restricted from declaring dividends and making other distributions with respect to our common shares and preferred shares.

Dividends and Distributions

Preferred Share Distributions. Under current law, all preferred shares 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 shares of the Fund for any dividend period, or part thereof, unless full cumulative dividends due through the most recent dividend payment dates for all series of outstanding preferred shares of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred shares of the Fund, any distributions on such preferred shares 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 shares on the relevant dividend date.

In the event that for any calendar year the total distributions on the Fund s preferred shares exceed the Fund s current and accumulated earnings and profits, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the shareholder s tax basis in his or her shares). Any return of capital that is a component of a distribution is not sourced from realized or unrealized profits of the Fund and that portion should not be considered by investors as yield or total return on their investment in the Fund. The amount treated as a tax-free return of capital will reduce a shareholder s adjusted tax basis in his or her preferred shares, thereby increasing the shareholder s potential taxable gain or reducing his or her potential taxable loss on the sale of the shares. The distributions to the Fund s preferred shareholders for the fiscal year ended December 31, 2010, were comprised exclusively of net investment income and did not include any 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 the end of the calendar year.

Fixed Rate Preferred Shares. Distributions on fixed rate preferred shares, at the applicable annual rate of the per share liquidation preference, are cumulative from the original issue date and are payable, when, as and if declared by the Board, out of funds legally available therefor.

Variable Rate Preferred Shares. The holders of variable rate preferred shares are entitled to receive cash distributions, stated at annual rates of the applicable per share liquidation preference, that vary from dividend period to dividend period.

Common Share Distributions. In order to allow its holders of common shares to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell

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shares, the Fund has adopted a policy, which may be modified at any time by its Board, of paying a minimum annual distribution of 8% of the average net asset value of the Fund to common shareholders. 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 preferred shares. Any return of capital that is a component of a distribution is not sourced from realized or unrealized profits of the Fund and that portion should not be considered by investors as yield or total return on their investment in the Fund. Shareholders should not assume that a distribution from the Fund is comprised exclusively of net profits. The amount treated as a tax-free return of capital will reduce a shareholder s adjusted tax basis in the stock, thereby increasing the shareholder s potential taxable gain or reducing the potential taxable loss on the sale of the stock.

For the fiscal year ended December 31, 2010, the Fund made distributions of $0.47 per common share, of which $0.42 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 the end of the calendar year. The Fund s Board monitors and reviews the Fund s common share distribution policy on a regular basis. Distributions that constitute a return of capital should not be considered as dividend yield or the total return from an investment in the Fund. Shareholders who periodically receive the payment of a dividend or other distribution consisting of a return of capital may be under the impression that they are receiving net profits when they are not. Shareholders should not assume that the source of a distribution from the Fund is net profit.

Limitations on Distributions. If at any time the Fund has borrowings outstanding, the Fund will be prohibited from paying any distributions on any of its common shares (other than in additional shares) and from repurchasing any of its common shares or preferred shares, unless the value of its total assets, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of debt and preferred shares outstanding. In addition, in such circumstances the Fund will be prohibited from paying any distributions on its preferred shares unless the value of its total assets, less certain ordinary course liabilities, exceed 200% of the amount of debt outstanding.

Tax Treatment of Interest Payments on Notes

Noteholders will be required to include payments of interest on the notes in their gross income in accordance with their method of accounting for U.S. federal income tax purposes. For a more detailed discussion, see Taxation.

Tax Treatment of Share Distributions

The Fund expects that distributions on the common and preferred shares 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), (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, and (iv) with respect to common shares, return of capital. For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is currently 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%. Under current law, these tax rates are scheduled to apply through 2012. We cannot assure you, however, as to what percentage of the distributions paid on the common or preferred shares will consist of long-term capital gain and qualified dividend income, which are taxed at lower rates for individuals than ordinary income. For a more detailed discussion, see Taxation.

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Use of Proceeds

The Fund will use the net proceeds from the offering to purchase additional portfolio securities in accordance with its investment objective and policies. Proceeds will be invested as appropriate investment opportunities are identified, which is expected to be substantially completed within three months; however, changes in market conditions could result in the Fund s anticipated investment period extending to as long as six months. The Fund may also use net proceeds to redeem its Series B Preferred. Depending on market conditions and operations, a portion of the cash held by the Fund, including any proceeds raised from this offering, may be used to pay distributions in accordance with the Fund s distribution policy. Such distribution would constitute a return of capital and should not be considered as dividend yield or the total return from an investment in the Fund. See Use of Proceeds.

Exchange Listing

The Fund s outstanding common shares are listed on the NYSE under the trading or ticker symbol GCV and our Series B Preferred are listed on the NYSE under the symbol GCV Pr B . See Description of the Securities. Any additional series of fixed rate preferred shares or subscription rights issued by the Fund would also likely be listed on the NYSE. Variable rate preferred shares and notes will not likely be listed on a stock exchange.

Market Price of Shares

Common shares of closed-end investment companies often trade at prices lower than their net asset value. Common shares of closed-end investment companies may trade during some periods at prices higher than their net asset value and during other periods at prices lower than their net asset value. The Fund cannot assure you that its common shares will trade at a price higher than or equal to net asset value. The Fund s net asset value will be reduced immediately following this offering by the sales load and the amount of the offering expenses paid by the Fund. See Use of Proceeds.

In addition to net asset value, the market price of the Fund s common shares may be affected by such factors as the Fund s dividend and distribution levels (which are affected by expenses) and stability, market liquidity, market supply and demand, unrealized gains, general market and economic conditions and other factors. See Risk Factors and Special Considerations, Description of Capital Stock and Notes and Repurchase of Shares.

Risk Factors and Special Considerations

Risk is inherent in all investing. Therefore, before investing in securities of the Fund, you should consider the risks carefully. See Risk Factors and Special Considerations.

Special Risk to Holders of Notes. An investment in our notes is subject to special risks. There may not be an established market for our notes. To the extent our notes trade, they may trade at a price either higher or lower than their principal amounts depending on interest rates, the rating (if any) on such notes and other factors. See Risk Factors and Special Considerations Special Risks to Holders of Notes.

Special Risk to Holders of Fixed Rate Preferred Shares. Prior to the offering of any additional series of fixed rate preferred shares, there will be no public market for such shares. During an initial period, not expected to exceed 30 days after the date of initial issuance, such shares may not be listed on any securities exchange. Consequently, an investment in such shares may be illiquid during such period. Fixed rate preferred shares may trade at a premium to or discount from liquidation preference for a variety of reasons, including changes in interest rates. See Risk Factors and Special Considerations Special Risks to Holders of Fixed Rate Preferred Shares.

Special Risk to Holders of Variable Rate Preferred Shares. In the event any auction-rate preferred shares are issued, you may not be able to sell your auction-rate preferred shares at an auction if the auction fails, i.e., if more auction-rate preferred shares are offered for sale than there are buyers for those shares. In the event

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any auction-rate preferred shares are issued, if you try to sell your auction-rate preferred shares between auctions, you may not be able sell them or, if you are able to sell them, you may not be able to do so for their liquidation preference per share or such amount per share plus accumulated dividends. Most auction-rate preferred share auctions have been unable to hold successful auctions and holders of such shares have suffered reduced liquidity. There can be no assurance that liquidity will improve. See Risk Factors and Special Considerations Special Risks to Holders of Variable Rate Preferred Shares.

Special Risk to Holders of Subscription Rights. There is a risk that changes in market conditions may result in the underlying common or preferred shares purchaseable upon exercise of the subscription rights being less attractive to investors at the conclusion of the subscription period. This may reduce or eliminate the value of the subscription rights. Investors who receive subscription rights may find that there is no market to sell rights they do not wish to exercise. If investors exercise only a portion of the rights, the number of common or preferred shares issued may be reduced, and the common or preferred shares may trade at less favorable prices than larger offerings for similar securities.

Common Share Repurchases. Repurchases of common shares by the Fund may reduce the net asset coverage of the notes and preferred shares, which could adversely affect their liquidity or market prices. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Common Share Repurchases.

Common Share Distribution Policy. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount at least equal to the greater of its stated distribution policy or the minimum distribution requirements of the Code in a given year, the Fund may return capital as part of its distribution. This would decrease the asset coverage per share with respect to the Fund s notes or preferred shares, which could adversely affect their liquidity or market prices. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Common Share Distribution Policy.

Credit Quality Ratings. In order to obtain and maintain attractive credit quality ratings for preferred shares or borrowings, the Fund s portfolio must satisfy over-collateralization tests established by the relevant rating agencies. These tests are more difficult to satisfy to the extent the Fund s portfolio securities are of lower credit quality, longer maturity or not diversified by issuer and industry. These guidelines could affect portfolio decisions and may be more stringent than those imposed by the 1940 Act. With respect to ratings (if any) of the notes or preferred shares, a rating by a ratings agency does not eliminate or necessarily mitigate the risks of investing in our shares or notes, and a rating may not fully or accurately reflect all of the securities credit risks. A rating does not address the liquidity or any other market risks of the securities being rated. A rating agency could downgrade the rating of our notes or preferred shares, which may make such securities less liquid in the secondary market. If a rating agency downgrades the rating assigned to our preferred shares or notes, we may alter our portfolio or redeem the preferred shares or notes under certain circumstances. See Risk Factors and Special Considerations Special Risks to Holders of Notes and Preferred Shares Credit Quality Ratings.

Preferred Shares Subordinated to Debt Securities. As provided in the 1940 Act, and subject to compliance with the Fund s investment limitations, the Fund may issue debt securities. In the event the Fund were to issue such securities, the Fund s obligations to make distributions and, upon liquidation of the Fund, liquidation payments in respect of its preferred shares, would be subordinate to the Fund s obligations to make any principal and interest payments due and owing with respect to its outstanding debt securities. Accordingly, the Fund s issuance of debt securities would have the effect of creating special risks for the Fund s preferred shareholders that would not be present in a capital structure that did not include such securities. See Risk Factors and Special Considerations Special Risks of Notes to Holders of Preferred Shares.

Restrictions on Dividends and Other Distributions. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund s common shares and preferred shares, 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 U.S. federal income tax purposes. While the Fund intends to redeem its preferred shares or prepay its notes 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 Internal Revenue Code of 1986, as amended (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.

Leverage Risk. The Fund currently uses, and intends to continue to use, financial leverage for investment purposes by issuing preferred shares and may also issue debt securities for that purpose. As of June 30, 2011, the amount of leverage represented approximately 23% of the Fund s net assets. The Fund s leveraged capital structure creates special risks not associated with unleveraged funds having a similar investment objective 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 preferred shares. 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 shares or principal or interest payments on debt securities, or to redeem preferred shares or repay debt, when it may be disadvantageous to do so. The use of leverage magnifies both the favorable and unfavorable effects of price movements in the investments made by the Fund. To the extent that the Fund determines to employ leverage in its investment operations, the Fund will be subject to substantial risk of loss. The Fund cannot assure you that borrowings or the issuance of shares or notes will result in a higher yield or return to the holders of the common shares. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common share distributions and such a failure to make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Code.

The issuance of preferred shares or notes causes the net asset value and market value of the common shares to become more volatile. If the interest rate on the notes or the dividend rate on the preferred shares approaches the net rate of return on the Fund s investment portfolio, the benefit of leverage to the holders of the common shares would be reduced. If the interest rate on the notes or the dividend rate on the preferred shares plus the management fee annual rate of 1.00% (as applicable) exceeds the net rate of return on the Fund s portfolio, the leverage will result in a lower rate of return to the holders of common shares than if the Fund had not issued preferred shares or notes.

Any decline in the net asset value of the Fund s investments would be borne entirely by the holders of common shares. Therefore, if the market value of the Fund s portfolio declines, the leverage will result in a greater decrease in net asset value to the holders of common shares than if the Fund were not leveraged. This greater net asset value decrease will also tend to cause a greater decline in the market price for the common shares. The Fund might be in danger of failing to maintain the required asset coverage of the notes or preferred shares or of losing its ratings on the preferred shares or notes or, in an extreme case, the Fund s current investment income might not be sufficient to meet the distribution requirements on the preferred shares or notes. In order to counteract such an event, the Fund might need to liquidate investments in order to fund redemption of some or all of the preferred shares or notes.

In addition, the Fund would pay (and the holders of common shares will bear) all costs and expenses relating to the issuance and ongoing maintenance of the preferred shares or notes, including any additional advisory fees on the incremental assets attributable to such preferred shares or notes. Holders of preferred shares may have different interests than holders of common shares and at times may have disproportionate influence over the Fund s affairs. In the event the Fund fails to maintain the specified level of asset coverage of any notes outstanding, the holders of the preferred shares will have the right to elect a majority of the Fund s Directors. In addition, holders of preferred shares, voting separately as a single class, have the right to elect two members of the Board at all times and in the event dividends become in arrears for two full years would have the right (subject to the rights of noteholders) to elect a majority of the Directors until the arrearage is completely eliminated. In addition, preferred shareholders have class voting rights on certain matters, including changes in fundamental investment restrictions and conversion of the Fund to open-end status, and accordingly can veto any such changes. See Risk Factors and Special Considerations Special Risks to Holders of Common Shares Leverage Risk.

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Market Discount Risk. Whether investors will realize gains or losses upon the sale of common shares of the Fund will depend upon the market price of the shares at the time of sale, which may be less or more than the Fund s net asset value per share. Since the market price of the common shares will be affected by such factors as the Fund s dividend and distribution levels (which are in turn affected by expenses), dividend and distribution stability, net asset value, market liquidity, the relative demand for and supply of the shares in the market, general market and economic conditions and other factors beyond the control of the Fund, we cannot predict whether the common shares will trade at, below or above net asset value or at, below or above the public offering price. Common shares of closed-end funds often trade at a discount to their net asset values and the Fund s common shares may trade at such a discount. This risk may be greater for investors expecting to sell their common shares of the Fund soon after completion of the public offering. The common shares of the Fund are designed primarily for long-term investors, and investors in the shares should not view the Fund as a vehicle for trading purposes. See Risk Factors and Special Considerations Special Risks to Holders of Common Shares Market Discount Risk.

Inflation Risk. Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. As inflation increases, the real value of the Fund s shares and distributions thereon can decline. In addition, during any periods of rising inflation, dividend rates of any variable rate preferred stock or debt securities issued by the Fund would likely increase, which would tend to further reduce returns to common shareholders. See Risk Factors and Special Considerations Special Risks to Holders of Common Shares Inflation Risk.

Special Risks Related to Convertible Securities and Fixed Income Securities. The Fund invests a significant portion of its assets in convertible securities. Many convertible securities are not investment grade, that is, not rated within the four highest categories by Moody s Investors Services, Inc. (Moody s) and Standard & Poor s (S&P) ratings agencies. To the extent that the convertible securities and any other fixed income securities owned by the Fund are rated lower than investment grade, or are not rated, there would be a greater risk as to the timely repayment of the principal of, and timely payment of interest or dividends on, those securities. Convertible debt securities (which generally are rated lower than investment grade) and fixed income securities that are rated lower than investment grade, or not rated but of similar quality, are commonly described as junk bonds. See Risk Factors and Special Considerations Risks of Investing in the Fund Credit Risk for Convertible Securities and Fixed Income Securities.

Interest Rate Risk for Fixed Income Securities. The primary risk associated with fixed income securities is interest rate risk. A decrease in interest rates will generally result in an increase in the value of a fixed income security, while increases in interest rates will generally result in a decline in its value. This effect is generally more pronounced for fixed rate securities than for securities whose income rate is periodically reset. Market interest rates recently have declined significantly below historical average rates, which may increase the risk that these rates will rise in the future. See Risk Factors and Special Considerations Risks of Investing in the Fund Interest Rate Risk for Fixed Income Securities.

Distribution Risk for Equity Income Securities. In selecting equity income securities in which the Fund will invest, the Investment Adviser will consider the issuer s history of making regular periodic distributions (i.e., dividends) to its equity holders. An issuer s history of paying dividends, however, does not guarantee that the issuer will continue to pay dividends in the future. See Risk Factors and Special Considerations Risks of Investing in the Fund Distribution Risk for Equity Income Securities.

Equity Risk. The principal risk of investing in equity securities is equity risk. Equity risk is the risk that the price of an equity security will fall due to general market and economic conditions, perceptions regarding the industry in which the issuer participates or the issuing company s particular circumstances. Common stock in which the Fund will invest or receive upon conversion of convertible securities is subject to such equity risk. In the case of convertible securities, it is the conversion value of a convertible security that is subject to the equity risk; that is, if the appreciation potential of a convertible security is not realized, the premium paid for its conversion value may not be recovered. See Investment Objective and Policies Investment Practices Convertible Securities.

Prepayment Risks on Government Sponsored Mortgage-Backed Securities. The yield and maturity characteristics of government sponsored mortgage-backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may generally be prepaid at any time because the underlying assets (i.e., loans) generally may be prepaid at any time. See Investment Objective and Policies Investment Practices Prepayment Risks on Government Sponsored Mortgage-Backed Securities.

Illiquid Investments. The Fund has no limit on the amount of its net assets it may invest in unregistered and otherwise illiquid investments. The Fund currently does not intend to invest more than 15% of its total net assets in illiquid convertible securities or income securities. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act of 1933, as amended (the 1933 Act). Unregistered securities generally can be resold only in privately negotiated transactions with a limited number of purchasers or in a public offering registered under the 1933 Act. Considerable delay could be encountered in either event and, unless otherwise contractually provided for, the Fund s proceeds upon sale may be reduced by the costs of registration or underwriting discounts. The difficulties and delays associated with such transactions could result in the Fund s inability to realize a favorable price upon disposition of unregistered securities, and at times might make disposition of such securities impossible. See Risk Factors and Special Considerations Risks of Investing in the Fund Illiquid Securities.

Industry Concentration Risk. 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.

Foreign Securities Risk. The Fund may invest up to 25% of its total assets in foreign securities. The Fund may also purchase sponsored American Depository Receipts (ADRs) or U.S. denominated securities of foreign issuers, which will not be included in the Fund s 25% foreign securities limitation. 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 Risk.

Emerging Markets Risk. The Fund may invest in securities of issuers whose primary operations or principal trading market is in an emerging market. An emerging market country is any country that is considered to be an emerging or developing country by the International Bank for Reconstruction and Development (the World Bank). Investing in securities of companies in emerging markets may entail special risks relating to potential political and economic instability and the risks of expropriation, nationalization, confiscation or the imposition of restrictions on foreign investment, the lack of hedging instruments and restrictions on repatriation of capital invested. Emerging securities markets are substantially smaller, less developed, less liquid and more volatile than the major securities markets. The limited size of emerging securities markets and limited trading value compared to the volume of trading in U.S. securities could cause prices to be erratic for reasons apart from factors that affect the quality of the securities. For example, limited market size may cause prices to be unduly influenced by traders who control large positions. Adverse publicity and investors perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of portfolio securities, especially in these markets. Other risks include high concentration of market capitalization and trading volume in a small number of issuers representing a limited number of industries, as well as a high concentration of investors and financial intermediaries; overdependence on exports, including gold and natural resources exports, making these economies vulnerable to changes in commodity prices; overburdened infrastructure and obsolete or unseasoned financial systems; environmental problems; less developed legal systems; and less reliable securities custodial services and settlement practices. See Risk Factors and Special Considerations Risks of Investing in the Fund Emerging Markets Risk.

Loans of Portfolio Securities. The Fund may seek to earn income by lending portfolio securities to broker-dealers or other institutional borrowers. As with other extensions of credit, there are risks of delay in recovery or even loss of rights in the securities loaned if the borrower of the securities violates the terms of the loan or fails financially. The Fund currently does not intend to lend securities representing more than 33% of its total net assets. See Risk Factors and Special Considerations Risks of Investing in the Fund 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. See Risk Factors and Special Considerations Risks of Investing in the Fund Management Risk.

Dependence on Key Personnel. 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.

Market Disruption and Geopolitical Risk. The terrorist attacks on domestic U.S. targets on September 11, 2001, the wars in Iraq and Afghanistan and other geopolitical events have led to, and may in the future lead to, increased short-term market volatility and may have long-term effects on U.S. and world economies and markets. The nature, scope and duration of the war and occupation cannot be predicted with any certainty. Similar events in the future or other disruptions of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation, energy prices and other factors relating to the common shares. See Risk Factors and Special Considerations Risks of Investing in the Fund Market Disruption and Geopolitical Risk.

Recent Economic Events. While the U.S. and global markets had experienced extreme volatility and disruption for an extended period of time, fiscal year 2010 and the first quarter of 2011 witnessed more stabilized economic activity as expectations for an economic recovery increased. However, risks to a robust resumption of growth persist: a weak consumer weighed down by too much debt and increasing joblessness, the growing size of the federal budget deficit and national debt, and the threat of inflation. A return to unfavorable economic conditions could impair the Fund s ability to execute its investment strategies. See Risk Factors and Special Considerations Risks of Investing in the Fund Recent Economic Developments.

Government Intervention in Financial Markets Risk. The recent instability in the financial markets has led the U.S. government and foreign governments to take a number of unprecedented actions designed to support certain financial institutions and segments of the financial markets that have experienced extreme volatility, and in some cases a lack of liquidity. U.S. federal and state governments and foreign governments, their regulatory agencies or self regulatory organizations may take additional actions that affect the regulation of the securities in which the Fund invests, or the issuers of such securities, in ways that are unforeseeable. Issuers of corporate securities might seek protection under the bankruptcy laws. Legislation or regulation may also change the way in which the Fund itself is regulated. Such legislation or regulation could limit or preclude the Fund s ability to achieve its investment objectives. See Risk Factors and Special Considerations Risks of Investing in the Fund Government Intervention in Financial Markets Risk.

Long-term Objective. The Fund is intended for investors seeking a high level of total return over the long-term. The Fund is not meant to provide a vehicle for those who wish to play short-term swings in the stock market. An investment in shares of the Fund should not be considered a complete investment program. Each shareholder should take into account the Fund s investment objective as well as the shareholder s other investments when considering an investment in the Fund. See Risk Factors and Special Considerations Risks of Investing in the Fund Long-term Objective.

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Anti-Takeover Provisions. The Fund s Governing Documents (as defined herein) 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 Risk Factors and Special Considerations Risks of Investing in the Fund Anti-Takeover Provisions of the Fund s Governing Documents.

Status as a Regulated Investment Company. The Fund has elected and has qualified for, 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 shares 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 shares 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.

Special Risks Related to Preferred Securities. Special risks associated with the Fund investing in preferred securities include deferral of distributions or dividend payments, in some cases the right of an issuer never to pay missed dividends, subordination to debt and other liabilities, illiquidity, limited voting rights and redemption by the issuer. Because the Fund has no limit on its investment in non-cumulative preferred securities, the amount of dividends the Fund pays may be adversely affected if an issuer of a non-cumulative preferred stock held by the Fund determines not to pay dividends on such stock. There is no assurance that dividends or distributions on preferred stock in which the Fund invests will be declared or otherwise made payable. See Risk Factors and Special Considerations Risks of Investing in the Fund Special Risks Related to Preferred Securities.

Management and Fees

Gabelli Funds, LLC serves as the Fund s investment adviser and is compensated for its services and its related expenses at an annual rate of 1.00% of the Fund s average daily gross assets, which includes assets attributable to any outstanding preferred shares or notes subject to the voluntary waiver described below. The Investment Adviser is responsible for administration of the Fund and currently utilizes and pays the fees of a third party administrator. The fee paid by the Fund may be higher when leverage 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 currently outstanding Series B Preferred Shares during the fiscal year if the total return of the net asset value of the common shares of the Fund, 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 currently outstanding preferred shares for the period. In other words, if the effective cost of the leverage for any series of currently outstanding preferred shares exceeds the total return (based on net asset value) on the Fund s common shares, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of currently outstanding preferred shares to mitigate the negative impact of the leverage on the common shareholder s total return. This fee waiver is voluntary and may be discontinued at any time and will not apply to any preferred shares issued pursuant to this offering. The Fund s total return on the net asset value of the common shares is monitored on a monthly basis to assess whether the total return on the net asset value of the common shares exceeds the stated dividend rate or corresponding swap rate of each particular series of currently outstanding preferred shares for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of currently outstanding preferred shares 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, 2010, the Fund s total return on the net asset value of the common shares exceeded the stated dividend rate or net swap expense of all currently outstanding preferred shares. Thus, management fees were accrued on these assets.

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A discussion regarding the basis for the Board s approval of the continuation of the investment advisory contract of the Fund is available in the Fund s semi-annual report to shareholders dated June 30, 2010.

Repurchase of Common Shares

The Fund is authorized to repurchase up to 500,000 of its common shares in the open market when the common shares are trading at a discount of 10% or more (or such other percentage as the Fund s Board may determine from time to time) from the net asset value of the shares. Although the Board has authorized such repurchases, the Fund is not required to repurchase its common shares. Such repurchases are subject to certain notice and other requirements under the 1940 Act. See Repurchase of Shares.

Anti-takeover Provisions

Certain provisions of the Fund s charter (the Charter) and by-laws (the By-Laws) (collectively, the Governing Documents), may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of three classes of directors is elected each year, and the affirmative vote of the holders of 75% of the outstanding shares of the Fund and the vote of a majority (as defined in the 1940 Act) of the holders of preferred shares voting as a single class, are necessary to authorize the conversion of the Fund from a closed-end to an open-end investment company. 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 shareholder. These provisions may have the effect of depriving Fund common shareholders of an opportunity to sell their shares at a premium to the prevailing market price. See Anti-Takeover Provisions of the Fund s Governing Documents.

Custodian, Transfer Agent, Auction Agent and Dividend Disbursing Agent

State Street Bank and Trust Company (State Street or the Custodian), located at 1776 Heritage Drive, North Quincy, Massachusetts 02171, 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, among other things, the average 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, and as transfer agent and registrar with respect to the common shares of the Fund.

Computershare also serves as the Fund s transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series B Preferred.

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SUMMARY OF FUND EXPENSES

The following table shows the Fund s expenses, including preferred stock offering expenses, as a percentage of net assets attributable to common shares.

Shareholder Transaction Expenses		
Sales Load (as a percentage of offering price)	1.54%	(1)
Offering Expenses Borne by the Fund (excluding Preferred Stock Offering Expenses) (as a percentage of offering price)	0.13%	(1)
Dividend Reinvestment Plan Fees	None	(2)
Preferred Stock Offering Expenses Borne by the Fund (as a percentage of net assets attributable to common shares)	0.13%	(3)

	Percentage of Net Assets Attributable to Common Shares	
Annual Expenses		
Management Fees	1.31%	(4)
Interest on Borrowed Funds	None	
Other Expenses	0.47%	(4)
Dividends on Preferred Stock	1.86%	(5)
Total Annual Expenses	3.64%	

(1) Estimated maximum amount based on offering of $75 million in common shares and $25 million in preferred shares. The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable

(2) Shareholders participating in the Fund s Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans would pay $0.75 plus their pro rata share of brokerage commissions per transactions to purchase shares and $2.50 plus their pro rata share of brokerage commissions per transaction to sell shares. See Automatic Dividend Reinvestment and Voluntary Cash Purchase Plans.

(3) Assumes issuance of $25 million in liquidation preference of fixed rate preferred shares and net assets attributable to common shares of $157.7 million (which includes issuance of $75 million in common shares). The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

(4) The Investment Adviser s fee is 1.00% annually of the Fund s average weekly gross assets. Consequently, if the Fund has preferred stock or notes outstanding, the investment management fees and other expenses as a percentage of net assets attributable to common stock will be higher than if the Fund does not utilize a leveraged capital structure. Other Expenses are based on estimated amounts for the current year assuming completion of the proposed issuances.

(5) The Dividends on Preferred Stock represent distributions on the existing preferred stock outstanding and the proposed $25 million of preferred stock at 6.00%. There can, of course, be no guarantee that any preferred stock would be issued, or, if issued, the terms thereof.

The purpose of the table above and the example below is to help you understand all fees and expenses that you, as a holder of common stock, would bear directly or indirectly.

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The following example illustrates the expenses (including the maximum estimated sales load of $10 and estimated offering expenses of $1.13 from the issuance of $75 million in common stock) you would pay on a $1,000 investment in common stock, assuming a 5% annual portfolio total return.[1] The actual amounts in connection with any offering will be set forth in the Prospectus Supplement if applicable.

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	$ 48	$ 122	$ 198	$ 397

1 **The example should not be considered a representation of future expenses.** The example assumes that the amounts set forth in the Annual Expenses table are accurate and that all distributions are reinvested at net asset value. Actual expenses may ne greater or less than those assumed. Moreover, the Fund s actual rate of return may be greater or less than the hypothetical 5% return shown in the example.

The example includes Dividends on Preferred Stock. If Dividends on Preferred Stock were not included in the example calculation, the expenses would be as follows (based on the same assumptions as above.)

	1 Year	3 Years	5 Years	10 Years
Total Expenses Incurred	$ 29	$ 67	$ 107	$ 219

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FINANCIAL HIGHLIGHTS

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this prospectus and the SAI. The financial information for the year ended December 31, 2010, and for each of the preceding five fiscal periods, has been audited by PricewaterhouseCoopers, LLC, the Fund s independent registered public accounting firm, whose unqualified report on such Financial Statements is incorporated by reference into the SAI.

Selected data for a share outstanding throughout each period:

	Year Ended December 31, 2010	2009	2008	2007	2006
Operating Performance:					
Net asset value, beginning of period	$ 5.94	$ 5.19	$ 7.90	$ 8.31	$ 7.95
Net investment income	0.15	0.18	0.24	0.42	0.45
Net realized and unrealized gain/(loss) on investments, swap contracts, securities sold short, and foreign currency transactions	0.50	1.10	(2.01)	0.20	0.92
Total from investment operations	0.65	1.28	(1.77)	0.62	1.37
Distributions to Preferred Shareholders: (a)					
Net investment income	(0.11)	(0.11)	(0.14)	(0.11)	(0.09)
Net realized gain			(0.01)	(0.12)	(0.13)
Total distributions to preferred shareholders	(0.11)	(0.11)	(0.15)	(0.23)	(0.22)
Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations	0.54	1.17	(1.92)	0.39	1.15
Distributions to Common Shareholders:					
Net investment income	(0.06)	(0.09)	(0.09)	(0.31	(0.34)
Net realized gain			(0.01)	(0.32)	(0.46)
Return of capital	(0.41)	(0.33)	(0.70)	(0.17)	
Total distributions to common shareholders	(0.47)	(0.42)	(0.80)	(0.80)	(0.80)

Fund Share Transactions:					
Increase in net asset value from common share transactions	(0.00)(f)	0.00(f)		0.00(f)	0.01
Increase in net asset value from repurchase of preferred shares		0.00(f)	0.01		
Total fund share transactions	(0.00)(f)	0.00(f)	0.01	0.00(f)	0.01
Net Asset Value Attributable to Common Shareholders, End of Period	$ 6.01	$ 5.94	$ 5.19	$ 7.90	$ 8.31
NAV total return	9.46%	23.72%	(25.57)%	4.44%	14.80%
Market value, end of period	$ 6.12	$ 5.81	$ 5.55	$ 7.67	$ 8.95
Investment total return	13.96%	13.16%	(18.02)%	(5.85)%	11.32%

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	Year Ended December 31, 2010	2009	2008	2007	2006
Ratios to Average Net Assets and Supplemental Data:					
Net assets including liquidation value of preferred shares, end of period (in 000 s)	$ 104,547	$ 102,173	$ 91,782	$ 149,360	$ 152,158
Net assets attributable to common shares, end of period (in 000 s)	$ 80,408	$ 78,034	$ 67,349	$ 99,590	$ 102,388
Ratio of net investment income to average net assets attributable to common shares before preferred share distributions	2.43%	3.28%	3.65%	4.90%	5.51%
Ratio of operating expenses to average net assets attributable to common shares before fees waived	2.05%	2.01%	2.06%	2.23%	
Ratio of operating expenses to average net assets attributable to common shares net of advisory fee reduction, if any (b)(c)	2.05%	2.01%	1.64%	1.75%	2.07%
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fees waived	1.57%	1.50%	1.45%	1.51%	
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of advisory fee reduction, if any (b)(c)	1.57%	1.50%	1.15%	1.18%	1.37%
Portfolio turnover rate	44%	71%	76%	61%	51%
Preferred Stock:					
6.000% Series B Cumulative Preferred Stock					
Liquidation value, end of period (in 000 s)	$ 24,139	$ 24,139	$ 24,433	$ 24,770	$ 24,770
Total shares outstanding (in 000 s)	966	966	977	991	991
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Average market value (d)	$ 25.20	$ 23.95	$ 22.75	$ 24.07	$ 24.10
Asset coverage per share	$ 108.28	$ 105.82	$ 93.91	$ 75.02	$ 76.43
Series C Auction Rate Cumulative Preferred Stock					
Liquidation value, end of period (in 000 s)				$ 25,000	$ 25,000
Total shares outstanding (in 000 s)				1	1
Liquidation preference per share				$ 25,000	$ 25,000
Average market value (d)				$ 25,000	$ 25,000
Asset coverage per share				$ 75,025	$ 76,431

Asset Coverage (e)	433%	423%	376%	300%	306%

Based on net asset value per share, adjusted for reinvestment of distributions at prices determined under the Fund s dividend reinvestment plan.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund s dividend reinvestment plan.

Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted

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retroactively, the portfolio turnover rate for the years ended December 31, 2007 and 2006, would have been 98% and 65%, respectively.

(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 (Custodian Fee Credits). Including such Custodian Fee Credits, for the years ended December 31, 2007 and 2006, the ratios of operating expenses to average net assets attributable to common shares net of advisory fee reduction would have been 1.74% and 2.05%, respectively, and the ratios of operating expenses to average net assets including liquidation value of preferred shares would have been 1.17% and 1.37%, respectively. For the years ended December 31, 2010, 2009, and 2008, the effect of Custodian Fee Credits was minimal.

(c) The Fund incurred dividend expense on securities sold short for the years ended December 31, 2006 and 2007. If 2006 dividend expense had not been incurred, the ratio of operating expenses to average net assets attributable to common shares would have been 2.06% and the ratio of operating expenses to average net assets including liquidation value of preferred shares would have been 1.37%.

(d) Based on weekly prices.

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

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

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USE OF PROCEEDS

The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short-term income securities and instruments. The Investment Adviser anticipates that the investment of the proceeds will be made in accordance with the Fund s investment objective and policies as appropriate investment opportunities are identified, which is expected to substantially be completed within three months; however, changes in market conditions could result in the Fund s anticipated investment period extending to as long as six months. The Fund may also use net proceeds to redeem its Series B Preferred. Depending on market conditions and operations, a portion of the cash held by the Fund, including any proceeds raised from this offering, may be used to pay distributions in accordance with the Fund s distribution policy. Such distribution would constitute a return of capital and should not be considered as dividend yield or the total return from an investment in the Fund.

THE FUND

The Fund was incorporated in Maryland on December 19, 1988 as an open-end, diversified, management investment company, and converted to closed-end status after receiving shareholder approval of its Charter on February 21, 1995 and filing its Charter in Maryland on March 31, 1995. The Fund s principal office is located at One Corporate Center, Rye, New York 10580-1422.

INVESTMENT OBJECTIVE AND POLICIES

Investment Objective

The investment objective of the Fund is to seek a high level of total return on its assets. The Fund seeks to achieve its investment objective through a combination of current income and capital appreciation. There is no assurance that this objective will be achieved. It is, however, a fundamental policy of the Fund and cannot be changed without stockholder approval.

Under normal circumstances the Fund will invest at least 80% of the value of its total assets (taken at current value) in convertible securities, i.e., securities (bonds, debentures, notes, stocks and other similar securities) that are convertible into common stock or other equity securities, and income securities, i.e., nonconvertible debt or equity securities having a history of regular payments or accrual of income to holders. Securities received upon conversion of a convertible security will not be included in the calculation of the percentage of Fund assets invested in convertible securities but may be retained in the Fund s portfolio to permit orderly disposition or to establish long-term holding periods for federal income tax purposes. The Fund expects to continue its practice of focusing on convertible securities to the extent attractive opportunities are available. We cannot assure you that the Fund will achieve its investment objective.

The Fund may invest up to 20% of its total assets (taken at current value and subject to any restrictions appearing elsewhere in this Registration Statement) in any combination and quantity of securities that do not generate any income, such as common stocks that do not pay dividends. In selecting any of the foregoing securities for investment, the factors that will be considered by the Investment Adviser include the Investment Adviser s evaluation of the underlying value of the assets and business of the issuers of the securities, the potential for capital appreciation, the price of the securities, the issuer s balance sheet characteristics and the perceived skills and integrity of the issuer s management.

During periods when it is deemed necessary for temporary defensive purposes, the Fund may invest without limit in high quality money market instruments, including commercial paper of domestic and foreign corporations, certificates of deposit, bankers acceptances and other obligations of domestic and foreign banks and obligations issued or guaranteed by the United States government, its instrumentalities or agencies and, subject to statutory limitations, unaffiliated money market mutual funds, unless an exemptive order permits the Fund to invest in affiliated money market funds. The yield on these securities will, as a general matter, tend to be lower than the yield on other securities to be purchased by the Fund. See Investment Practices Temporary Defensive Investments.

Investment Methodology of the Fund

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

the Investment Adviser s own evaluations of the private market value (as defined below), cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;

the interest or dividend income generated by the securities;

the potential for capital appreciation of the securities and any underlying common stocks;

the prices of the securities relative to other comparable securities;

the prices of the securities relative to any underlying common stock;

whether the securities are entitled to the benefits of sinking funds or other protective conditions or covenants;

the existence of any anti-dilution protections or guarantees of the security; and

the diversification of the Fund s portfolio as to issuers.