

The Gabelli Equity Income Fund

Shareholder Commentary – December 31, 2009



Mario Gabelli, CFA

Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the three, five and ten year periods ended December 31, 2009 among 1,104; 1,104; 912; and 459 Large Value funds, respectively.

To Our Shareholders,

For the fourth quarter of 2009, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund rose 4.6%, versus an increase of 6.0% for the Standard & Poor’s (S&P) 500 Index. The Fund’s annualized total returns for the one year, five year, ten year, fifteen year, and since inception periods were 29.1%, 3.0%, 5.5%, 9.8%, and 9.8%, respectively.

Comparative Results

Average Annual Returns through December 31, 2009 (a)(b)

	Quarter	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Gabelli Equity Income Fund Class AAA	4.62%	29.14%	(2.93)%	3.01%	5.52%	9.82%	9.75%
S&P 500 Index	6.04	26.47	(5.62)	0.42	(0.95)	8.04	7.75
Nasdaq Composite Index	6.64	46.72	(5.80)	(1.22)	(2.45)	7.64	7.81
Lipper Equity Income Fund Average	5.77	22.87	(5.43)	1.10	2.77	7.73	7.78

The expense ratio in the current prospectus is 1.50% for the Fund’s Class AAA Shares. Class AAA Shares do not have a sales charge.

(a) **Returns represent past performance and do not guarantee future results.** Total returns and average annual returns reflect changes in share price and reinvestment of distributions and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. Performance returns for periods of less than one year are not annualized. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.** See page 10 for performance of other classes of shares. The S&P 500 Index and the Nasdaq Composite Index are unmanaged indicators of stock market performance, while the Lipper Equity Income Fund Average reflects the average performance of mutual funds classified in this particular category. Dividends are considered reinvested (except for the Nasdaq Composite Index). You cannot invest directly in an index.

(b) The Fund’s fiscal year ends September 30.

Monthly Distributions — \$0.03 per share

The Gabelli Equity Income Fund has a \$0.03 per share monthly distribution policy in place. For more specific dividend and tax information, please visit our website at www.gabelli.com or call 800-GABELLI (800-422-3554). Shareholders should be aware that a portion of the distribution may represent a non-taxable return of capital. Such distributions will reduce the cost basis of your shares if you hold them in a taxable account.

Morningstar Rating™ is based on risk-adjusted returns. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with a fund’s three, five, and ten year (if applicable) Morningstar Rating metrics. For funds with at least a three year history, a Morningstar Rating is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees) placing more emphasis on downward variations and rewarding consistent performance. That accounts for variations in a fund’s monthly performance. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Morningstar Rating is for the AAA Share class only; other classes may have different performance characteristics. Ratings reflect relative performance. Results for certain periods were negative. ©2009 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Barron's 2010 Roundtable

Mario Gabelli, our Chief Investment Officer, has appeared in the prestigious Barron's Roundtable discussion annually since 1980. Many of our readers enjoyed the inclusion of selected and edited comments from Barron's Roundtable in previous reports to shareholders. As is our custom, we are including selected comments of Mario Gabelli from Barron's 2010 Roundtable, published on January 18, 2010.



New Strategies For A New Era

Yes, times are tough, but opportunities remain for nimble investors.

Where to put your money in 2010.

By Lauren R. Rublin

Barron's: What does all this mean for the stock market this year?

Gabelli: Today I heard that Job No. 1 for the President, which he ignored last year, is to create jobs. Three themes will influence the market outlook for 2010: Beijing, Ben, and Barack – the three Bs. The economy will be quite strong in the first quarter, and profits will be extraordinarily good, because companies haven't added extra workers. Stocks will have a few good months, and then we'll see what President Obama will do to prevent the Democrats from losing the midterm elections in a landslide. Will he propose another stimulus package? My sense is, he will.

Black: To the contrary. We had lunch in Boston a few weeks ago with [Speaker of the House of Representatives] Nancy Pelosi.

MacAllaster: What was first prize?

Black: She said there is no way Congress could pass a second stimulus bill.

Gabelli: So they'll put lipstick on it and call it something else.

Barron's: That's all fine, but if you buy a stock today, Mario, what can you expect by the end of the year?

Gabelli: You should be up 5% to 10% in the first half of the year. Then the market may have a major correction, and you could be up 5% for the full year. The first half of 2011 looks very challenging. Interest rates at some point will top 4%, and it's all about picking specific stocks.

We've had five waves of financial restructuring in this country in the past 50 years. The first one started in the 1960s, with the Charlie Bludhorns [head of the former Gulf+Western] building conglomerates. In the 1980s, Michael Milken facilitated the buying of companies for 10 cents on the dollar, and energized lazy assets. The 1990s saw telecom, media, and technology deals. Ten years ago, on the day of the Barron's Roundtable, **Time Warner** [TWX] and **AOL** [AOL]

announced their huge merger. The fourth centered on the private-equity guys of three or four years ago, and this morning [Jan. 11] **Heineken** [HINKY] said it would buy the beer business of **Femsa** [FMX]. This underscores the beginning of the fifth wave. There will be an extraordinary number of transactions this year because companies want to grow.

Barron's: Mario, you're next.

Gabelli: President Obama's No. 1 job is to create jobs. That takes innovation, ideas, invention, and technology. I'll start with a tech company. It is more than 100 years old and has a business that is a great cash generator. It is based in the Buffalo, N.Y., area. About 75 years ago, diversification meant buying a million acres of land. A new technology has made that land extraordinarily valuable. A large portion of this acreage is in the Marcellus Field, and the company is **National Fuel Gas** [NFG]. It has 80 million shares outstanding, and the stock is at \$50.

The new technology specializes in vertical drilling and fracturing of rock formations. The company has 727,000 utility customers, and a gas pipeline and storage business. It owns land mostly in Pennsylvania, including 620,000 acres on which it pays no royalties. NFG started drilling in these areas in the past two to three years. The utility, pipeline, midstream business and oil-and-gas properties not in the Marcellus are worth about \$40 to \$45 a share. You are creating the Marcellus acreage for \$10 a share, or \$800 million. That's about \$1,200 an acre. If gas stays at \$5 per thousand cubic feet, they will make a lot of money. They would break even around \$3.50 per Mcf. At some point, the company should spin out its gas assets to shareholders. In addition it could monetize the pipeline business by creating a master limited partnership. Either way, with a \$1.34 dividend and 2.6% yield, this is a wonderful play on technology uncovering a valuable asset.

Barron's: But "fracking" is a controversial technology.

Gabelli: If you are prudent, there is no reason not to allow the technology to be tested further.

It is time to look at the auto industry again. The strong could get stronger, and original equipment makers that supply the industry could benefit from the second and third tier suppliers going out of business. There are 800 million cars in the world, including 71 million in China and about 250 million in the U.S. This year, we estimate 11.5 million passenger vehicles will be sold in the U.S. and 10.2 million in China. In the U.S. there has been a substantial drawdown of cars on dealers' lots. OEMs will enjoy three or four years of steadily rising production globally. I am focusing on **Federal Mogul** [FDML]. The company was forced into bankruptcy proceedings related to an acquisition tainted by asbestos, and came out in December 2007. Carl Icahn owns 75 million of the 99.6 million shares.

Barron's: What does the stock sell for?

Gabelli: It is around \$18. The market cap is \$1.8 billion, and the company has about \$2 billion of net debt. It can earn 90 cents a share this year, marching straight up to \$3 by 2013. Revenue this year should be \$5.6 billion, growing to \$6.2 billion. Among other things, the company makes components for diesel engines.

Millicom International Cellular [MICC] is a cheap company that participates in the growth of emerging markets. It has about 29 million wireless customers in Central America, South America and Africa. It sold off its wireless business in Southeast Asia. The stock sells for \$80, and there are 108 million shares. The company is controlled by **Kinnevik** [KINVB.Sweden], a Swedish concern. Millicom has a billion dollars of debt, and revenue is expected to be \$3.5 billion this year. EBITDA [earnings before interest, taxes, depreciation, and amortization] is \$1.6 billion. The company trades for 5.8 times EBITDA. Cash will build up dramatically in the next four or five years, because capital spending is flattening out. EBITDA could grow to \$2.1 billion and earnings could grow to near \$10 a share in 2013 from \$6 this year.

Millicom has 11.2 million customers in Central America, out of an available population of 28 million. Its African markets have a population of 163 million, and it has nine million customers there. The potential for growth remains significant. At some point, a larger company could buy them, such as **MTN** [MTN.South Africa] or **Vivendi** [VIV.France]. One of Kinnevik's last surviving founders died. The company is controlled by his daughter, Christina Stenbeck, who is in her early 30s. She is very smart and aggressive, and something could happen.

Barron's: What is your next pick?

Gabelli: At the end of last year, the combined global market value of debt and equities was about \$110 trillion. That is going to grow, and money managers will benefit.

I will focus on **Legg Mason** [LM]. At the end of November, it had \$694 billion of assets under management. The peak was about \$1 trillion. In the mutual funds business it has several brands. Some, like Royce, have done extremely well. Some are up and down. Legg Mason took a big hit in the fixed income business, but it has enough scale to overcome its challenges. The company had net operating losses, which helped recover taxes paid, and that helped its balance sheet. As of September 30, it had 163 million shares. The stock is \$30, so that's a \$5 billion market cap. Cash and debt are now about equal.

Legg Mason stock traded above \$130 in 2006. Like the rest of us, Legg is worried about regulatory issues, but the company has great distribution and some terrific brands. Nelson Peltz owns 9.6 million shares and has a seat on the board.

MacAllaster: What are they going to earn this year?

Gabelli: Earnings could rise substantially for the year ended March, and could have a run rate of \$1.20 a share, and grow 15% or 20% thereafter. Top-line organic growth is around 5% to 6%. Margins should expand as equities rise faster than fixed income in their asset mix. The stock is awfully vulnerable to a selloff in the market.

Schafer: It is a play on the market both ways.

Gabelli: My next pick is **Cablevision Systems** [CVC], based on Long Island. There are 300 million shares. The stock is \$26, and has a \$7.8 billion market cap. Debt is about \$11 billion. The company is spinning off Madison Square Garden, which includes the Garden, the New York Knicks and Rangers, Radio City Music Hall, and other properties. The Garden is probably worth \$3.5 billion, or \$11 per

Mario Gabelli's Picks

Company	Ticker	1/8/10 Price
National Fuel Gas	NFG	\$51.09
Federal Mogul	FDML	18.79
Millicom Intl Cellular	MICC	80.19
Legg Mason	LM	30.77
Cablevision Systems	CVC	26.28
Viacom	VIA/B	30.04
Griffon	GFF	12.60
Hawk	HWK	18.58

Source: Bloomberg

Cablevision share. It will trade around \$6. Thus, you're creating Cablevision for \$20 a share. The company could sell its networks, including American Movie Classics, for \$4 billion. You're left with one of the best managed cable systems in the world.

Cable-related-business EBITDA for 2010 is \$2.3 billion. Cablevision operates assets in the Bronx and parts of Brooklyn. **Time Warner Cable** [TWC] has Queens, Manhattan, Staten Island, and parts of Brooklyn. Eventually, they will sit down to merge their assets in New York City. Internet-enabled television was the hottest product at the Consumer Electronics Show. Cable is a way to participate in that.

My next idea is **Viacom** [VIA/B], run by Sumner Redstone.

Barron's: He's got a great record.

Gabelli: The stock is \$30, and the market cap is \$18 billion. The company has \$6.6 billion of debt and sells for 7.5 times EBITDA and 12 times earnings. This is a cash generator, supported by advertising and subscription revenue. Redstone owns 41 million of the 52 million A shares, which have all the votes. The company could earn about \$2.50 a share this year, and earnings per share could grow by at least 12% for the next four or five years. In part, advertising will come back. Cash should be \$2 billion in five years. Viacom also owns Paramount, and there is a lot of consolidation going on in the movie business. Patience pays. You could double your money in four years.

Next, diapers. [Loud groans as Mario hands out packages of same.] There are 135 million babies born in the world every year, a number unlikely to grow in the next 40 years.

Seventy-five percent of those children don't use diapers, according to trade sources. The global market for diapers is \$30 billion. In the U.S., it is \$5 billion. But I'm not interested in kids. I'm interested in people over the age of 80. Incontinence grows with age. That market is \$6.8 billion today, and growing. There are eight parts to a diaper, and **Griffon** [GFF] supplies two components. It has 58 million shares. The stock is \$12.50, and the

market cap, \$725 million. The company has \$141 million of net cash. It could earn about 60 cents a share for the year ending September 30, and that could double in the next three or four years. The company generates a lot of cash. It also has other businesses, including garage doors.

Barron's: That's synergy for you.

Gabelli: Why not? **Hillenbrand** [HI], which makes caskets, announced today it is buying a company that shreds rocks.

My last pick is **Hawk** [HWK], based in Cleveland. The co-founder and CEO, Ron Weinberg, was an investment banker. He put together an interesting company. It has eight million shares, trading at \$18. Hawk has \$77 million of cash and the same amount of debt. However, the cash earns 1% and the debt costs 8³/₄%. They can start calling it as early as November.

The company is a global leader in selling friction products used in brakes. It has some new products and technology. Revenue is expected to be \$175 million for 2009, and could reach \$200 million this year, though that is down from a previous level of \$270 million. Earnings could go from 80 cents to \$1.20 to \$2 a share. Hawk could become a potential takeover target for other companies looking to grow.

Barron's: Thank you, Mario. ■

Mario J. Gabelli is the Chairman and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. and Portfolio Manager of various investment products at the Firm. The securities mentioned in the article are not representative of any portfolio, and the views expressed are subject to change at any time. As of December 31, 2009, the Gabelli Equity Income Fund held, as a percentage of its net assets, the following companies mentioned in this article: Time Warner 0.3%, Heineken 0.5%, Femsas 0.5%, Kinnevik 0.1%, Vivendi 0.9%, National Fuel Gas 0.5%, Millicom Intl Cellular 0.2%, Legg Mason 1.0%, Cablevision Systems 0.3%, Viacom 0.7%, and Griffon 0.5%.

A complete listing of the Fund's portfolio holdings as of December 31, 2009 and a current prospectus are available by calling the Fund at 800-GABELLI (800-422-3554) or by visiting our website at www.gabelli.com. *Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.*

The views expressed in this article reflect those of the Portfolio Manager only through the date of the interview. Minor edits were made. The Portfolio Manager's views are subject to change at any time based on market and other conditions. Favorable earnings or EBITDA (earnings before interest, taxes, depreciation, and amortization) growth prospects do not necessarily translate into higher stock prices, but they do express a positive trend which we believe will develop over time. The information contained in this article is not an offer to sell or a solicitation to buy any security. No security or other product is offered or will be sold in any jurisdiction in which such offer or solicitation, purchase or sale would be unlawful under the securities, or other laws of the jurisdiction.

COMMENTARY

The Economy

One year ago, the demand shock triggered by the September 2008 collapse of Lehman Brothers had just begun to ripple through the economy. Visibility was limited and the near term bleak. The economy and the stock market were stuck in a negative feedback loop that was broken only when Federal Reserve Chairman Ben Bernanke pledged to stave off deflation by “starting the printing press.” After bottoming at 666 on March 6, the S&P 500 staged a remarkable comeback, up 68% from this nadir.

As governments formulated their rescue attempts, we noted two risks to the economy: one – that governments would do too little, leading to systemic collapse and a deflationary downward spiral, or two – that they would do too much, igniting inflation. We see growing evidence, gathered by our research team on a company-by-company and industry-by-industry basis, that asset prices have stabilized and that growth is returning. With this backdrop, it appears that risk is weighted toward governments doing too much. Ben Bernanke may have proven himself the true “maestro” in providing the liquidity to prevent the economy from falling into the abyss, but withdrawing this liquidity without stalling the recovery may be a more demanding task. Likewise, policymakers in the U.S. and other developed economies are faced with rising entitlements and growing deficits and the unsavory alternatives, in an election year, of raising taxes and/or letting fiscal stimulus lapse.

Ultimately, the discipline of the market will be felt. If central bankers and elected officials are unable to retrace their stimulus efforts with nearly perfect precision, inflation will emerge, private borrowing will be crowded out, and interest rates will rise, posing renewed risk to the economy in 2011. Higher interest rates and taxes and greater levels of government regulation have historically certainly not been recipes for rising stock market multiples. Thus we begin the year with a cautionary tone. We think near-term corporate profits will be robust and the economic rebound could exceed expectations, but we wonder how long the recovery will last before new signs of trouble emerge. We believe stock selection will become increasingly important in this market, especially as much of the “easy money” has already been made.

Deals, Deals, Deals – The Fifth Wave

As we wrote here last quarter, we believe a “Fifth Wave” of global takeovers is underway. Deals were done in the 1960s by conglomerates to offset economic cycles. In the 1980s deals were a way to energize lazy assets. The 1990s saw serial acquirers and a technology fueled boom. More recently, the M&A scene was dominated by private equity.

Today corporate buyers are using acquisitions to add global growth and scale. The strong are taking advantage of low valuations and excess corporate cash to get stronger. This thesis was highlighted by Kraft’s (0.9% of net assets as of December 31, 2009) unsolicited bid for Fund holding, Cadbury plc (0.6%). After some textbook M&A tactics, Cadbury eventually agreed to a sweetened \$20 billion offer from Kraft (0.9%). In January 2010, Fund holding Broadview Security, the second largest alarm monitoring company in the U.S., announced it had reached a definitive agreement to be acquired by market leader Tyco International (0.5%) for \$42.50 per share. We identified Broadview as an acquisition candidate upon its spin-off from The Brink’s Company in October 2008. We believe additional financial engineering (e.g. spin-offs) among companies in the Fund will facilitate further deal making in the future.

Investment Scorecard

Strong contributors to return in the fourth quarter included agricultural and commercial manufacturer, Deere (+26%) (1.4% of net assets as of December 31, 2009), American Express (+20%) (0.9%), and Corning Inc. (+30%) (0.4%).

Detractors from performance were limited in the fourth quarter, but included Legg Mason (-3%) (1.0%), Wells Fargo (-4%) (1.0%), and Flowserve (-4%) (0.7%).

Let's Talk Stocks

The following are stock specifics on selected holdings of our Fund. Favorable earnings prospects do not necessarily translate into higher stock prices, but they do express a positive trend that we believe will develop over time. Individual securities mentioned are not necessarily representative of the entire portfolio. For the following holdings, the share prices are stated in U.S. dollar equivalents as of December 31, 2009.

The Boeing Company (0.9% of net assets as of December 31, 2009) (BA - \$54.13 - NYSE) is one of two manufacturers of commercial aircraft. The commercial aerospace industry is in the midst of a strong recovery. While the current economic weakness has reduced air travel, we believe that emerging economies of China, Russia, India, and Brazil (CRIB nations) will create 3.5 billion new middle class consumers who will travel more and thereby increase the demand for new aircraft. The CRIB nations have considerable strengths that should allow their economies to snap back quickly, namely increased disposable income driven by the strong economic growth in the past decade, high levels of foreign exchange reserves, and lower inflation should boost consumption and economic growth. We continue to believe that this group should provide long-term growth opportunities for Boeing.

Cadbury plc (0.6%) (CBY - \$51.39 - NYSE) is a global producer of chocolate, chewing gum, and candy, selling its products under brands including Cadbury, Dentyne, and Trident. The company spun off its Americas Beverages business in 2008 and sold its Australian Beverages business in April 2009, making the company a pure play confectioner. Cadbury has significant exposure to fast growing emerging markets, including Latin America, Eastern Europe, and Asia. Management has also laid out aggressive plans for cost reductions in order to substantially increase margins over the next several years while maintaining strong revenue growth. On January 19, 2010, Kraft Foods Inc. raised its offer to buy the company for £8.40 per share (about \$55 per ADR), plus a 10 pence dividend to Cadbury shareholders. Cadbury's board now recommends the revised offer.

The Coca-Cola Company (2.3%) (KO - \$57.00 - NYSE), headquartered in Atlanta, GA, is the global leader in non-alcoholic beverages. Anchored by its iconic Coca-Cola brand, the company holds double volume global share advantage over its nearest competitor. The company owns or licenses nearly 500 brands and sells close to 3,000 different sparkling and still beverages in over 200 countries. We expect the company to deliver 10% compounded annual growth in earnings per share through 2013, driven by continued volume growth in emerging markets and volume improvements in the U.S. We expect innovation, e.g., Coke Zero, and continued expansion of healthy drink offerings, e.g., Vitaminwater and low calorie drinks sweetened with natural sweetener Truvia, to help revive U.S. volume growth.

Curtiss-Wright Corp. (0.1%) (CW - \$31.32 - NYSE) is a manufacturer of actuation and electronic devices for the aerospace and industrial markets. The company makes high performance actuation systems used in airplane wings, pumps, and valves for the nuclear power generation industry and provides laser and shot peening services to the aerospace, automotive, and general industrial markets. An area of strong growth for Curtiss-Wright is the nuclear power generation business. The company provides critical controlled pumps and valves. Currently, CW's growth is based on the plant life extension and maintenance of the 103 nuclear power plants in the U.S. Plant life extensions provide CW with substantial spare, repair, and engineering systems business. About thirty-nine plants have received licenses for an extended life. Another thirty-nine plants will be seeking plant life extension from now to 2012, and the remainder is expected to come afterwards. The company's nuclear business should increase CW's future earnings growth.

Danone (0.7%) (BN.FP - \$61.40 - Paris Stock Exchange) is a global leader in yogurt, baby nutrition, bottled water, and clinical nutrition. Throughout 2009, price deflation in dairy, Danone's main cost input for its yogurt business, allowed the company to increase promotions and marketing spending in order to spur volume growth while increasing profitability. The company also completed a €3 billion rights offering in June 2009, resulting in a stronger balance sheet and giving the company the flexibility to invest in its business and pursue acquisitions. While Danone continues to see medium term growth somewhat challenged, it continues to target 8%–10% sales growth long term. As the largest health and wellness “pure play”, we believe that Danone's long-term growth rate is superior to its food and beverage peers due to increasing per capita consumption in emerging markets, particularly for its core yogurt and baby nutrition products.

Eli Lilly & Co. (1.1%) (LLY - \$35.71 - NYSE) is a leading pharmaceutical company, with a particular focus on mental health disorders. Lilly is aggressively diversifying and searching for new drugs to replace three major patent expirations through 2013. The 2008 acquisition of ImClone provided the company with an additional revenue stream and a biologics footprint. The company continues to seek opportunities to increase its exposure to biologics and other high growth market segments, such as diabetes and central nervous system disorders, while paying an attractive dividend to shareholders.

Genuine Parts (0.7%) (GPC - \$37.96 - NYSE) Genuine Parts Company, located in Atlanta, Georgia, is a premier North American distributor of “consumables” such as automobile replacement parts, industrial bearings, mechanical power components, office products, and electrical and electronic components and replacement parts. The auto parts business encompasses a network of warehouses and jobber stores under the NAPA brand and is the company's largest and best known operating segment. We regard GPC as a strong cash flow generator that offers investors protection should the U.S. economy experience significant inflation. We expect GPC to benefit from positive auto aftermarket trends over the next five years.

Johnson & Johnson (1.5%) (JNJ - \$64.41 - NYSE) is the world's largest and most diversified healthcare company. 2009 was a challenging year for the company, as two major drugs lost patent protection and the company was impacted by the recession. In 2010, the company should return to growth driven by a strong pipeline of new drug launches in its pharmaceutical division combined with steady growth in its consumer and medical device divisions. Cash flow remains strong and has been used to make tuck-in acquisitions, increase the dividend, and buy back stock. Johnson & Johnson should be able to manage the impact of healthcare reform, and the stock rallied during the fourth quarter as the political process drew toward a conclusion.

MasterCard Inc. (0.2%) (MA - \$255.98 - NYSE) is a leading global payment company, operating a payment network and managing payment card brands including MasterCard, MasterCard Electronic, Maestro, and Cirrus. In 2008, the company processed almost 21 billion transactions on its network totaling over \$2.5 trillion in Gross Dollar Volume (GDV) from almost one billion outstanding debit and credit cards. The company benefits from the globalization of electronic payments and the shift of consumer spending from paper based (cash) to plastic (both debit and credit). The incumbent payment networks like MasterCard have a significant advantage on new competitors because of the high cost of replicating a global payment network, which should allow the company to continue to generate significant cash flow while growing earnings rapidly.

Rockwell Automation (1.4%) (ROK - \$46.98 - NYSE), based in Milwaukee, WI, is a leading global provider of industrial automation solutions that help end users and OEMs across industries to become more energy efficient, maximize asset utilization, and improve time to market. Rockwell's products include automation and control software and platforms, motion control systems, motor starters, sensors, and industrial computers. In fiscal year 2009, Rockwell generated revenues of \$4.3 billion and EBITDA of roughly \$500 million. With global energy and commodity prices rising, Rockwell's products should become more appealing to OEMs, as they reduce costs and enhance productivity by becoming more efficient. The company could also be potentially attractive to strategic buyers, particularly European industrial companies looking to expand in North America.

Wells Fargo & Co. (1.0%) (WFC - \$26.99 - NYSE) is a diversified financial services company with over \$1.2 trillion in assets funded by \$747 billion in core deposits, giving it the second highest deposit market share in the U.S. of 11.2%. These deposits and loans are gathered and managed through a nationwide network of 6,610 retail stores providing banking, insurance, investments, mortgage, and consumer finance and through the Internet. Wells Fargo's recent merger with Wachovia has given it a nationwide presence and is expected to generate annual cost savings of \$5 billion. Through the merger, Wells Fargo was able to writeoff much of Wachovia's most toxic assets, leaving current shareholders with a much cleaner balance sheet going forward. The company's strong consumer brand, nationwide branch network, and history of cross selling should drive earnings growth.

Conclusion

We think an environment in which generally flat market performance is punctuated by occasional corporate transactions is ideal for our Private Market Value ("PMV") with a Catalyst™ investment approach. We first and foremost select stocks based on their fundamentals. We seek an adequate margin of safety and one or more catalysts that can surface the intrinsic value of a security. To the extent that a takeover provides that catalyst, it adds an extra element of return to the portfolio.

Sincerely,



Mario J. Gabelli, CFA
Portfolio Manager and
Chief Investment Officer

January 29, 2010

Note: The views expressed in this Shareholder Commentary reflect those of the Portfolio Managers only through the end of the period stated in this Shareholder Commentary. The Portfolio Managers' views are subject to change at any time based on market and other conditions. The information in this Portfolio Managers' Shareholder Commentary represents the opinions of the individual Portfolio Managers and is not intended to be a forecast of future events, a guarantee of future results, or investment advice. Views expressed are those of the Portfolio Managers and may differ from those of other portfolio managers or of the Firm as a whole. This Shareholder Commentary does not constitute an offer of any transaction in any securities. Any recommendation contained herein may not be suitable for all investors. Information contained in this Shareholder Commentary has been obtained from sources we believe to be reliable, but cannot be guaranteed.

Portfolio Manager Compensation

Mr. Gabelli's incentive-based, variable compensation structure and dollar amount have been fully disclosed each year since April of 2000 in GAMCO Investors, Inc.'s (NYSE: GBL) annual proxy statement. Mr. Gabelli receives no base salary, no annual bonus, and no options.

As founder and portfolio manager of The Gabelli Equity Income Fund, Mr. Gabelli received \$3,578,127 in calendar 2008. In 1992, the Fund's first year of operation starting in January, Mr. Gabelli received less than \$165,000. As beneficial owner, he had \$5,775,083 invested in The Gabelli Equity Income Fund as of December 31, 2009, which includes the holdings of GBL and GGCP, Inc., GBL's parent holding company.

Minimum Initial Investment – \$1,000

The Fund's minimum initial investment for regular accounts is \$1,000. There are no subsequent investment minimums. No initial minimum is required for those establishing an Automatic Investment Plan. Additionally, the Fund and other Gabelli/GAMCO Funds are available through the no-transaction fee programs at many major brokerage firms. The Fund imposes a 2% redemption fee on shares sold in seven days or less of a purchase. See the prospectus for more details.

www.gabelli.com

Please visit us on the Internet. Our homepage at www.gabelli.com contains information about GAMCO Investors, Inc., the Gabelli/GAMCO Mutual Funds, IRAs, 401(k)s, current and historical quarterly reports, closing prices, and other current news. We welcome your comments and questions via e-mail at info@gabelli.com.

You may sign up for our e-mail alerts at www.gabelli.com and receive early notice of quarterly report availability, news events, media sightings, and mutual fund prices and performance.

The Fund's daily net asset value is available in the financial press and each evening after 7:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). The Fund's Nasdaq symbol is GABEX for Class AAA Shares. Please call us during the business day for further information.

Top Ten Holdings (Percent of Net Assets) December 31, 2009

The Coca-Cola Co. 2.3%	Pfizer Inc. 1.4%
Swedish Match AB 2.3%	Deere & Co. 1.4%
International Business Machines Corp. 1.8%	IMS Health Inc. 1.3%
Johnson & Johnson 1.5%	Chevron Corp. 1.1%
Rockwell Automation Inc. 1.4%	Eli Lilly & Co. 1.1%

e-delivery

We are pleased to offer electronic delivery of Gabelli fund documents. Direct shareholders of our open-end mutual funds can now elect to receive their Annual, Semiannual, and Quarterly Fund Reports, Manager Commentaries, and Prospectuses via e-delivery. For more information or to sign up for e-delivery, please visit our website at www.gabelli.com.

Multi-Class Shares

The Gabelli Equity Income Fund began offering additional classes of Fund shares on December 31, 2003. Class AAA Shares are no-load shares offered directly by selected broker/dealers. Class A and Class C Shares are targeted to the needs of investors who seek advice through financial consultants. Class I Shares are available solely to certain institutions which initially invest directly with the Fund. The minimum initial investment amount for Class I Shares is \$500,000. The Board of Directors determined that expanding the types of Fund shares available through various distribution options will enhance the ability of the Fund to attract additional investors.

Average Annual Returns – December 31, 2009 (a)(f)					
	Class AAA Shares	Class A Shares	Class B Shares	Class C Shares	Class I Shares
1 Year	29.14%	29.15%	28.17%	28.19%	28.20%
		21.72(c)	23.17(d)	27.19(e)	
5 Year	3.01	3.00	2.24	2.24	3.13
		1.78(c)	1.87(d)	2.24	
10 Year	5.52	5.52	5.05	5.06	5.59
		4.89(c)	5.05	5.06	
Life of Fund (b)	9.75	9.74	9.47	9.48	9.79
		9.38(c)	9.47	9.48	
Current Expense Ratio ..	1.50	1.50	2.25	2.25	1.25
Maximum Sales Charge ..	None	5.75	5.00	1.00	None
Ticker Symbols	GABEX	GCAEX	GCBEX	GCCEX	GCIEX

(a) **Returns represent past performance and do not guarantee future results.** Total returns and average annual returns reflect changes in share price and reinvestment of distributions and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.**

The Class AAA Shares' NAVs per share are used to calculate performance for the periods prior to the issuance of Class A Shares, Class B Shares, and Class C Shares on December 31, 2003 and Class I Shares on January 11, 2008. The actual performance for the Class B Shares and Class C Shares would have been lower and Class I Shares would have been higher due to the differences in expenses associated with these classes of shares.

(b) Performance is calculated from inception of Class AAA Shares on January 2, 1992.

(c) Includes the effect of the maximum 5.75% sales charge at the beginning of the period.

(d) Performance results include the deferred sales charges for the Class B Shares upon redemption at the end of the one year and five year periods of 5% and 2%, respectively, of the Fund's NAV per share at the time of purchase or sale, whichever is lower. Class B Shares are not available for new purchases.

(e) Performance results include the deferred sales charges for the Class C Shares upon redemption at the end of the one year period of 1% of the Fund's NAV per share at the time of purchase or sale, whichever is lower.

(f) The Fund's fiscal year ends September 30.

We have separated the portfolio manager's commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio manager's commentary is unrestricted. The financial statements and investment portfolio are mailed separately from the commentary. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at www.gabelli.com/funds.

GABELLI FAMILY OF FUNDS

VALUE

Gabelli Asset Fund

Seeks to invest primarily in a diversified portfolio of common stocks selling at significant discounts to their private market value. The Fund's primary objective is growth of capital. (Multiclass)

Portfolio Manager: Mario J. Gabelli, CFA

Gabelli Blue Chip Value Fund

Seeks long term growth of capital through investment primarily in the common stocks of established companies which are temporarily out of favor. The fund's objective is to identify a catalyst or sequence of events that will return the company to a higher value. (Multiclass)

Portfolio Manager: Barbara Marcin, CFA

GAMCO Westwood Equity Fund

Seeks to invest primarily in the common stock of well seasoned companies that have recently reported positive earnings surprises and are trading below Westwood's proprietary growth rate estimates. The Fund's primary objective is capital appreciation. (Multiclass)

Portfolio Manager: Susan M. Byrne

FOCUSED VALUE

Gabelli Value Fund

Seeks to invest in securities of companies believed to be undervalued. The Fund's primary objective is long-term capital appreciation. (Multiclass)

Portfolio Manager: Mario J. Gabelli, CFA

SMALL CAP VALUE

Gabelli Small Cap Fund

Seeks to invest primarily in common stock of smaller companies (market capitalizations at the time of investment of \$2 billion or less) believed to have rapid revenue and earnings growth potential. The Fund's primary objective is capital appreciation. (Multiclass)

Portfolio Manager: Mario J. Gabelli, CFA

GAMCO Westwood SmallCap Equity Fund

Seeks to invest primarily in smaller capitalization equity securities – market caps of \$2.5 billion or less. The Fund's primary objective is long-term capital appreciation. (Multiclass)

Portfolio Manager: Nicholas F. Galluccio

Gabelli Woodland Small Cap Value Fund

Seeks to invest primarily in the common stocks of smaller companies (market capitalizations generally less than \$3.0 billion) believed to be undervalued with shareholder oriented management teams that are employing strategies to grow the company's value. The Fund's primary objective is capital appreciation. (Multiclass)

Portfolio Manager: Elizabeth M. Lilly, CFA

GROWTH

GAMCO Growth Fund

Seeks to invest primarily in large cap stocks believed to have favorable, yet undervalued, prospects for earnings growth. The Fund's primary objective is capital appreciation. (Multiclass)

Portfolio Manager: Howard F. Ward, CFA

GAMCO International Growth Fund

Seeks to invest in the equity securities of foreign issuers with long-term capital appreciation potential. The Fund offers investors global diversification. (Multiclass)

Portfolio Manager: Caesar Bryan

AGGRESSIVE GROWTH

GAMCO Global Growth Fund

Seeks capital appreciation through a disciplined investment program focusing on the globalization and interactivity of the world's marketplace. The Fund invests in companies at the forefront of accelerated growth. The Fund's primary objective is capital appreciation. (Multiclass)

Team Managed

MICRO-CAP

GAMCO Westwood Mighty MitesSM Fund

Seeks to invest in micro-cap companies that have market capitalizations of \$300 million or less. The Fund's primary objective is long-term capital appreciation. (Multiclass)

Team Managed

EQUITY INCOME

Gabelli Equity Income Fund

Seeks to invest primarily in equity securities with above average market yields. The Fund pays monthly dividends and seeks a high level of total return with an emphasis on income. (Multiclass)

Portfolio Manager: Mario J. Gabelli, CFA

GAMCO Westwood Balanced Fund

Seeks to invest in a balanced and diversified portfolio of stocks and bonds. The Fund's primary objective is both capital appreciation and current income. (Multiclass)

Co-Portfolio Managers: Susan M. Byrne
Mark Freeman, CFA

GAMCO Westwood Income Fund

Seeks to provide a high level of current income as well as long-term capital appreciation by investing in income producing equity and fixed income securities. (Multiclass)

Portfolio Manager: Barbara Marcin, CFA

SPECIALTY EQUITY

GAMCO Global Convertible Securities Fund

Seeks to invest principally in bonds and preferred stocks which are convertible into common stock of foreign and domestic companies. The Fund's primary objective is total return through a combination of current income and capital appreciation. (Multiclass)

Team Managed

GAMCO Global Opportunity Fund

Seeks to invest in common stock of companies which have rapid growth in revenues and earnings and potential for above average capital appreciation or are undervalued. The Fund's primary objective is capital appreciation. (Multiclass)

Team Managed

Gabelli SRI Green Fund

Seeks to invest in common and preferred stocks meeting guidelines for social responsibility (avoiding defense contractors and manufacturers of alcohol, abortifacients, gaming, and tobacco products) and sustainability (companies engaged in climate change, energy security and independence, natural resource shortages, organic living, and urbanization). The Fund's primary objective is capital appreciation. (Multiclass)

Co-Portfolio Managers: Christopher C. Desmarais
John M. Segrich, CFA

SECTOR

GAMCO Global Telecommunications Fund

Seeks to invest in telecommunications companies throughout the world – targeting undervalued companies with strong earnings and cash flow dynamics. The Fund's primary objective is capital appreciation. (Multiclass)

Team Managed

GAMCO Gold Fund

Seeks to invest in a global portfolio of equity securities of gold mining and related companies. The Fund's objective is long-term capital appreciation. Investment in gold stocks is considered speculative and is affected by a variety of worldwide economic, financial, and political factors. (Multiclass)

Portfolio Manager: Caesar Bryan

Gabelli Utilities Fund

Seeks to provide a high level of total return through a combination of capital appreciation and current income. (Multiclass)

Team Managed

MERGER AND ARBITRAGE

Gabelli ABC Fund

Seeks to invest in securities with attractive opportunities for appreciation or investment income. The Fund's primary objective is total return in various market conditions without excessive risk of capital loss. (No-load)

Portfolio Manager: Mario J. Gabelli, CFA

Gabelli Enterprise Mergers and Acquisitions Fund

Seeks to invest in securities believed to be likely acquisition targets within 12–18 months or in arbitrage transactions of publicly announced mergers or other corporate reorganizations. The Fund's primary objective is capital appreciation. (Multiclass)

Portfolio Manager: Mario J. Gabelli, CFA

CONTRARIAN

GAMCO Mathers Fund

Seeks long-term capital appreciation in various market conditions without excessive risk of capital loss. (No-load)

Portfolio Manager: Henry Van der Eb, CFA

Comstock Capital Value Fund

Seeks capital appreciation and current income. The Fund may use either long or short positions to achieve its objective. (Multiclass)

Portfolio Manager: Martin Weiner, CFA

FIXED INCOME

GAMCO Westwood Intermediate Bond Fund

Seeks to invest in a diversified portfolio of bonds with various maturities. The Fund's primary objective is total return. (Multiclass)

Portfolio Manager: Mark Freeman, CFA

CASH MANAGEMENT-MONEY MARKET

Gabelli U.S. Treasury Money Market Fund

Seeks to invest exclusively in short-term U.S. Treasury securities. The Fund's primary objective is to provide high current income consistent with the preservation of principal and liquidity. (No-load)

Co-Portfolio Managers: Judith A. Raneri
Ronald S. Eaker

An investment in the above Money Market Fund is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any government agency. Although the Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the Fund.

The Funds may invest in foreign securities which involve risks not ordinarily associated with investments in domestic issues, including currency fluctuation, economic, and political risks.

To receive a prospectus, call **800-GABELLI** (422-3554). Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.

Gabelli Equity Series Funds, Inc.
The Gabelli Equity Income Fund

One Corporate Center
Rye, New York 10580-1422

800-GABELLI

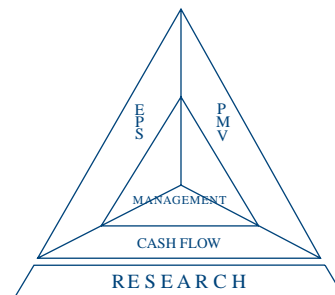
800-422-3554

fax: 914-921-5118

website: www.gabelli.com

e-mail: info@gabelli.com

Net Asset Value per share available daily by calling
800-GABELLI after 7:00 P.M.



Board of Directors

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Gabelli & Company, Inc.

Custodian, Transfer Agent, and Dividend Agent

State Street Bank and Trust Company

Legal Counsel

Skadden, Arps, Slate, Meagher & Flom LLP



The Gabelli Equity Income Fund

*Morningstar® rated The Gabelli Equity Income Fund
Class AAA Shares 5 stars overall and 5 stars
for the three, five and ten year periods ended
December 31, 2009 among 1,104; 1,104; 912;
and 459 Large Value funds, respectively.*

This report is submitted for the general information of the shareholders of The Gabelli Equity Income Fund. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.

GAB444Q409SC

**SHAREHOLDER COMMENTARY
DECEMBER 31, 2009**

The Gabelli Equity Income Fund

First Quarter Report (a) – December 31, 2009



Morningstar® rated The Gabelli Equity Income Fund Class AAA Shares 5 stars overall and 5 stars for the three, five and ten year periods ended December 31, 2009 among 1,104; 1,104; 912; and 459 Large Value funds, respectively.



Mario Gabelli, CFA

To Our Shareholders,

During the quarter ended December 31, 2009, the net asset value (“NAV”) per Class AAA Share of The Gabelli Equity Income Fund (the “Fund”) increased 4.6%, while the Standard & Poor’s (“S&P”) 500 Index and the Lipper Equity Income Fund Average rose 6.0% and 5.8%, respectively.

Enclosed is the investment portfolio as of December 31, 2009.

Comparative Results

Average Annual Returns through December 31, 2009 (a)(b) (Unaudited)

	Quarter	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception (1/2/92)
Gabelli Equity Income Fund							
Class AAA	4.62%	29.14%	(2.93)%	3.01%	5.52%	9.82%	9.75%
S&P 500 Index	6.04	26.47	(5.62)	0.42	(0.95)	8.04	7.75
Nasdaq Composite Index	6.64	46.72	(5.80)	(1.22)	(2.45)	7.64	7.81
Lipper Equity Income Fund Average	5.77	22.87	(5.43)	1.10	2.77	7.73	7.78
Class A	4.63	29.15	(2.90)	3.00	5.52	9.82	9.74
Class B	(1.38)(c)	21.72(c)	(4.80)(c)	1.78(c)	4.89(c)	9.38(c)	9.38(c)
Class C	4.41	28.17	(3.66)	2.24	5.05	9.49	9.47
Class I	(0.59)(d)	23.17(d)	(4.63)(d)	1.87(d)	5.05	9.49	9.47
Class A	4.41	28.19	(3.66)	2.24	5.06	9.50	9.48
Class B	3.41(e)	27.19(e)	(3.66)	2.24	5.06	9.50	9.48
Class C	4.71	28.20	(2.73)	3.13	5.59	9.87	9.79

In the current prospectus, the expense ratios for Class AAA, A, B, C, and I Shares are 1.50%, 1.50%, 2.25%, 2.25%, and 1.25%, respectively. Class AAA and I Shares do not have a sales charge. The maximum sales charge for Class A, B, and C Shares is 5.75%, 5.00%, and 1.00%, respectively.

(a) The Fund’s fiscal year ends September 30.

(b) **Returns represent past performance and do not guarantee future results.** Total returns and average annual returns reflect changes in share price and reinvestment of distributions and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. Performance returns for periods of less than one year are not annualized. Current performance may be lower or higher than the performance data presented. Visit www.gabelli.com for performance information as of the most recent month end. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.**

The Class AAA Share NAVs per share are used to calculate performance for the periods prior to the issuance of Class A Shares, Class B Shares, and Class C Shares on December 31, 2003 and Class I Shares on January 11, 2008. The actual performance for the Class B Shares and Class C Shares would have been lower and Class I Shares would have been higher due to the differences in expenses associated with these classes of shares. The S&P 500 and NASDAQ Composite Indices are unmanaged indicators of stock market performance, while the Lipper Equity Income Fund Average reflects the average performance of mutual funds classified in this particular category. Dividends are considered reinvested. You cannot invest directly in an index.

(c) Performance results include the effect of the maximum 5.75% sales charge at the beginning of the period.

(d) Performance results include the deferred sales charges for the Class B Shares upon redemption at the end of the quarter, one year, three year, and five year periods of 5%, 5%, 3%, and 2%, respectively, of the Fund’s NAV per share at the time of purchase or sale, whichever is lower. Class B Shares are not available for new purchases.

(e) Performance results include the deferred sales charges for the Class C Shares upon redemption at the end of the quarter and one year periods of 1% of the Fund’s NAV per share at the time of purchase or sale, whichever is lower.

Morningstar Rating™ is based on risk-adjusted returns. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with a fund’s three, five, and ten year (if applicable) Morningstar Rating metrics. For funds with at least a three year history, a Morningstar Rating is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees) placing more emphasis on downward variations and rewarding consistent performance. That accounts for variations in a fund’s monthly performance. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Morningstar Rating is for the AAA Share class only; other classes may have different performance characteristics. Ratings reflect relative performance. Results for certain periods were negative. ©2009 Morningstar, Inc. All Rights Reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

The Gabelli Equity Income Fund

Schedule of Investments — December 31, 2009 (Unaudited)

<u>Shares</u>	<u>Market Value</u>	<u>Shares</u>	<u>Market Value</u>
COMMON STOCKS — 97.3%			
Aerospace — 3.2%			
2,000	Lockheed Martin Corp. \$	160,000	DISH Network Corp., Cl. A \$
2,000	Northrop Grumman Corp.	16,000	EchoStar Corp., Cl. A†
10,000	Raytheon Co.	55,000	Scripps Networks Interactive Inc., Cl. A
381,000	Rockwell Automation Inc.		11,931,040
2,000	Rockwell Collins Inc.	Communications Equipment — 0.8%	
1,370,000	Rolls-Royce Group plc†	250,000	Corning Inc.
78,600,000	Rolls-Royce Group plc, Cl. C†	100,000	Motorola Inc.†
208,000	The Boeing Co.	120,000	Thomas & Betts Corp.†
	40,872,670		9,898,300
Agriculture — 1.2%			
100,000	Archer-Daniels-Midland Co.	173,000	International Business Machines Corp.
138,000	Monsanto Co.	310,000	Xerox Corp.
12,000	The Mosaic Co.		25,268,300
	15,129,260	Computer Hardware — 2.0%	
Automotive — 0.3%			
93,000	Navistar International Corp.†	120,000	Fidelity National Information Services Inc.
	3,594,450	285,000	Microsoft Corp.
Automotive: Parts and Accessories — 1.4%			
250,000	Genuine Parts Co.	35,000	Sun Microsystems Inc.†
6,000	Johnson Controls Inc.	170,000	Yahoo! Inc.†
60,000	Modine Manufacturing Co.†		14,683,000
140,000	O'Reilly Automotive Inc.†	Computer Software and Services — 1.2%	
55,100	Tenneco Inc.†	50,000	Altria Group Inc.
140,000	The Pep Boys - Manny, Moe & Jack	140,000	Avon Products Inc.
	17,861,963	15,000	Clorox Co.
Aviation: Parts and Services — 0.3%			
53,200	Curtiss-Wright Corp.	10,000	Compagnie Financiere Richemont SA, Cl. A
40,000	GenCorp Inc.†	900,000	Eastman Kodak Co.†
6,000	Precision Castparts Corp.	63,000	Energizer Holdings Inc.†
21,000	United Technologies Corp.	128,000	Fortune Brands Inc.
	4,065,934	5,000	Hanesbrands Inc.†
Broadcasting — 0.3%			
230,000	CBS Corp., Cl. A, Voting	40,000	Harman International Industries Inc.
30,000	CBS Corp., Cl. B, Non-Voting	220,000	Kimberly-Clark Corp.
132	Granite Broadcasting Corp.†	7,000	National Presto Industries Inc.
	3,653,000	10,000	Pactiv Corp.†
Business Services — 0.7%			
10,000	Automatic Data Processing Inc.	50,000	Phillip Morris International Inc.
185,000	Diebold Inc.	100,000	Reckitt Benckiser Group plc
4,000	Landauer Inc.	1,310,000	Swedish Match AB
10,000	MasterCard Inc., Cl. A	200,000	The Procter & Gamble Co.
	8,496,850	78,000	Unilever NV - NY Shares, ADR
Cable and Satellite — 0.9%			
155,000	Cablevision Systems Corp., Cl. A		87,590,301
60,000	DIRECTV, Cl. A†	Consumer Products — 6.9%	
	2,001,000	50,000	Altria Group Inc.
Business Services — 0.1%			
10,000	Automatic Data Processing Inc.	140,000	Avon Products Inc.
185,000	Diebold Inc.	15,000	Clorox Co.
4,000	Landauer Inc.	10,000	Compagnie Financiere Richemont SA, Cl. A
10,000	MasterCard Inc., Cl. A	900,000	Eastman Kodak Co.†
	8,496,850	63,000	Energizer Holdings Inc.†
Diversified Industrial — 3.3%			
5,000	3M Co.	128,000	Fortune Brands Inc.
4,000	Acuty Brands Inc.	5,000	Hanesbrands Inc.†
5,000	Alstom SA	40,000	Harman International Industries Inc.
65,000	Baldor Electric Co.	220,000	Kimberly-Clark Corp.
100,000	Cooper Industries plc	7,000	National Presto Industries Inc.
96,000	Crane Co.	10,000	Pactiv Corp.†
	2,939,520	50,000	Phillip Morris International Inc.
		100,000	Reckitt Benckiser Group plc
		1,310,000	Swedish Match AB
		200,000	The Procter & Gamble Co.
		78,000	Unilever NV - NY Shares, ADR
			87,590,301

See accompanying notes to schedule of investments.

The Gabelli Equity Income Fund

Schedule of Investments (Continued) — December 31, 2009 (Unaudited)

<u>Shares</u>	<u>Market Value</u>	<u>Shares</u>	<u>Market Value</u>
COMMON STOCKS (Continued)		15,000	Progress Energy Inc., CVO† \$ 2,250
Diversified Industrial (Continued)		7,200	Public Service Enterprise Group Inc. 239,400
835,000	General Electric Co. \$ 12,633,550	30,000	Suncor Energy Inc., New York 1,059,300
210,000	Honeywell International Inc. 8,232,000	21,000	Suncor Energy Inc., Toronto 747,153
30,000	ITT Corp. 1,492,200	50,000	TECO Energy Inc. 811,000
4,000	Jardine Matheson Holdings Ltd. 120,720	140,000	Westar Energy Inc. 3,040,800
20,000	Jardine Strategic Holdings Ltd. 352,000		39,331,032
413,003	National Patent Development Corp.† (b) 660,805	Energy and Utilities: Natural Gas — 1.6%	
120,000	Textron Inc. 2,257,200	14,000	AGL Resources Inc. 510,580
6,000	Trinity Industries Inc. 104,640	25,000	Atmos Energy Corp. 735,000
180,000	Tyco International Ltd. 6,422,400	130,000	National Fuel Gas Co. 6,500,000
2,000	WHX Corp.† 4,800	75,000	ONEOK Inc. 3,342,750
	42,217,244	24,000	Piedmont Natural Gas Co. Inc. 642,000
Electronics — 1.8%		110,000	Southern Union Co. 2,497,000
600,000	Intel Corp. 12,240,000	65,000	Southwest Gas Corp. 1,854,450
340,000	LSI Corp.† 2,043,400	200,000	Spectra Energy Corp. 4,102,000
190,000	Texas Instruments Inc. 4,951,400		20,183,780
6,000	Thermo Fisher Scientific Inc.† 286,140	Energy and Utilities: Oil — 6.2%	
130,250	Tyco Electronics Ltd. 3,197,638	157,000	Anadarko Petroleum Corp. 9,799,940
	22,718,578	38,000	Canadian Oil Sands Trust 1,086,752
Energy and Utilities: Electric — 1.3%		190,000	Chevron Corp. 14,628,100
30,000	American Electric Power Co. Inc. 1,043,700	185,000	ConocoPhillips 9,447,950
14,000	DTE Energy Co. 610,260	22,000	Denbury Resources Inc.† 325,600
85,000	El Paso Electric Co.† 1,723,800	49,000	Devon Energy Corp. 3,601,500
80,000	FPL Group Inc. 4,225,600	149,000	Exxon Mobil Corp. 10,160,310
97,000	Great Plains Energy Inc. 1,880,830	35,000	Marathon Oil Corp. 1,092,700
60,000	Korea Electric Power Corp., ADR† 872,400	30,000	Nexen Inc. 723,431
56,087	Mirant Corp.† 856,448	2,000	Niko Resources Ltd. 188,172
1,200,000	Mirant Corp., Escrow† (a) 0	94,000	Occidental Petroleum Corp. 7,646,900
150,000	Northeast Utilities 3,868,500	12,000	PetroChina Co. Ltd., ADR 1,427,520
80,000	The AES Corp.† 1,064,800	128,000	Petroleo Brasileiro SA, ADR 6,103,040
13,333	UIL Holdings Corp. 374,391	33,000	Repsol YPF SA, ADR 879,780
	16,520,729	120,000	Royal Dutch Shell plc, Cl. A, ADR 7,213,200
Energy and Utilities: Integrated — 3.1%		25,000	Statoil ASA, ADR 622,750
50,000	Allegheny Energy Inc. 1,174,000	17,518	Total SA, ADR 1,121,853
44,000	BP plc, ADR 2,550,680	36,000	Transocean Ltd.† 2,980,800
46,000	CH Energy Group Inc. 1,955,920	160,000	UTS Energy Corp.† 348,807
80,000	Constellation Energy Group Inc. 2,813,600	40,000	WesternZagros Resources Ltd.† 29,450
70,000	Dominion Resources Inc. 2,724,400		79,428,555
100,000	DPL Inc. 2,760,000	Energy and Utilities: Services — 2.0%	
200,000	Duke Energy Corp. 3,442,000	30,000	ABB Ltd., ADR 573,000
400,000	El Paso Corp. 3,932,000	52,000	Cameron International Corp.† 2,173,600
29,000	ENI SpA 739,997	38,178	GDF Suez, Strips 55
6,269	Iberdrola SA, ADR 237,282	370,000	Halliburton Co. 11,133,300
25,000	Integrus Energy Group Inc. 1,049,750	40,000	Oceaneering International Inc.† 2,340,800
80,000	NSTAR 2,944,000	40,000	Schlumberger Ltd. 2,603,600
75,000	OGE Energy Corp. 2,766,750	400,000	Weatherford International Ltd.† 7,164,000
100,000	PNM Resources Inc. 1,265,000		25,988,355
75,000	Progress Energy Inc. 3,075,750		

See accompanying notes to schedule of investments.

The Gabelli Equity Income Fund

Schedule of Investments (Continued) — December 31, 2009 (Unaudited)

<u>Shares</u>	<u>Market Value</u>	<u>Shares</u>	<u>Market Value</u>
COMMON STOCKS (Continued)			
Energy and Utilities: Water — 0.0%			
30,000	Aqua America Inc. \$ 525,300	116,000	M&T Bank Corp. \$ 7,759,240
Entertainment — 1.6%		410,000	Marsh & McLennan Companies Inc. 9,052,800
100,000	Grupo Televisa SA, ADR 2,076,000	190,000	Morgan Stanley 5,624,000
120,000	Time Warner Inc. 3,496,800	6,000	Northern Trust Corp. 314,400
300,000	Viacom Inc., Cl. A† 9,450,000	80,000	NYSE Euronext 2,024,000
185,000	Vivendi 5,514,966	12,000	Och-Ziff Capital Management Group LLC, Cl. A 164,880
	<u>20,537,766</u>	50,000	PNC Financial Services Group Inc. 2,639,500
Environmental Services — 0.4%		500	Raiffeisen International Bank Holding AG 28,313
145,000	Waste Management Inc. 4,902,450	958	Reinet Investments SCA† 15,107
Equipment and Supplies — 1.6%		20,000	Royal Bank of Canada 1,071,000
12,000	A.O. Smith Corp. 520,680	165,000	SLM Corp.† 1,859,550
11,000	Danaher Corp. 827,200	185,000	Sterling Bancorp 1,320,900
95,000	Flowserve Corp. 8,980,350	12,000	SunTrust Banks Inc. 243,480
6,000	Ingersoll-Rand plc 214,440	50,000	T. Rowe Price Group Inc. 2,662,500
1,500	Minerals Technologies Inc. 81,705	100,000	TD Ameritrade Holding Corp.† 1,938,000
40,000	Mueller Industries Inc. 993,600	2,000	The Allstate Corp. 60,080
12,000	Parker Hannifin Corp. 646,560	500,000	The Bank of New York Mellon Corp. 13,985,000
107,000	Tenaris SA, ADR 4,563,550	15,000	The Charles Schwab Corp. 282,300
970,000	Tomkins plc 3,026,941	2,000	The Dun & Bradstreet Corp. 168,740
	<u>19,855,026</u>	9,000	The Goldman Sachs Group Inc. 1,519,560
Exchange Traded Funds — 0.1%		7,000	The Student Loan Corp. 325,990
300,000	Proshares Ultra Financials 1,689,000	36,000	The Travelers Companies Inc. 1,794,960
Financial Services — 12.0%		40,000	Unitrin Inc. 882,000
6,324	Alleghany Corp.† 1,745,424	180,000	Waddell & Reed Financial Inc., Cl. A 5,497,200
206,200	AllianceBernstein Holding LP 5,794,220	480,000	Wells Fargo & Co. 12,955,200
270,000	American Express Co. 10,940,400	105,000	Wilmington Trust Corp. 1,295,700
23,990	Argo Group International Holdings Ltd.† 699,069		<u>152,459,163</u>
25,500	Banco Popular Espanol SA 187,530	Food and Beverage — 12.4%	
2,000	Banco Santander Chile, ADR 129,560	30,000	Anheuser-Busch InBev NV 1,565,219
160,000	Banco Santander SA, ADR 2,630,400	64,000	Brown-Forman Corp., Cl. A 3,606,400
390,000	Bank of America Corp. 5,873,400	13,500	Brown-Forman Corp., Cl. B 723,195
12,156	BNP Paribas 974,125	160,000	Cadbury plc, ADR 8,222,400
1,000,000	Citigroup Inc. 3,310,000	150,000	Campbell Soup Co. 5,070,000
40,000	Commerzbank AG, ADR† 338,000	40,000	Coca-Cola Amatil Ltd., ADR 833,600
55,000	Deutsche Bank AG 3,900,050	16,000	Coca-Cola Femsa SAB de CV, ADR 1,051,520
105,000	Discover Financial Services 1,544,550	200,000	Constellation Brands Inc., Cl. A† 3,186,000
200,300	Federal National Mortgage Association† 236,354	20,000	Corn Products International Inc. 584,600
30,000	Federated Investors Inc., Cl. B 825,000	136,389	Danone 8,374,129
27,000	Fidelity Southern Corp.† 97,200	300,000	Dean Foods Co.† 5,412,000
210,000	H&R Block Inc. 4,750,200	60,000	Del Monte Foods Co. 680,400
150,000	Janus Capital Group Inc. 2,017,500	62,000	Diageo plc, ADR 4,303,420
260,199	JPMorgan Chase & Co. 10,842,492	110,000	Dr. Pepper Snapple Group Inc. 3,113,000
46,100	Kinnevik Investment AB, Cl. A 773,203	140,000	Fomento Economico Mexicano SAB de CV, ADR 6,703,200
18,000	Kinnevik Investment AB, Cl. B 269,196	110,000	General Mills Inc. 7,789,100
440,000	Legg Mason Inc. 13,270,400	800,000	Grupo Bimbo SAB de CV, Cl. A 5,210,213
31,000	Leucadia National Corp.† 737,490	122,000	H.J. Heinz Co. 5,216,720
140,000	Loews Corp. 5,089,000	125,000	Heineken NV 5,960,871
		200,000	ITO EN Ltd. 2,999,946
		3,000	Kellogg Co. 159,600
		420,000	Kraft Foods Inc., Cl. A 11,415,600
		100,000	Nestlé SA 4,852,820

See accompanying notes to schedule of investments.

The Gabelli Equity Income Fund

Schedule of Investments (Continued) — December 31, 2009 (Unaudited)

Shares	Market Value	Shares	Market Value
COMMON STOCKS (Continued)		Machinery — 1.4%	
Food and Beverage (Continued)		6,000	Caterpillar Inc. \$ 341,940
105,000	NISSIN FOODS HOLDINGS CO. LTD. \$ 3,416,009	320,400	Deere & Co. 17,330,436
2,000,000	Parmalat SpA 5,599,438	10,009	Mueller Water Products Inc., Cl. A 52,047
100,000	PepsiAmericas Inc. 2,926,000		<u>17,724,423</u>
33,607	Pernod-Ricard SA 2,886,299	Metals and Mining — 2.3%	
40,000	Remy Cointreau SA 2,041,659	500,000	Alcoa Inc. 8,060,000
100,000	Sapporo Holdings Ltd. 546,518	10,000	Carpenter Technology Corp. 269,500
523,000	The Coca-Cola Co. 29,811,000	125,000	Freeport-McMoRan Copper & Gold Inc.† 10,036,250
80,000	The Hershey Co. 2,863,200	190,000	Newmont Mining Corp. 8,988,900
60,268	Tootsie Roll Industries Inc. 1,650,138	45,000	Peabody Energy Corp. 2,034,450
380,000	Tyson Foods Inc., Cl. A 4,662,600	2,000	Royal Gold Inc. 94,200
28,000	Wimm-Bill-Dann Foods OJSC, ADR† 667,240	6,615	Teck Resources Ltd., Cl. B† 232,886
135,000	YAKULT HONSHA Co. Ltd. 4,073,120		<u>29,716,186</u>
	<u>158,177,174</u>	Publishing — 0.1%	
Health Care — 12.1%		5,000	Idearc Inc.† 17
40,000	Abbott Laboratories 2,159,600	6,016	News Corp., Cl. B 95,775
25,000	Aetna Inc. 792,500	20,000	PagesJaunes Groupe 223,633
125,000	Baxter International Inc. 7,335,000	30,000	The McGraw-Hill Companies Inc. 1,005,300
100,000	Becton, Dickinson and Co. 7,886,000	800	The Washington Post Co., Cl. B 351,680
500,000	Boston Scientific Corp.† 4,500,000	3,000	Value Line Inc. 75,330
210,000	Bristol-Myers Squibb Co. 5,302,500		<u>1,751,735</u>
280,000	Covidien plc 13,409,200	Real Estate — 0.0%	
400,000	Eli Lilly & Co. 14,284,000	10,000	Griffin Land & Nurseries Inc. 291,300
11,276	GlaxoSmithKline plc, ADR 476,411	Retail — 5.8%	
22,000	Henry Schein Inc.† 1,157,200	6,000	AutoZone Inc.† 948,420
100,000	Hospira Inc.† 5,100,000	33,000	Copart Inc.† 1,208,790
800,000	IMS Health Inc. 16,848,000	225,000	Costco Wholesale Corp. 13,313,250
290,000	Johnson & Johnson 18,678,900	410,000	CVS Caremark Corp. 13,206,100
16,000	Laboratory Corp. of America Holdings† 1,197,440	76,600	Ingles Markets Inc., Cl. A 1,158,958
6,000	Mead Johnson Nutrition Co. Cl. A 262,200	510,000	Macy's Inc. 8,547,600
24,000	Medco Health Solutions Inc.† 1,533,840	170,000	Safeway Inc. 3,619,300
180,000	Merck & Co. Inc. 6,577,200	500	Sears Holdings Corp.† 41,725
5,000	Nobel Biocare Holding AG 168,109	70,000	SUPERVALU Inc. 889,700
145,000	Novartis AG, ADR 7,892,350	220,000	The Great Atlantic & Pacific Tea Co. Inc.† 2,593,800
35,000	Patterson Companies Inc.† 979,300	100,000	The Home Depot Inc. 2,893,000
966,700	Pfizer Inc. 17,584,273	65,000	Tractor Supply Co.† 3,442,400
75,000	St. Jude Medical Inc.† 2,758,500	234,000	Wal-Mart Stores Inc. 12,507,300
750,000	Tenet Healthcare Corp.† 4,042,500	155,000	Walgreen Co. 5,691,600
270,000	UnitedHealth Group Inc. 8,229,600	10,000	Weis Markets Inc. 363,600
18,000	William Demant Holding A/St 1,361,049	100,000	Whole Foods Market Inc.† 2,745,000
44,000	Zimmer Holdings Inc.† 2,600,840		<u>73,170,543</u>
	<u>153,116,512</u>	Specialty Chemicals — 1.3%	
125,000	International Game Technology 2,346,250	44,000	Albemarle Corp. 1,600,280
1,204,352	Ladbrokes plc 2,674,738	45,000	Ashland Inc. 1,782,900
300,000	Las Vegas Sands Corp.† 4,482,000	85,000	E. I. du Pont de Nemours and Co. 2,861,950
390,000	MGM Mirage† 3,556,800	260,000	Ferro Corp. 2,142,400
80,000	Starwood Hotels & Resorts Worldwide Inc. 2,925,600	2,000	FMC Corp. 111,520
15,000	Wynn Resorts Ltd. 873,450		
	<u>16,858,838</u>		

See accompanying notes to schedule of investments.

The Gabelli Equity Income Fund

Schedule of Investments (Continued) — December 31, 2009 (Unaudited)

<u>Principal Amount</u>	<u>Market Value</u>
CORPORATE BONDS (Continued)	
Specialty Chemicals — 0.1%	
\$ 950,000	Ferro Corp., Cv., 6.500%, 08/15/13 \$ 847,875
	TOTAL CORPORATE BONDS <u>15,294,200</u>
U.S. GOVERNMENT OBLIGATIONS — 1.3%	
U.S. Treasury Bills — 0.8%	
10,193,000	U.S. Treasury Bills, 0.041% to 0.152%††, 03/25/10 to 06/03/10 <u>10,188,213</u>
U.S. Treasury Cash Management Bills — 0.4%	
4,235,000	U.S. Treasury Cash Management Bills, 0.137% to 0.178%††, 06/10/10 to 06/17/10 <u>4,231,806</u>
U.S. Treasury Notes — 0.1%	
1,500,000	U.S. Treasury Notes, 4.125%, 08/15/10 <u>1,535,567</u>
	TOTAL U.S. GOVERNMENT OBLIGATIONS <u>15,955,586</u>
TOTAL INVESTMENTS — 100.0%	
	(Cost \$1,169,663,554) <u>\$1,272,605,268</u>
	Aggregate book cost <u>\$1,169,663,554</u>
	Gross unrealized appreciation \$ 194,775,258
	Gross unrealized depreciation (91,833,544)
	Net unrealized appreciation/depreciation <u>\$ 102,941,714</u>

- (a) Security fair valued under procedures established by the Board of Directors. The procedures may include reviewing available financial information about the company and reviewing the valuation of comparable securities and other factors on a regular basis. At December 31, 2009, the market value of fair valued securities amounted to \$913,184 or 0.07% of total investments.
- (b) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. These securities may be resold in transactions exempt from registration, normally to qualified institutional buyers. At December 31, 2009, the market value of Rule 144A securities amounted to \$7,410,434 or 0.58% of total investments.
- † Non-income producing security.
- †† Represents annualized yield at date of purchase.
- ADR American Depositary Receipt
- CVO Contingent Value Obligation
- STEP Step coupon bond. The rate disclosed is that in effect at December 31, 2009.

See accompanying notes to schedule of investments.

The Gabelli Equity Income Fund

Notes to Schedule of Investments (Unaudited)

1. Security Valuation. Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the United States over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market's official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Directors (the "Board") so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by Gabelli Funds, LLC, (the "Adviser").

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of sixty days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities' fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than sixty days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board.

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

- Level 1 – quoted prices in active markets for identical securities;
- Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); and
- Level 3 – significant unobservable inputs (including the Fund's determinations as to the fair value of investments).

The Gabelli Equity Income Fund

Notes to Schedule of Investments (Continued) (Unaudited)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of the Fund's investments and other financial instruments by inputs used to value the Fund's investments as of December 31, 2009 is as follows:

	Valuation Inputs			Total Market Value at 12/31/09
	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	
INVESTMENTS IN SECURITIES:				
ASSETS (Market Value):				
Common Stocks:				
Aerospace	\$ 40,745,716	\$ 126,954	—	\$ 40,872,670
Energy and Utilities: Electric	16,520,729	—	\$ 0	16,520,729
Telecommunications	64,592,403	120,184	—	64,712,587
Other Industries (a)	1,116,830,851	—	—	1,116,830,851
Total Common Stocks	1,238,689,699	247,138	—	1,238,936,837
Preferred Stocks (a)	2,418,645	—	—	2,418,645
Warrants (a)	—	0	—	0
Corporate Bonds	—	15,294,200	—	15,294,200
U.S. Government Obligations	—	15,955,586	—	15,955,586
TOTAL INVESTMENTS IN SECURITIES	\$1,241,108,344	\$31,496,924	\$ 0	\$1,272,605,268
OTHER FINANCIAL INSTRUMENTS:				
ASSETS (Unrealized Appreciation): *				
Contract for Difference Swap Agreement	—	\$ 5,065	—	\$ 5,065
LIABILITIES (Unrealized Depreciation): *				
Contract for Difference Swap Agreements	—	(3,348)	—	(3,348)
TOTAL OTHER FINANCIAL INSTRUMENTS	—	\$ 1,717	—	\$ 1,717

(a) Please refer to the Schedule of Investments for the industry classifications of these portfolio holdings.

* Other financial instruments are derivatives, such as futures, forwards, and swaps which are valued at the unrealized appreciation/depreciation of the instrument.

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Balance as of 9/30/09	Accrued discounts/ (premiums)	Realized gain/ (loss)	Change in unrealized appreciation/ depreciation	Net purchases/ (sales)	Transfers in and/or out of Level 3	Balance as of 12/31/09	Net change in unrealized appreciation/ depreciation during the period on Level 3 investments held at 12/31/09
INVESTMENTS IN SECURITIES:								
ASSETS (Market Value):								
Common Stocks:								
Broadcasting	\$0	\$—	\$—	\$—	\$—	\$(0)	\$—	\$—
Energy and Utilities: Electric	0	—	—	—	—	—	0	—
Total Common Stocks	0	—	—	—	—	(0)	0	—
Warrants								
Broadcasting	3	—	—	—	—	(3)	—	—
Total Warrants	3	—	—	—	—	(3)	—	—
TOTAL INVESTMENTS IN SECURITIES	\$3	\$—	\$—	\$—	\$—	\$(3)	\$ 0	\$—

The Gabelli Equity Income Fund

Notes to Schedule of Investments (Continued) (Unaudited)

2. Derivative Financial Instruments. The Fund may engage in various portfolio investment strategies by investing in a number of derivative financial instruments for the purpose of increasing the income of the Fund, hedging or protecting its exposure to interest rate movements and movements in the securities markets, hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against a specific transaction with respect to either the currency in which the transaction is denominated or another currency. Investing in certain derivative financial instruments, including participation in the options, futures, or swap markets, entails certain execution, liquidity, hedging, tax, and securities, interest, credit, or currency market risks. Losses may arise if the Adviser's prediction of movements in the direction of the securities, foreign currency, and interest rate markets is inaccurate. Losses may also arise if the counterparty does not perform its duties under a contract, or that, in the event of default, the Fund may be delayed in or prevented from obtaining payments or other contractual remedies owed to it under derivative contracts. The creditworthiness of the counterparties is closely monitored in order to minimize these risks. Participation in derivative transactions involves investment risks, transaction costs, and potential losses to which the Fund would not be subject absent the use of these strategies. The consequences of these risks, transaction costs, and losses may have a negative impact on the Fund's ability to pay distributions.

Swap Agreements. The Fund may enter into equity and contract for difference swap transactions for the purpose of increasing the income of the Fund or hedging or protecting its exposure to interest rate movements and movements in the securities market. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In a swap, a set of future cash flows is exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at the time a swap 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.

The Fund has entered into equity contract for difference swap agreements with The Goldman Sachs Group, Inc. Details of the swaps at December 31, 2009 are as follows:

<u>Notional Amount</u>	<u>Equity Security Received</u>	<u>Interest Rate/ Equity Security Paid</u>	<u>Termination Date</u>	<u>Net Unrealized Appreciation/ Depreciation</u>
	Market Value	One month LIBOR plus 90 bps plus		
	Appreciation on:	Market Value Depreciation on:		
\$182,636 (140,000 Shares)	Rank Group plc	Rank Group plc	6/25/10	\$ 5,065
159,439 (20,000 Shares)	Rolls-Royce Group plc	Rolls-Royce Group plc	6/25/10	(3,335)
1,951 (1,200,000 Shares)	Rolls-Royce Group plc, Cl. C	Rolls-Royce Group plc, Cl. C	6/25/10	(13)
				<u>\$ 1,717</u>

The Fund increased the volume of activity in equity contract for difference swap agreements during the quarter ended December 31, 2009 with an average notional amount of approximately \$351,143.

Futures Contracts. The Fund may engage in futures contracts for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Upon entering into a futures contract, the Fund is required to deposit with the broker an amount of cash or cash equivalents

The Gabelli Equity Income Fund

Notes to Schedule of Investments (Continued) (Unaudited)

equal to a certain percentage of the contract amount. This is known as the “initial margin.” Subsequent payments (“variation margin”) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, which are included in unrealized appreciation/depreciation on investments and futures contracts. The Fund recognizes a realized gain or loss when the contract is closed.

There are several risks in connection with the use of futures contracts as a hedging instrument. The change in value of futures contracts primarily corresponds with the value of their underlying instruments, which may not correlate with the change in value of the hedged investments. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market. At December 31, 2009, there were no open futures contracts.

Forward Foreign Exchange Contracts. The Fund may engage in forward foreign exchange contracts for the purpose of hedging a specific transaction with respect to either the currency in which the transaction is denominated or another currency as deemed appropriate by the Adviser. Forward foreign exchange contracts are valued at the forward rate and are marked-to-market daily. The change in market value is included in unrealized appreciation/depreciation on investments and foreign currency translations. When the contract is closed, the Fund records a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed.

The use of forward foreign exchange contracts does not eliminate fluctuations in the underlying prices of the Fund’s portfolio securities, but it does establish a rate of exchange that can be achieved in the future. Although forward foreign exchange contracts limit the risk of loss due to a decline in the value of the hedged currency, they also limit any potential gain that might result should the value of the currency increase. In addition, the Fund could be exposed to risks if the counterparties to the contracts are unable to meet the terms of their contracts. At December 31, 2009, there were no open forward foreign exchange contracts.

The following is a table summarizing the net unrealized appreciation/depreciation of derivatives held at December 31, 2009 by primary risk exposure:

Asset Derivatives:	Net Unrealized Appreciation/Depreciation
Equity Contracts	\$ 5,065
Liability Derivatives:	
Equity Contracts	\$(3,348)

3. Tax Information. At September 30, 2009, the Fund had a net capital loss carryforward for federal income tax purposes of \$1,899,612, which is available to reduce future required distributions of net capital gains to shareholders through 2017.

Under the current tax law, capital losses related to securities and foreign currency realized after October 31 and prior to the Fund’s fiscal year end may be treated as occurring on the first day of the following year. For the year ended September 30, 2009, the Fund deferred capital losses of \$73,254,481 and currency losses of \$40,840.

We have separated the portfolio manager’s commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio manager’s commentary is unrestricted. The financial statements and investment portfolio are mailed separately from the commentary. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at www.gabelli.com/funds.

Gabelli Equity Series Funds, Inc.
The Gabelli Equity Income Fund

One Corporate Center
Rye, New York 10580-1422

800-GABELLI

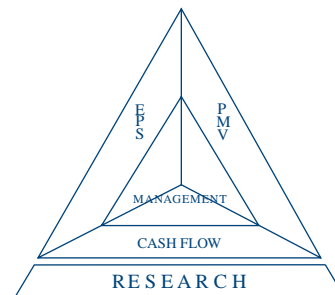
800-422-3554

fax: 914-921-5118

website: www.gabelli.com

e-mail: info@gabelli.com

Net Asset Value per share available daily by calling
800-GABELLI after 7:00 P.M.



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State Street Bank and Trust Company

Legal Counsel

Skadden, Arps, Slate, Meagher & Flom LLP

★ ★ ★ ★ ★
**The
Gabelli
Equity
Income
Fund**

*Morningstar® rated The Gabelli Equity Income Fund
Class AAA Shares 5 stars overall and 5 stars
for the three, five and ten year periods ended
December 31, 2009 among 1,104; 1,104; 912;
and 459 Large Value funds, respectively.*

This report is submitted for the general information of the shareholders of The Gabelli Equity Income Fund. It is not authorized for distribution to prospective investors unless preceded or accompanied by an effective prospectus.