



THE **GABELLI**  
CONVERTIBLE AND  
INCOME SECURITIES  
FUND INC.

**Shareholder Commentary**  
**December 31, 2008**



**THE GABELLI**  
**CONVERTIBLE AND**  
**INCOME SECURITIES**  
**FUND INC.**

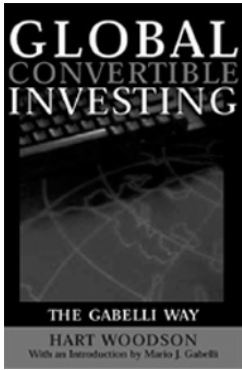
Our cover icon represents the underpinnings of Gabelli. The Teton mountains in Wyoming represent what we believe in in America – that creativity, ingenuity, hard work, and a global uniqueness provide enduring values. They also stand out in an increasingly complex, interconnected, and interdependent economic world.

**Investment Objective:**

The Gabelli Convertible and Income Securities Fund Inc. is a diversified, closed-end management investment company whose primary objective is to seek a high level of total return through a combination of current income and capital appreciation.

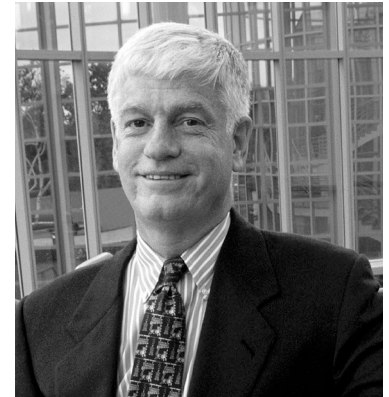
We have separated the portfolio manager's commentary from the financial statements and investment portfolio due to corporate governance regulations stipulated by the Sarbanes-Oxley Act of 2002. We have done this to ensure that the content of the portfolio manager's commentary is unrestricted. The financial 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](http://www.gabelli.com).

**This report is printed on recycled paper.**



From the Gabelli Press:

## Global Convertible Investing: The Gabelli Way



**THE GABELLI**  
CONVERTIBLE AND  
INCOME SECURITIES  
FUND INC.

### To Our Shareholders,

The Gabelli Convertible and Income Securities Fund's (the "Fund") net asset value ("NAV") total return was -15.0% during the fourth quarter of 2008, compared with declines of 22.0% and 18.8% for the Standard & Poor's ("S&P") 500 Index and the Lipper Convertible Securities Fund Average, respectively, and a gain of 6.4% for the Barclays Capital Government/Corporate Bond Index. The total return for the Fund's publicly traded shares was -0.6% during the fourth quarter. On December 31, 2008, the Fund's NAV per share was \$5.20, while the price of the publicly traded shares closed at \$5.55 on the New York Stock Exchange ("NYSE").

### Comparative Results

#### Average Annual Returns through December 31, 2008 (a)

	<u>Quarter</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>15 Year</u>	<u>Since Inception (07/03/89)</u>
<b>Gabelli Convertible and Income Securities Fund</b>							
NAV Total Return (b) . . . . .	(14.98)%	(25.63)%	(3.52)%	(0.58)%	1.95%	4.06%	5.70%
Investment Total Return (c) . . . . .	(0.62)	(18.02)	(4.93)	(3.09)	2.53	N/A(d)	4.45(d)
S&P 500 Index . . . . .	(21.95)	(36.99)	(8.36)	(2.19)	(1.38)	6.46	7.79(e)
Barclays Capital Government/Corporate Bond Index . . . . .	6.42	5.70	5.56	4.64	5.64	6.19	7.19(e)
Lipper Convertible Securities Fund Average . . . . .	(18.76)	(33.82)	(8.09)	(2.75)	1.96	4.85	6.89(e)

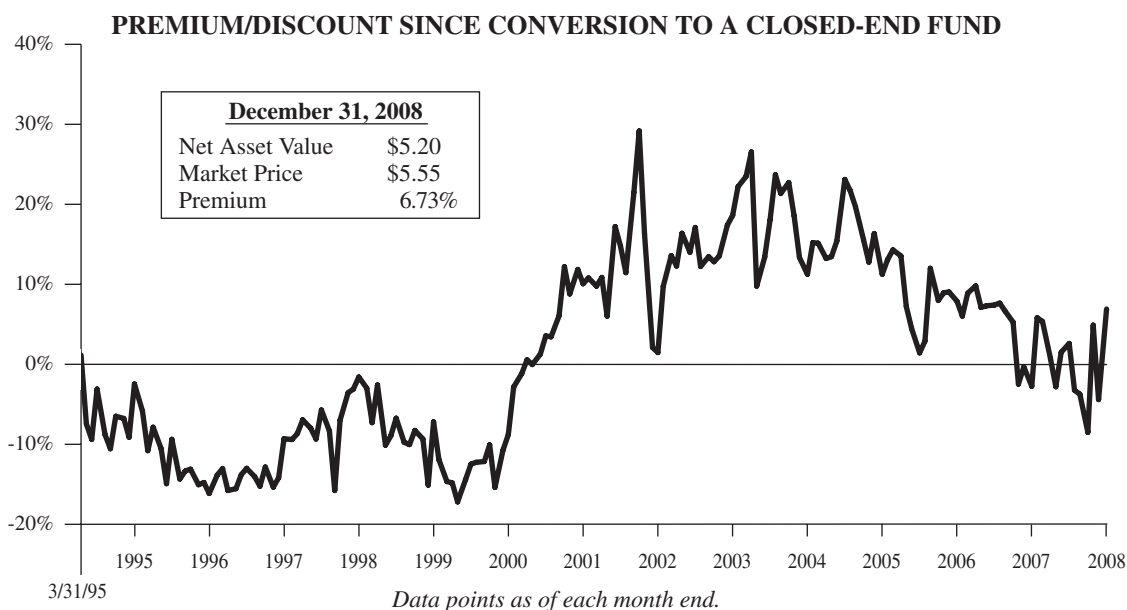
- (a) **Returns represent past performance and do not guarantee future results.** Investment returns and the principal value of an investment will fluctuate. When shares are sold, they may be worth more or less than their original cost. Current performance may be lower or higher than the performance data presented. Visit [www.gabelli.com](http://www.gabelli.com) for performance information as of the most recent month end. Performance returns for periods of less than one year are not annualized. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing.** The S&P 500 Index is an unmanaged indicator of stock market performance. The Barclays Capital Government/Corporate Bond Index is an unmanaged market value weighted index that tracks the total return performance of fixed rate, publicly placed, dollar denominated obligations. The Lipper Convertible Securities Fund Average reflects the average performance of open-end mutual funds classified in this particular category. Dividends and interest income are considered reinvested. You cannot invest directly in an index.
- (b) Total returns and average annual returns reflect changes in the net asset value ("NAV") per share, reinvestment of distributions at NAV on the ex-dividend date, and adjustments for rights offerings and are net of expenses. Since inception return is based on an initial NAV of \$10.00.
- (c) Total returns and average annual returns reflect changes in closing market values on the New York Stock Exchange, reinvestment of distributions, and adjustments for rights offerings. Since inception return is based on an initial offering price of \$11.25.
- (d) The Fund converted to closed-end status on March 31, 1995 and had no operating history on the New York Stock Exchange prior to that date.
- (e) From June 30, 1989, the date closest to the Fund's inception for which data is available.

## Premium / Discount Discussion

As a refresher for our shareholders, the price of a closed-end fund is determined in the open market by willing buyers and sellers. Shares of the Fund trade on the NYSE and may trade at a premium to (higher than) net asset value (the market value of the Fund's underlying portfolio and other assets less any liabilities) or a discount to (lower than) net asset value. Of the 640 closed-end funds that are publicly traded in the U.S. as of December 31, 2008, approximately 9% trade at premiums to NAV compared with 35% five years ago and 36% ten years ago.

Ideally, the Fund's market price will generally track the NAV. However, the Fund's premium or discount to NAV may vary over time. Over the Fund's thirteen year history as a closed-end fund, the range fluctuated from a 34% premium in August 2002 to a 32% discount in October 2008. On December 31, 2008, the market price of the Fund closed at an 6.7% premium to its NAV.

The Fund's long-term investment goal is to seek a high level of total return through a combination of current income and capital appreciation. We believe that our securities selection process adds to the investment equation. We have a successful history of investment, providing shareholders average annual returns of 5.7% since inception. However, it is important to remember that "Mr. Market" is a pendulum that swings both ways. **As the market moves away from momentum investing and back to basics, we believe that an excessive premium for the Fund is not likely to be sustainable.**



## Our Objective

Our mandate is to preserve and enhance our shareholders' wealth through a conservative and disciplined approach to convertible securities investing. Our goal is to generate profitable returns in strong markets and protect principal in weak markets by taking advantage of the unique characteristics of convertible securities.

Our Fund is managed with a goal of achieving a 600–800 basis point spread above longer dated Treasuries, which we hope to generate over the long term. Of course, there are no guarantees.

## **Convertible Securities are “Hybrids”**

It is important to understand our stock selection discipline, because price movement in the underlying equity will generally have the greatest impact on convertible securities pricing. The convertible securities market consists of bonds, debentures, corporate notes, preferred stocks, and warrants or other similar securities, which 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. Converts are “hybrid” securities that combine the capital appreciation potential of equities with the higher yield of fixed income instruments. Our strategy incorporates the purchase of convertible securities that are trading at a premium (above parity) with the common stock, but which generally provide a higher yield, and, over time, capital appreciation. We also will seek out “busted” converts, where the underlying common stock has dropped significantly and the values of both the conversion privilege and the convert are down. Such securities will provide both high yields and long-term capital appreciation potential.

## **2008 Market Review**

The fourth quarter of 2008 will go down as one of the most challenging periods in history both from a macroeconomic and financial markets perspective. The subprime mortgage crisis, which began more than eighteen months ago, evolved into a full blown economic recession, with virtually all global equity markets falling anywhere from 30% to 60% simultaneously. A tightening credit market sent corporate and junk bond yields soaring to record high spreads versus U.S. government bonds. The convertible market experienced unprecedented pressures, as discussed in detail in our last quarterly commentary. To briefly recap, the convertible selloff was fueled not only by global de-leveraging, widening credit spreads, declining equity values, and a general aversion to risk, but also by market specific challenges that included the collapse in value of many financial sector convertible preferreds, redemption based selling by convertible arbitrage funds, broker/dealer de-leveraging, higher borrowing or funding costs, and virtually nonexistent liquidity.

In December, early signs of credit market easing appeared. Indications of improving conditions included a substantial narrowing of the spread between the three-month London Interbank Offered Rate (LIBOR) and the three-month U.S. Treasury Bill rate, and declining high grade corporate bond yields. Short-term funding markets thawed significantly as global central banks pumped enormous amounts of liquidity into the banking systems.

In the fourth quarter, convertibles lost 18.6%, as represented by the Merrill Lynch All U.S. Convertibles Index (VXA0). This brought the total 2008 value degradation to a cumulative loss of 35.7%, which corresponded with quarterly and annual losses of 21.7% and 49.3% respectively in the underlying stocks. December 2008 saw a 5.4% rebound in convertibles, corresponding with a rally of 9.4% in the underlying stocks, only slightly tempering the year’s rout of the convertible market.

Primary market activity was nonexistent in the fourth quarter. According to Bank of America (Merrill Lynch), December was the third consecutive month with no new issuance in the U.S. convertible market. Total 2008 issuance remained at \$57.8 billion, indicating a sharp contrast between the first and second halves of the year. When redemptions are tallied and netted against new issuance, the resulting number shows a negative \$19.5 billion contraction in supply.

Similar low volumes were seen globally. Barclays reports that the Asian market had no new issuance in the fourth quarter, ending the year with nineteen deals totaling \$7.0 billion, a stark contrast to the \$25.2 billion raised in seventy-two deals in 2007. Redemptions, including repurchases and tenders, amounted to \$7.6 billion, resulting in essentially no incremental net new supply in the Asian market for the year. European convertible issues were similarly absent in the fourth quarter. 2008 new issuance totaled 10.6 billion euros, a significant reduction in deal activity compared with the 28.7 billion euros raised in sixty-three issues in 2007. Aggregate supply was further reduced by the 22.4 billion euros of redemptions.

## Outlook

With ongoing challenges facing the market, we are selectively taking the opportunity to upgrade the quality of our holdings by buying companies with strong business models, dominant market positions, and liquid balance sheets. We are focusing our efforts on shorter duration, predominantly bond structured issues with higher credit quality. Our bottom-up, fundamental research driven investment process should ultimately lead to positive returns in the months and years ahead. We expect continued volatility in both credit and equity markets, which should provide opportunities to capture value in convertible securities. It would be reasonable to anticipate that returns in the convertibles market for the year ahead will be driven largely by the performance of the underlying credits and income from coupons (or dividends), with minimal contribution from the equity component. Convertible valuations should improve as the dislocations in the convertible market subside, spread relationships contract and normalize, and coupons provide income.

## Let's Talk Converts

The following are security specifics on selected holdings of our Fund. Favorable earnings prospects do not necessarily translate into higher security 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. The share prices of the following holdings are stated in U.S. dollars or U.S. dollar equivalent terms as of December 31, 2008.

*Exxon Mobil Corp. (XOM - \$79.83 - NYSE)* is a leading international energy company with operations in most of the world's countries. In the United States, Exxon Mobil has significant exploration, production, refining, marketing, and chemicals operations. Exxon Mobil is one of the largest oil and gas producers and reserves holders in the United States, with a portfolio that includes Alaska, onshore Gulf Coast, and deepwater Gulf of Mexico. There are approximately 13,000 Exxon and Mobil branded service stations in the U.S. and seven refineries, four of which are integrated petrochemical facilities. Exxon Mobil's full year 2008 earnings, excluding special items, were a record \$44 billion, up 8% from 2007. The company distributed a total of \$40.1 billion to shareholders in 2008, up 12% from 2007, reflecting a 13% increase in dividends per share and a 7.5% reduction in outstanding shares. Exxon Mobil's financial strength continued to support its long-term focus and disciplined capital investment approach in the midst of a growing global economic slowdown.

*Genuine Parts Co. (GPC - \$37.86 - NYSE)* is a distributor of automotive, industrial, and electrical replacement parts, as well as office supplies. The business is comprised of auto parts distributor NAPA, industrial supply distributor Motion Industries, and S.P. Richards and EIS, which distribute office products and electrical and electronic components, respectively. GPC has demonstrated consistent free cash flow generation, and its strong management focuses on returning value to shareholders through its share repurchase program. The company has consistently offset inflationary pressures by passing on material price increases to its customers, maintaining company margins. In 2007, GPC had \$10.8 billion in revenue and earned \$2.98 per share.

*Great Atlantic & Pacific Tea Co. Inc. (GAP) (Sub. Deb. Cv., 5.125%, 06/15/11)* completed the purchase of New Jersey based Pathmark Stores in December 2007, becoming the largest supermarket operator in the Northeast. The company has benefited from the merger, and it is on track to deliver \$150 million in annual synergies by fiscal year end in February. A&P currently operates 444 stores generating approximately \$9.5 billion in annual sales.

*Pfizer Inc. (PFE - \$17.71 - NYSE)* is the world's largest research based biomedical and pharmaceutical company. Recent innovations include cancer medicine Sutent and Chantix, a smoking cessation product. In January, Pfizer agreed to acquire Wyeth. Based in Madison, New Jersey, Wyeth develops, manufactures and markets vaccines, biotechnology products, nutritionals, and non prescription medicines. Under the terms of the agreement, Pfizer will acquire all of the outstanding shares of Wyeth for \$33.00 in cash and 0.985 shares of Pfizer's stock for each share of Wyeth. The total deal is valued at approximately \$68 billion and is expected to close in the fourth quarter of 2009, subject to regulatory and shareholder approvals.

*Sinclair Broadcast Group Inc. (SBGI) (Sub Deb. Cv., 6.000%, 09/15/12)*, headquartered in Hunt Valley, Maryland, owns, operates, or programs fifty-seven television stations in thirty-five markets, reaching about 22% of U.S. households. The company's five largest markets are Tampa, Minneapolis, Pittsburgh, St. Louis, and Baltimore. Sinclair continues to return cash to shareholders. Recently, the company increased its annual dividend to \$0.80 per share from \$0.70 and renewed its \$150 million share repurchase program. In June 2008, Sinclair announced that it had entered into a three year extension of its retransmission agreement with Insight Communications, covering four stations in three markets: Lexington, Kentucky; Columbus, Ohio; and Cincinnati, Ohio, through December 31, 2011. In November 2008, the company reported third quarter results and broadcast revenues of \$150.1 million compared with \$149.4 million in the third quarter of 2007. Sinclair is attractive because it is enhancing value through stock and debt repurchases, it is tapering non core investments, and its stations perform well.

*Standard Motor Products Inc. (SMP) (Sub. Deb. Cv., 6.750%, 07/15/09)* is a leading independent manufacturer of engine management and replacement parts for motor vehicles. The company manufactures and distributes ignition and emissions parts, on-board computers, and ignition wires. SMP also manufactures and sells air conditioning compressors and other air conditioning and heating parts. Replacement parts manufacturers provide necessary components for used cars. The recent decline in consumer confidence has led to a drop in new car sales, and replacement parts manufacturers stand to benefit as families keep their cars longer and require more maintenance service. Standard Motor Products is currently setting up new manufacturing facilities in Mexico, and renegotiating its lending agreements that come due this summer. SMP sells its products primarily in the United States, Canada, Latin America, and Europe. In 2007, Standard Motor Products had \$790 million in revenue and earned \$0.61 per share.

*The Coca-Cola Co. (KO - \$45.27 - NYSE)*, headquartered in Atlanta, Georgia, is the world's largest provider of non-alcoholic beverages. The company owns or licenses over 500 brands and sells more than 2,800 different sparkling and still beverage products in more than 200 countries. Coca-Cola enjoys a double volume share advantage over its nearest competitor globally, and triple volume advantage internationally (excluding the U.S.). Coca-Cola's top five markets, U.S., Mexico, Brazil, China, and Japan account for about 50% of its total worldwide sales, with operations outside of North America accounting for about 75% and 80% of Coca-Cola's total net revenues and operating profits, respectively. In 2007, the company strengthened its non-carbonated beverage portfolio by acquiring Glaceau's VitaminWater® for \$4.1 billion, the largest acquisition in the company's history, along with Fuze Beverages and Jugos del Valle in Latin America. In 2008, the company announced its intention to acquire Huiyuan Juice, the largest juice company in China. Coca-Cola Zero, launched in the U.S. in 2005, is the company's most successful new product in 25 years, and it is now sold globally in over 100 markets. We expect emerging markets to continue to drive volume growth for Coca-Cola as the per capita consumption gap between emerging and developed markets narrows. U.S. volumes should benefit from price increases retreating as raw material costs decline. Over the next five years, we expect Coca-Cola to exceed its stated annual growth targets of 3-4% volume growth, 5-6% revenue growth, 6-8% operating income growth, and high single digit EPS growth.

*UST Inc. (UST - \$69.38 - NYSE)* is a holding company for its principal subsidiaries, U.S. Smokeless Tobacco Company and Ste. Michelle Wine Estates. On September 8, 2008, Altria Group entered into a merger agreement with UST, by which Altria would pay a total of \$11.6 billion, or \$69.50 per share for all shares outstanding. This offer was about a 29% premium to where the stock had previously been trading. The merger closed on January 6, 2009.

*Wells Fargo & Co. (WFC - \$29.48 - NYSE)* is a diversified financial services company with \$1.3 trillion in assets funded by \$745 billion in core deposits, giving it a deposit market share of 11.2%, the second highest in the U.S. These deposits and loans are gathered and managed through a nationwide network of 6,610 retail stores, which provide banking, insurance, investments, mortgage, and consumer finance, as well as through the Internet (wellsfargo.com). Wells Fargo's recent merger with Wachovia has given it a nationwide presence and is expected to generate annual cost savings of \$5 billion by year end 2010. Through the merger, Wells Fargo was able to write off much of Wachovia's most toxic assets, leaving current shareholders with a much cleaner balance sheet going forward.

## **In Conclusion**

As fundamental value investors, we look for a margin of safety in our investments – a concept pioneered by value investor guru Benjamin Graham. This margin is the amount by which a stock's intrinsic value is above its market price. When we analyze a company, we calculate its Private Market Value™ (“PMV”) – the value an informed industrialist would pay for it. We look at a company's earnings, cash flow, industry position, and many other factors to calculate this intrinsic value. If we can buy stock in a company whose PMV is comfortably above its market price – buying in for less than what it is worth – we do so. We take into account that if a company happens to be in a volatile industry, we require a larger margin of safety and a bigger discount to PMV. Over time, this investment style yields superior returns while minimizing downside risk. Our experience has taught us that today's market volatility will provide attractive entry points to maximize the potential of our long time strategy.

Sincerely,



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

February 2, 2009

**Note:** The views expressed in this Shareholder Commentary reflect those of the Portfolio Manager only through the end of the period stated in this Shareholder Commentary. The Portfolio Manager's views are subject to change at any time based on market and other conditions. The information in this Portfolio Manager's Shareholder Commentary represents the opinions of the individual Portfolio Manager 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 Manager 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 the annual proxy statement for GAMCO Investors, Inc. (NYSE:GBL). Mr. Gabelli receives no base salary, no annual bonus, and no stock options.

As founder and portfolio manager of The Gabelli Convertible and Income Securities Fund Inc., Mr. Gabelli received \$336,147 in calendar year 2007. For the Fund's first twelve months of operation starting in July 1989, Mr. Gabelli received less than \$125,000. As beneficial owner, he had \$7,722,014 invested in the common stock of The Gabelli Convertible and Income Securities Fund Inc. as of December 31, 2008, which includes the holdings of Gabelli Securities Inc., a GBL subsidiary, and GGCP, Inc., GBL's parent holding company, as well as \$89,838 invested in the Fund's 6.00% Series B Cumulative Preferred Stock.

## **8% Distribution Policy for Common Stockholders**

The Board of Directors of the Fund (the “Board”) has reaffirmed the continuation of the Fund's 8% Distribution Policy for the fourth quarter of 2008. Pursuant to its distribution policy, the Fund paid a \$0.20 per share cash distribution on December 17, 2008 to common shareholders of record on December 12, 2008.

Under the Fund's distribution policy, the Fund pays a minimum annual distribution of 8% of the average net asset value of the Fund. The Fund's current quarterly distribution level is set at \$0.20 per share in each of the first three quarters of the year. The Fund pays an adjusting distribution in the fourth quarter of an amount sufficient to

pay 8% of the average net asset value of the Fund, as of the last day of the four preceding calendar quarters, or to satisfy the minimum distribution requirements of the Internal Revenue Code, whichever is greater.

Each quarter, the Board reviews the amount of any potential distribution and the income, capital gain, or capital available. The Board will establish the Fund's quarterly distribution level for the first quarter of 2009 at the next regularly scheduled board meeting in February 2009, taking into consideration the Fund's net asset value and the financial market environment. The Fund's distribution policy is subject to modification by the Board at any time.

If the Fund does not generate earnings from dividends and interest received and net realized capital gains equal to or in excess of the aggregate distributions paid by the Fund in a given year, then the amount distributed in excess of the Fund's investment income and net realized capital gains would be deemed a non-taxable return of capital. Since this would be considered a return of a portion of a shareholder's original investment, it is not taxable and is treated as a reduction in the shareholder's cost basis. However, despite the challenges of the extra record keeping, a distribution that is occasionally supplemented with a return of capital serves as a smoothing mechanism resulting in a more stable and consistent cash flow available to shareholders. For a closed-end fund with a distribution policy, a return of capital becomes progressively less likely with the passage of time because in later years it is more likely that long-term capital gains can be realized and therefore become available for distribution. A portion of the distribution may be treated as long-term capital gain and qualified dividend income for individuals, each subject to the maximum federal income tax rate, which is currently 15% in taxable accounts for individuals. Long-term capital gains, qualified dividend income, ordinary income, and paid-in capital, if any, will be allocated on a pro-rata basis to all distributions to common shareholders for the year. Based on the distribution allocations of the Fund as of December 31, 2008, the total distributions paid in 2008 include approximately 15% from net investment income, 1% from net capital gains, and 84% from paid-in capital. The estimated components of each distribution are provided to shareholders of record in a notice accompanying the distribution and are available on our website ([www.gabelli.com](http://www.gabelli.com)). All shareholders with taxable accounts will receive written notification regarding the components and tax treatment for all 2008 distributions in early 2009 via Form 1099-DIV.

### **6.00% Series B Cumulative Preferred Stock**

The Fund's 6.00% Series B Cumulative Preferred Stock paid a \$0.375 per share cash distribution on December 26, 2008 to preferred shareholders of record on December 18, 2008. The Series B Preferred Shares, which trade on the NYSE under the symbol "GCV Pr B", are rated "Aaa" by Moody's Investors Service and have an annual dividend rate of \$1.50 per share. The Series B Preferred Shares were issued on March 18, 2003 at \$25.00 per share and pay distributions quarterly. The Series B Preferred Shares are callable at any time at the liquidation value of \$25.00 per share plus accrued dividends. The next distribution is scheduled for March 2009. The Fund is authorized to purchase its Series B Preferred Shares in the open market from time to time when such shares are trading at a discount to the liquidation value of \$25.00. During the year ended December 31, 2008, the Fund repurchased and retired 13,458 Series B Preferred Shares.

It should be noted that the Investment Adviser does not receive a management fee on the incremental assets attributable to the Preferred Stock unless the total return of the net asset value of the common stock during the year, including distributions and management fee subject to reduction, exceeds the stated dividend rate or corresponding swap rate of each particular series of Preferred Stock for the fiscal year. The Investment Adviser believes this fee arrangement is in the best interest of all shareholders.

The Board shares the Investment Adviser's view that the issuance of the Preferred Stock is designed to benefit the common shareholders. To the extent that the Fund earns in excess of the dividend rate on the Preferred Stock, additional value will thereby be created for its common shareholders.

A portion of the distribution may be treated as long-term capital gain and qualified dividend income for individuals, each subject to the maximum federal income tax rate, which is currently 15% in taxable accounts for individuals. Long-term capital gains, qualified dividend income, and ordinary income, if any, will be allocated on a

pro-rata basis to all distributions to preferred shareholders for the year. Based on the distribution allocations of the Fund as of December 31, 2008, the total distributions paid in 2008 include approximately 90% from net investment income and 10% from net capital gains. The estimated components of each distribution are provided to shareholders of record in a notice accompanying the distribution and are available on our website ([www.gabelli.com](http://www.gabelli.com)). All shareholders with taxable accounts receive written notification regarding the components and tax treatment for all 2008 distributions in early 2009 via Form 1099-DIV.

### **[www.gabelli.com](http://www.gabelli.com)**

Please visit us on the Internet. Our homepage at [www.gabelli.com](http://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 [closedend@gabelli.com](mailto:closedend@gabelli.com).

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

### **e-delivery**

We are pleased to offer electronic delivery of Gabelli Funds documents. Shareholders of our closed-end funds can now elect to receive e-mail announcements regarding available materials, including shareholder commentaries and fund reports. For more information or to register for e-delivery, please visit our website at [www.gabelli.com](http://www.gabelli.com).

#### **Top Ten Holdings December 31, 2008**

Agere Systems Inc., Sub. Deb. Cv., 6.500%, 12/15/09  
UST Inc.

Sinclair Broadcast Group Inc., Sub. Deb. Cv.,  
4.875%, 07/15/18 and 6.000%, 09/15/12

Standard Motor Products Inc., Sub. Deb. Cv., 6.750%, 07/15/09  
Genuine Parts Co.

Pfizer Inc.

Great Atlantic & Pacific Tea Co. Inc., Sub. Deb. Cv.,  
5.125%, 06/15/11

Wells Fargo & Co.

Exxon Mobil Corp.

The Coca-Cola Co.

The Annual Meeting of The Gabelli Convertible and Income Securities Fund's shareholders will be held on Monday, May 18, 2009 at the Greenwich Library in Greenwich, Connecticut.

**DIRECTORS AND OFFICERS**  
**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**One Corporate Center, Rye, NY 10580-1422**

**Directors**

Mario J. Gabelli, CFA  
*Chairman & Chief Executive Officer,*  
*GAMCO Investors, Inc.*

E. Val Cerutti  
*Chief Executive Officer,*  
*Cerutti Consultants, Inc.*

Anthony J. Colavita  
*Attorney-at-Law,*  
*Anthony J. Colavita, P.C.*

Dugald A. Fletcher  
*President, Fletcher & Company, Inc.*

Anthony R. Pustorino  
*Certified Public Accountant,*  
*Professor Emeritus, Pace University*

Werner J. Roeder, MD  
*Medical Director,*  
*Lawrence Hospital*

Anthonie C. van Ekris  
*Chairman, BALMAC International, Inc.*

Salvatore J. Zizza  
*Chairman, Zizza & Co., Ltd.*

**Officers**

Bruce N. Alpert  
*President*

Peter D. Goldstein  
*Chief Compliance Officer*

Laurissa M. Martire  
*Vice President & Ombudsman*

Agnes Mullady  
*Treasurer and Secretary*

**Investment Adviser**

Gabelli Funds, LLC  
 One Corporate Center  
 Rye, New York 10580-1422

**Custodian**

State Street Bank and Trust Company

**Counsel**

Skadden, Arps, Slate, Meagher & Flom LLP

**Transfer Agent and Registrar**

Computershare Trust Company, N.A.

**Stock Exchange Listing**

	<u>Common</u>	<u>6.00% Preferred</u>
NYSE-Symbol:	GCV	GCV PrB
Shares Outstanding:	12,968,295	977,342

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading “Convertible Securities Funds,” in Monday’s The Wall Street Journal. It is also listed in Barron’s Mutual Funds/Closed End Funds section under the heading “Convertible Securities Funds.”

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting [www.gabelli.com](http://www.gabelli.com).

For general information about the Gabelli Funds, call **800-GABELLI** (800-422-3554), fax us at 914-921-5118, visit Gabelli Funds’ Internet homepage at: [www.gabelli.com](http://www.gabelli.com), or e-mail us at: [closedend@gabelli.com](mailto:closedend@gabelli.com)

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase shares of its common stock in the open market when the Fund’s shares are trading at a discount of 10% or more from the net asset value of the shares. The Fund may also, from time to time, purchase shares of its preferred stock in the open market when the preferred shares are trading at a discount to the liquidation value.

# **THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**

**One Corporate Center, Rye, NY 10580-1422**

**Phone: 800-GABELLI (800-422-3554)**

**Fax: 914-921-5118 Internet: [www.gabelli.com](http://www.gabelli.com)**

**e-mail: [closedend@gabelli.com](mailto:closedend@gabelli.com)**

**GCV Dec/2008**



# The Gabelli Convertible and Income Securities Fund Inc.

Annual Report  
December 31, 2008

## To Our Shareholders,

The Sarbanes-Oxley Act requires a fund's principal executive and financial officers to certify the entire contents of the semi-annual and annual shareholder reports in a filing with the Securities and Exchange Commission on Form N-CSR. This certification would cover the portfolio manager's commentary and subjective opinions if they are attached to or a part of the financial statements. Many of these comments and opinions would be difficult or impossible to certify.

Because we do not want our portfolio managers to eliminate their opinions and/or restrict their commentary to historical facts, we have separated their commentary from the financial statements and investment portfolio and have sent it to you separately. Both the commentary and the financial statements, including the portfolio of investments, will be available on our website at [www.gabelli.com](http://www.gabelli.com).

Enclosed are the audited financial statements and the investment portfolio as of December 31, 2008.

## Comparative Results

### Average Annual Returns through December 31, 2008 (a)

	Quarter	1 Year	3 Year	5 Year	10 Year	15 Year	Since Inception (07/03/89)
<b>Gabelli Convertible and Income Securities Fund</b>							
NAV Total Return (b) .....	(14.98)%	(25.77)%	(3.52)%	(0.58)%	1.95%	4.06%	5.70%
Investment Total Return (c) .....	(0.62)	(18.02)	(4.93)	(3.09)	2.53	N/A(d)	4.45(d)
S&P 500 Index .....	(21.95)	(36.99)	(8.36)	(2.19)	(1.38)	6.46	7.79(e)
Barclays Capital Government/Corporate Bond Index .....	6.42	5.70	5.56	4.64	5.64	6.19	7.19(e)
Lipper Convertible Securities Fund Average .....	(18.76)	(33.82)	(8.09)	(2.75)	1.96	4.85	6.89(e)

- (a) **Returns represent past performance and do not guarantee future results.** Investment returns and the principal value of an investment will fluctuate. When shares are sold, 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](http://www.gabelli.com) for performance information as of the most recent month end. Performance returns for periods of less than one year are not annualized. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing.** The S&P 500 Index is an unmanaged indicator of stock market performance. The Barclays Capital Government/Corporate Bond Index is an unmanaged market value weighted index that tracks the total return performance of fixed rate, publicly placed, dollar denominated obligations. The Lipper Convertible Securities Fund Average reflects the average performance of open-end mutual funds classified in this particular category. Dividends and interest income are considered reinvested. You cannot invest directly in an index.
- (b) Total returns and average annual returns reflect changes in the net asset value ("NAV") per share, reinvestment of distributions at NAV on the ex-dividend date, and adjustments for rights offerings and are net of expenses. Since inception return is based on an initial NAV of \$10.00.
- (c) Total returns and average annual returns reflect changes in closing market values on the New York Stock Exchange, reinvestment of distributions, and adjustments for rights offerings. Since inception return is based on an initial offering price of \$11.25.
- (d) The Fund converted to closed-end status on March 31, 1995 and had no operating history on the New York Stock Exchange prior to that date.
- (e) From June 30, 1989, the date closest to the Fund's inception for which data is available.

Sincerely yours,

Bruce N. Alpert  
President

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**Summary of Portfolio Holdings (Unaudited)**

The following table presents portfolio holdings as a percent of total investments as of December 31, 2008:

<b>Long Positions</b>		Specialty Chemicals . . . . .	1.4%
U.S. Government Obligations . . . . .	42.6%	Real Estate . . . . .	1.3%
Energy and Utilities . . . . .	10.6%	Computer Hardware . . . . .	1.2%
Health Care . . . . .	5.7%	Aerospace . . . . .	1.1%
Financial Services . . . . .	5.1%	Electronics . . . . .	0.8%
Automotive: Parts and Accessories . . . . .	4.1%	Transportation . . . . .	0.8%
Consumer Products . . . . .	3.8%	Hotels and Gaming . . . . .	0.6%
Food and Beverage . . . . .	3.7%	Computer Software and Services . . . . .	0.5%
Communications Equipment . . . . .	3.7%	Cable and Satellite . . . . .	0.3%
Diversified Industrial . . . . .	3.1%	Business Services . . . . .	0.3%
Broadcasting . . . . .	3.0%	Agriculture . . . . .	0.2%
Retail . . . . .	2.8%	Equipment and Supplies . . . . .	0.1%
Telecommunications . . . . .	1.7%	Manufactured Housing and Recreational Vehicles . .	0.1%
Wireless Communications . . . . .	1.4%	Entertainment . . . . .	0.0%
		<u>100.0%</u>	

*The Gabelli Convertible and Income Securities Fund Inc. (the “Fund”) files a complete schedule of portfolio holdings with the Securities and Exchange Commission (the “SEC”) for the first and third quarters of each fiscal year on Form N-Q, the last of which was filed for the quarter ended September 30, 2008. Shareholders may obtain this information at [www.gabelli.com](http://www.gabelli.com) or by calling the Fund at 800-GABELLI (800-422-3554). The Fund’s Form N-Q is available on the SEC’s website at [www.sec.gov](http://www.sec.gov) and may also be reviewed and copied at the SEC’s Public Reference Room in Washington, DC. Information on the operation of the Public Reference Room may be obtained by calling 1-800-SEC-0330.*

**Proxy Voting**

The Fund files Form N-PX with its complete proxy voting record for the 12 months ended June 30th, no later than August 31st of each year. A description of the Fund’s proxy voting policies, procedures, and how the Fund voted proxies relating to portfolio securities is available without charge, upon request, by (i) calling 800-GABELLI (800-422-3554); (ii) writing to The Gabelli Funds at One Corporate Center, Rye, NY 10580-1422; or (iii) visiting the SEC’s website at [www.sec.gov](http://www.sec.gov).

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**SCHEDULE OF INVESTMENTS**  
**December 31, 2008**

<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>	<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
<b>CONVERTIBLE CORPORATE BONDS — 19.1%</b>			<b>Financial Services — 1.3%</b>		
<b>Aerospace — 0.2%</b>			<b>Conseco Inc., Cv. (STEP),</b>		
\$ 300,000	GenCorp Inc., Sub. Deb. Cv., 4.000%, 01/16/24 . . . . . \$ 205,388	\$ 209,250	\$ 500,000	3.500%, 09/30/35 (b) . . . . . \$ 503,866	\$ 243,750
			1,000,000	PrivateBancorp Inc., Cv., 3.625%, 03/15/27 . . . . . 1,000,785	968,750
				<u>1,504,651</u>	<u>1,212,500</u>
2,114,000	<b>Automotive: Parts and Accessories — 2.1%</b> Standard Motor Products Inc., Sub. Deb. Cv., 6.750%, 07/15/09 . . . . . 2,018,399	1,934,310	<b>Health Care — 1.6%</b>		
			<b>Advanced Medical Optics Inc.,</b>		
			<b>Sub. Deb. Cv.,</b>		
4,500,000	<b>Broadcasting — 3.0%</b> Sinclair Broadcast Group Inc., Sub. Deb. Cv., 6.000%, 09/15/12 . . . . . 3,936,117	2,070,000	1,000,000	2.500%, 07/15/24 . . . . . 914,222	815,000
			1,000,000	3.250%, 08/01/26 . . . . . 816,242	355,000
1,400,000	Sinclair Broadcast Group Inc., Sub. Deb. Cv. (STEP), 4.875%, 07/15/18 . . . . . 1,296,326	693,000	100,000	Chemed Corp., Cv., 1.875%, 05/15/14 . . . . . 78,001	69,375
			100,000	Millipore Corp., Cv., 3.750%, 06/01/26 . . . . . 105,708	87,750
	<u>5,232,443</u>	<u>2,763,000</u>	150,000	Thoratec Corp., Sub. Deb. Cv. (STEP), 1.380%, 05/16/34 . . . . . 99,627	144,188
				<u>2,013,800</u>	<u>1,471,313</u>
900,000	<b>Business Services — 0.0%</b> BBN Corp., Sub. Deb. Cv., 6.000%, 04/01/12† (a) . . . . . 882,893	0	<b>Real Estate — 1.3%</b>		
			<b>Palm Harbor Homes Inc., Cv.,</b>		
400,000	<b>Cable and Satellite — 0.0%</b> Adelphia Communications Corp., Sub. Deb. Cv., 3.250%, 05/01/21† (a) . . . . . 127,000	0	2,500,000	3.250%, 05/15/24 . . . . . 2,397,795	1,196,875
3,000,000	<b>Communications Equipment — 3.2%</b> Agere Systems Inc., Sub. Deb. Cv., 6.500%, 12/15/09 . . . . . 2,999,942	2,958,750	<b>Retail — 1.9%</b>		
			<b>Costco Wholesale Corp.,</b>		
			<b>Sub. Deb. Cv.,</b>		
600,000	<b>Computer Hardware — 0.3%</b> SanDisk Corp., Cv., 1.000%, 05/15/13 . . . . . 259,427	243,000	60,000	Zero Coupon, 08/19/17 . . . . . 50,245	71,700
			100,000	Pier 1 Imports Inc., Cv. (STEP), 6.375%, 02/15/36 . . . . . 95,431	27,500
100,000	<b>Diversified Industrial — 0.9%</b> Griffon Corp., Ser. 2ND, Sub. Deb. Cv., 4.000%, 07/18/23 . . . . . 93,120	87,625	3,200,000	The Great Atlantic & Pacific Tea Co. Inc., Cv., 5.125%, 06/15/11 . . . . . 3,151,305	1,652,000
				<u>3,296,981</u>	<u>1,751,200</u>
1,400,000	Roper Industries Inc., Sub. Deb. Cv. (STEP), 1.481%, 01/15/34 . . . . . 710,552	757,750	<b>Specialty Chemicals — 1.2%</b>		
			<b>Ferro Corp., Cv.,</b>		
50,000	Trinity Industries Inc., Sub. Deb. Cv., 3.875%, 06/01/36 . . . . . 44,721	23,000	2,200,000	6.500%, 08/15/13 . . . . . 1,429,822	1,075,250
	<u>848,393</u>	<u>868,375</u>	<b>Wireless Communications — 1.4%</b>		
			<b>Nextel Communications Inc., Cv.,</b>		
			<b>5.250%, 01/15/10 . . . . . 1,394,568</b>		
			<u>1,306,875</u>		
			<b>TOTAL CONVERTIBLE CORPORATE BONDS . . . . . 25,315,252</b>		
			<u>17,660,851</u>		
			<b>Shares</b>		
			<b>CONVERTIBLE PREFERRED STOCKS — 2.1%</b>		
			<b>Agriculture — 0.2%</b>		
			<b>Archer-Daniels-Midland Co.,</b>		
			<b>6.250% Cv. Pfd. . . . . 135,637</b>		
			<u>151,600</u>		
			<b>Business Services — 0.0%</b>		
			<b>Interop National Radio Sales Inc.,</b>		
			<b>4.000% Cv. Pfd.,</b>		
			<b>Ser. A† (a)(b)(c) . . . . . 1,347,184</b>		
			<u>0</u>		
			<b>20,000 Key3Media Group Inc. (STEP),</b>		
			<b>5.500% Cv. Pfd., Ser. B† (a) . . . . . 499,993</b>		
			<u>117</u>		
			<u>1,847,177</u>		
			<u>117</u>		
			<b>Communications Equipment — 0.2%</b>		
			<b>Lucent Technologies</b>		
			<b>Capital Trust I,</b>		
			<b>7.750% Cv. Pfd. . . . . 356,750</b>		
			<u>204,000</u>		

See accompanying notes to financial statements.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**SCHEDULE OF INVESTMENTS (Continued)**  
**December 31, 2008**

<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>	<u>Shares</u>	<u>Cost</u>	<u>Market Value</u>
<b>CONVERTIBLE PREFERRED STOCKS (Continued)</b>			<b>Communications Equipment — 0.3%</b>		
<b>Energy and Utilities — 0.6%</b>			33,000	Corning Inc. . . . . \$ 390,457	\$ 314,490
6,000	AES Trust III, 6.750% Cv. Pfd. . . . . \$ 229,530	\$ 227,040	<b>Computer Hardware — 0.9%</b>		
500	El Paso Corp., 4.990% Cv. Pfd. (b) . . . . . 479,192	319,515	10,000	International Business Machines Corp. . . . . 831,067	841,600
300	El Paso Energy Capital Trust I, 4.750% Cv. Pfd. . . . . 11,460	7,680	<b>Computer Software and Services — 0.5%</b>		
	720,182	554,235	6,000	Diebold Inc. . . . . 219,360	168,540
<b>Entertainment — 0.0%</b>			40,000	Furmanite Corp.† . . . . . 156,240	215,600
7,000	Six Flags Inc., 7.250% Cv. Pfd. . . . . 148,400	5,040	3,000	Microsoft Corp. . . . . 74,880	58,320
<b>Financial Services — 0.1%</b>				450,480	442,460
100	Alleghany Corp., 5.750% Cv. Pfd. . . . . 27,010	24,302	<b>Consumer Products — 3.8%</b>		
36,000	Federal National Mortgage Association, 8.750%, Cv. Pfd., Ser. 08-1 . . . . . 146,075	37,800	1,000	Avon Products Inc. . . . . 27,516	24,030
	173,085	62,102	50,000	Swedish Match AB . . . . . 903,010	706,568
<b>Health Care — 0.0%</b>			40,000	UST Inc. . . . . 2,744,557	2,775,200
100	Elite Pharmaceuticals Inc., \$2.32 Cv. Pfd. Ser. C† (a)(c) . . . . . 91,465	5,021		3,675,083	3,505,798
<b>Telecommunications — 0.3%</b>			<b>Diversified Industrial — 2.2%</b>		
14,000	Cincinnati Bell Inc., 6.750% Cv. Pfd., Ser. B . . . . . 398,212	322,000	70,000	General Electric Co. . . . . 2,027,663	1,134,000
<b>Transportation — 0.7%</b>			379,703	National Patent Development Corp.† (a)(b) . . . . . 949,258	470,108
2,500	GATX Corp., \$2.50 Cv. Pfd. . . . . 360,275	643,275	56,554	WHX Corp.† . . . . . 1,090,751	452,432
<b>TOTAL CONVERTIBLE PREFERRED STOCKS . . . . . 4,231,183</b>				4,067,672	2,056,540
<b>COMMON STOCKS — 35.1%</b>			<b>Electronics — 0.3%</b>		
<b>Aerospace — 0.9%</b>			22,000	Intel Corp. . . . . 443,773	322,520
8,600	Kaman Corp. . . . . 197,718	155,918	<b>Energy and Utilities — 8.8%</b>		
8,000	Northrop Grumman Corp. . . . . 511,539	360,320	6,000	Anadarko Petroleum Corp. . . . . 203,993	231,300
3,000	Rockwell Automation Inc. . . . . 112,925	96,720	11,000	BP plc, ADR . . . . . 708,340	514,140
52,500	Rolls-Royce Group plc† . . . . . 500,804	253,242	2,000	Cameron International Corp.† . . . . . 29,116	41,000
3,003,000	Rolls-Royce Group plc, Cl. C† . . . . . 4,682	4,318	2,000	CH Energy Group Inc. . . . . 68,966	102,780
	1,327,668	870,518	14,000	Chevron Corp. . . . . 856,710	1,035,580
<b>Automotive: Parts and Accessories — 2.0%</b>			5,000	ConocoPhillips . . . . . 312,250	259,000
50,000	Genuine Parts Co. . . . . 1,991,223	1,893,000	2,000	Devon Energy Corp. . . . . 127,485	131,420
<b>Broadcasting — 0.0%</b>			18,000	Exxon Mobil Corp. . . . . 1,064,257	1,436,940
12,000	Emmis Communications Corp., Cl. A† . . . . . 71,102	4,200	12,000	FPL Group Inc. . . . . 642,267	603,960
<b>Business Services — 0.3%</b>			22,000	Great Plains Energy Inc. . . . . 650,758	425,260
310,000	Trans-Lux Corp.† (d) . . . . . 2,261,304	238,700	18,000	Halliburton Co. . . . . 538,244	327,240
<b>Cable and Satellite — 0.3%</b>			41,000	Mirant Corp.† . . . . . 599,231	773,670
493,409	Adelphia Recovery Trust† . . . . . 0	0	1,200,000	Mirant Corp., Escrow† (a) . . . . . 0	0
15,000	Cablevision Systems Corp., Cl. A . . . . . 345,010	252,600	18,000	National Fuel Gas Co. . . . . 769,100	563,940
2,000	Rogers Communications Inc., Cl. B . . . . . 28,913	60,160	15,000	Northeast Utilities . . . . . 247,983	360,900
	373,923	312,760	10,000	Progress Energy Inc., CVO† (a) . . . . . 5,200	3,300
<b>Communications Equipment — 0.3%</b>			2,000	Puget Energy Inc. . . . . 54,745	54,540
3,000	Mueller Industries Inc. . . . . 98,955	75,240	16,000	Royal Dutch Shell plc, Cl. A, ADR . . . . . 1,014,367	847,040
<b>Computer Hardware — 0.9%</b>			7,000	SJW Corp. . . . . 149,930	209,580
10,000	International Business Machines Corp. . . . . 831,067	841,600	10,000	Xcel Energy Inc. . . . . 183,300	185,500
<b>Computer Software and Services — 0.5%</b>				8,226,242	8,107,090
6,000	Diebold Inc. . . . . 219,360	168,540	<b>Equipment and Supplies — 0.1%</b>		
40,000	Furmanite Corp.† . . . . . 156,240	215,600	3,000	Mueller Industries Inc. . . . . 98,955	75,240
3,000	Microsoft Corp. . . . . 74,880	58,320			
	450,480	442,460			
<b>Consumer Products — 3.8%</b>					
1,000	Avon Products Inc. . . . . 27,516	24,030			
50,000	Swedish Match AB . . . . . 903,010	706,568			
40,000	UST Inc. . . . . 2,744,557	2,775,200			
	3,675,083	3,505,798			
<b>Diversified Industrial — 2.2%</b>					
70,000	General Electric Co. . . . . 2,027,663	1,134,000			
379,703	National Patent Development Corp.† (a)(b) . . . . . 949,258	470,108			
56,554	WHX Corp.† . . . . . 1,090,751	452,432			
	4,067,672	2,056,540			
<b>Electronics — 0.3%</b>					
22,000	Intel Corp. . . . . 443,773	322,520			
<b>Energy and Utilities — 8.8%</b>					
6,000	Anadarko Petroleum Corp. . . . . 203,993	231,300			
11,000	BP plc, ADR . . . . . 708,340	514,140			
2,000	Cameron International Corp.† . . . . . 29,116	41,000			
2,000	CH Energy Group Inc. . . . . 68,966	102,780			
14,000	Chevron Corp. . . . . 856,710	1,035,580			
5,000	ConocoPhillips . . . . . 312,250	259,000			
2,000	Devon Energy Corp. . . . . 127,485	131,420			
18,000	Exxon Mobil Corp. . . . . 1,064,257	1,436,940			
12,000	FPL Group Inc. . . . . 642,267	603,960			
22,000	Great Plains Energy Inc. . . . . 650,758	425,260			
18,000	Halliburton Co. . . . . 538,244	327,240			
41,000	Mirant Corp.† . . . . . 599,231	773,670			
1,200,000	Mirant Corp., Escrow† (a) . . . . . 0	0			
18,000	National Fuel Gas Co. . . . . 769,100	563,940			
15,000	Northeast Utilities . . . . . 247,983	360,900			
10,000	Progress Energy Inc., CVO† (a) . . . . . 5,200	3,300			
2,000	Puget Energy Inc. . . . . 54,745	54,540			
16,000	Royal Dutch Shell plc, Cl. A, ADR . . . . . 1,014,367	847,040			
7,000	SJW Corp. . . . . 149,930	209,580			
10,000	Xcel Energy Inc. . . . . 183,300	185,500			
	8,226,242	8,107,090			
<b>Equipment and Supplies — 0.1%</b>					
3,000	Mueller Industries Inc. . . . . 98,955	75,240			

See accompanying notes to financial statements.



**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**SCHEDULE OF INVESTMENTS (Continued)**  
**December 31, 2008**

<u>Principal Amount</u>	<u>Cost</u>	<u>Market Value</u>
<b>U.S. GOVERNMENT OBLIGATIONS — 42.6%</b>		
<b>U.S. Treasury Cash Management Bills — 5.7%</b>		
\$ 5,220,000	U.S. Treasury Cash Management Bills, 0.112% to 0.137%††, 04/29/09 to 06/24/09 . . . . . \$ 5,216,684	\$ 5,216,297
<b>U.S. Treasury Bills — 32.0%</b>		
29,660,000	U.S. Treasury Bills, 0.071% to 1.924%††, 01/02/09 to 06/25/09 . . . . . 29,637,800	29,615,275
<b>U.S. Treasury Notes — 4.9%</b>		
4,490,000	4.500%, 04/30/09 . . . . . 4,538,276	4,554,898
<b>TOTAL U.S. GOVERNMENT OBLIGATIONS . . . . . 39,392,760</b>		
<b>TOTAL INVESTMENTS — 100.0% . . . . . \$113,754,115</b>		<b>92,481,741</b>
<b>Other Assets and Liabilities (Net) . . . . .</b>		<b>(699,385)</b>
<b>PREFERRED STOCK</b>		
(977,342 preferred shares outstanding) . . . . .		(24,433,550)
<b>NET ASSETS — COMMON STOCK</b>		
(12,968,295 common shares outstanding) . . . . .		<u>\$ 67,348,806</u>
<b>NET ASSET VALUE PER COMMON SHARE</b>		
(\$67,348,806 ÷ 12,968,295 shares outstanding) . . . . .		<u>\$5.19</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, 2008, the market value of fair valued securities amounted to \$549,849 or 0.59% 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, 2008, the market value of Rule 144A securities amounted to \$2,466,869 or 2.67% of total investments. Except as noted in (c), these securities are liquid.
- (c) At December 31, 2008, the Fund held investments in restricted and illiquid securities amounting to \$346,157 or 0.37% of total investments, which were valued under methods approved by the Board of Directors as follows:

<u>Acquisition Shares/ Principal Amount</u>	<u>Issuer</u>	<u>Acquisition Date</u>	<u>Acquisition Cost</u>	<u>12/31/08 Carrying Value Per Unit</u>
\$ 50,000	Amnex Inc., Sub. Deb., Cv., 8.500%, 09/25/49 . . . . .	09/15/97	\$ 48,801	—
100	Elite Pharmaceuticals Inc., \$2.32 Cv. Pfd. Ser C . . . . .	04/25/07	91,465	\$50.2100
12,930	Elite Pharmaceuticals Inc. Warrants expire 04/24/12 . . . . .	04/25/07	8,535	0.0643
15,143	Interep National Radio Sales Inc., 4.000% Cv. Pfd., Ser. A . . . . .	05/03/02	1,347,184	—
210,000	Parmalat SpA, GDR . . . . .	04/10/03	897,621	1.6194
1,300	Parmalat SpA, GDR, Warrants expire 12/31/15 . . . . .	11/09/05	—	0.1777

- (d) Security considered an affiliated holding because the Fund owns at least 5% of its outstanding shares.
- † Non-income producing security.
- †† Represents annualized yield at date of purchase.
- ADR American Depositary Receipt
- CVO Contingent Value Obligation
- GDR Global Depositary Receipt
- STEP Step coupon bond. The rate disclosed is that in effect at December 31, 2008.

See accompanying notes to financial statements.

# THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.

## STATEMENT OF ASSETS AND LIABILITIES

December 31, 2008

<b>Assets:</b>	
Investments, at value (cost \$111,492,811) . . . . .	\$ 92,243,041
Investments in affiliates, at value (cost \$2,261,304) . . . . .	238,700
Receivable for investments sold . . . . .	185,000
Dividends and interest receivable . . . . .	431,119
Unrealized appreciation on swap contracts . . . . .	20,509
Deferred offering expense . . . . .	12,255
Prepaid expense . . . . .	4,911
<b>Total Assets</b> . . . . .	<u>93,135,535</u>
<b>Liabilities:</b>	
Payable to custodian . . . . .	3,271
Payable for investments purchased . . . . .	1,102,706
Distributions payable . . . . .	24,434
Payable for Preferred shares repurchased . . . . .	3,705
Payable for investment advisory fees . . . . .	57,192
Payable for payroll expenses . . . . .	32,281
Payable for accounting fees . . . . .	7,502
Other accrued expenses . . . . .	122,088
<b>Total Liabilities</b> . . . . .	<u>1,353,179</u>
<b>Preferred Stock:</b>	
Series B Cumulative Preferred Stock (6.00%, \$25 liquidation value, \$0.001 par value, 1,995,000 shares authorized with 977,342 shares issued and outstanding) . . . . .	<u>24,433,550</u>
<b>Net Assets Attributable to Common Shareholders</b> . . . . .	<u>\$ 67,348,806</u>
<b>Net Assets Attributable to Common Shareholders</b>	
<b>Consist of:</b>	
Paid-in capital, at \$0.001 par value . . . . .	\$ 89,889,539
Accumulated distributions in excess of net investment income . . . . .	(77,072)
Accumulated net realized loss on investments, swap contracts, and foreign currency transactions . . . . .	(1,211,796)
Net unrealized depreciation on investments . . . . .	(21,272,374)
Net unrealized appreciation on swap contracts . . . . .	20,509
<b>Total Net Assets</b> . . . . .	<u>\$ 67,348,806</u>
<b>Net Asset Value per Common Share</b>	
(\$67,348,806 ÷ 12,968,295 shares outstanding; 998,000,000 shares authorized) . . . . .	<u>\$5.19</u>

## STATEMENT OF OPERATIONS

For the Year Ended December 31, 2008

<b>Investment Income:</b>	
Dividends (net of foreign taxes of \$25,261) . . . . .	\$ 1,488,217
Interest . . . . .	<u>3,090,999</u>
<b>Total Investment Income</b> . . . . .	<u>4,579,216</u>
<b>Expenses:</b>	
Investment advisory fees . . . . .	1,232,070
Payroll expenses . . . . .	135,480
Shareholder communications expenses . . . . .	87,073
Directors' fees . . . . .	67,812
Legal and audit fees . . . . .	64,450
Shareholder services fees . . . . .	46,776
Accounting fees . . . . .	45,000
Custodian fees . . . . .	40,989
Auction agent fees . . . . .	9,600
Interest expense . . . . .	878
Miscellaneous expenses . . . . .	<u>55,864</u>
<b>Total Expenses</b> . . . . .	1,785,992
Less:	
Advisory fee reduction . . . . .	(365,706)
Custodian fee credits . . . . .	<u>(1,136)</u>
<b>Net Expenses</b> . . . . .	<u>1,419,150</u>
<b>Net Investment Income</b> . . . . .	<u>3,160,066</u>
<b>Net Realized and Unrealized Gain/(Loss) on Investments, Swap Contracts, and Foreign Currency:</b>	
Net realized loss on investments – unaffiliated . . . . .	(457,637)
Net realized loss on investments – affiliated . . . . .	(73,914)
Net realized loss on swap contracts . . . . .	(168,804)
Net realized loss on foreign currency transactions . . . . .	<u>(6,358)</u>
Net realized loss on investments, swap contracts, and foreign currency transactions . . . . .	<u>(706,713)</u>
Net change in unrealized appreciation/(depreciation):	
on investments . . . . .	(24,999,542)
on swap contracts . . . . .	<u>20,509</u>
Net change in unrealized appreciation/(depreciation) on investments, swap contracts, and foreign currency translations . . . . .	<u>(24,979,033)</u>
<b>Net Realized and Unrealized Gain/(Loss) on Investments, Swap Contracts, and Foreign Currency</b> . . . . .	<u>(25,685,746)</u>
<b>Net Decrease in Net Assets Resulting from Operations</b> . . . . .	<u>(22,525,680)</u>
Total Distributions to Preferred Shareholders . . . . .	<u>(1,956,253)</u>
<b>Net Decrease in Net Assets Attributable to Common Shareholders Resulting from Operations</b> . . . . .	<u>\$(24,481,933)</u>

See accompanying notes to financial statements.

# THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.

## STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO COMMON SHAREHOLDERS

	<u>Year Ended</u> <u>December 31, 2008</u>	<u>Year Ended</u> <u>December 31, 2007</u>
<b>Operations:</b>		
Net investment income .....	\$ 3,160,066	\$ 5,094,411
Net realized gain/(loss) on investments, swap contracts, and foreign currency transactions .....	(706,713)	5,441,824
Net change in unrealized appreciation/(depreciation) on investments, swap contracts, and foreign currency translations .....	(24,979,033)	(2,914,987)
<b>Net Increase/(Decrease) in Net Assets Resulting from Operations .....</b>	<u>(22,525,680)</u>	<u>7,621,248</u>
<b>Distributions to Preferred Shareholders:</b>		
Net investment income .....	(1,818,913)	(1,370,499)
Net realized short-term gain .....	(48,380)	(341,482)
Net realized long-term gain .....	(88,960)	(1,099,213)
<b>Total Distributions to Preferred Shareholders .....</b>	<u>(1,956,253)</u>	<u>(2,811,194)</u>
<b>Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations .....</b>	<u>(24,481,933)</u>	<u>4,810,054</u>
<b>Distributions to Common Shareholders:</b>		
Net investment income .....	(1,225,678)	(3,807,029)
Net realized short-term gain .....	(32,601)	(942,693)
Net realized long-term gain .....	(59,945)	(3,043,674)
Return of capital .....	(8,866,584)	(2,153,250)
<b>Total Distributions to Common Shareholders .....</b>	<u>(10,184,808)</u>	<u>(9,946,646)</u>
<b>Fund Share Transactions:</b>		
Net increase in net assets from common shares issued upon reinvestment of dividends and distributions ...	2,351,910	2,337,964
Net increase in net assets from repurchase of preferred shares .....	73,955	—
<b>Net Increase in Net Assets from Fund Share Transactions .....</b>	<u>2,425,865</u>	<u>2,337,964</u>
<b>Net Decrease in Net Assets Attributable to Common Shareholders .....</b>	<u>(32,240,876)</u>	<u>(2,798,628)</u>
<b>Net Assets Attributable to Common Shareholders:</b>		
Beginning of period .....	99,589,682	102,388,310
End of period (including undistributed net investment income of \$0 and \$0, respectively) .....	<u>\$ 67,348,806</u>	<u>\$ 99,589,682</u>

See accompanying notes to financial statements.

# THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.

## FINANCIAL HIGHLIGHTS

Selected data for a common share  
outstanding throughout each period:

	Year Ended December 31,				
	2008	2007	2006	2005	2004
<b>Operating Performance:</b>					
Net asset value, beginning of period	\$ 7.90	\$ 8.31	\$ 7.95	\$ 8.32	\$ 8.90
Net investment income	0.24	0.42	0.45	0.40	0.34
Net realized and unrealized gain/(loss) on investments, swap contracts, and foreign currency transactions	(2.01)	0.20	0.92	0.20	0.01
Total from investment operations	(1.77)	0.62	1.37	0.60	0.35
<b>Distributions to Preferred Shareholders: (a)</b>					
Net investment income	(0.14)	(0.11)	(0.09)	(0.14)	(0.16)
Net realized gain	(0.01)	(0.12)	(0.13)	(0.05)	—
Total distributions to preferred shareholders	(0.15)	(0.23)	(0.22)	(0.19)	(0.16)
<b>Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations</b>					
	(1.92)	0.39	1.15	0.41	0.19
<b>Distributions to Common Shareholders:</b>					
Net investment income	(0.09)	(0.31)	(0.34)	(0.25)	(0.18)
Net realized gain	(0.01)	(0.32)	(0.46)	(0.29)	—
Paid-in capital	(0.70)	(0.17)	—	(0.26)	(0.62)
Total distributions to common shareholders	(0.80)	(0.80)	(0.80)	(0.80)	(0.80)
<b>Fund Share Transactions:</b>					
Increase/(decrease) in net asset value from common share transactions	—	0.00(f)	0.01	0.02	0.03
Increase in net asset value from repurchase of preferred shares	0.01	—	—	—	0.00(f)
Offering costs for preferred shares charged to paid-in capital	—	—	—	(0.00)(f)	0.00(f)
Total fund share transactions	0.01	0.00(f)	0.01	0.02	0.03
<b>Net Asset Value Attributable to Common Shareholders, End of Period</b>					
	\$ 5.19	\$ 7.90	\$ 8.31	\$ 7.95	\$ 8.32
NAV total return †	(25.57)%	4.44%	14.80%	4.40%	1.50%
Market value, end of period	\$ 5.55	\$ 7.67	\$ 8.95	\$ 8.83	\$ 9.24
Investment total return ††	(18.02)%	(5.85)%	11.32%	4.50%	(4.80)%

See accompanying notes to financial statements.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**FINANCIAL HIGHLIGHTS (Continued)**

	Year Ended December 31,				
	2008	2007	2006	2005	2004
<b>Ratios and Supplemental Data:</b>					
Net assets including liquidation value of preferred shares, end of period (in 000's) . . . . .	\$91,782	\$149,360	\$152,158	\$145,324	\$147,202
Net assets attributable to common shares, end of period (in 000's) . . .	\$67,349	\$ 99,590	\$102,388	\$ 95,554	\$ 97,432
Ratio of net investment income to average net assets attributable to common shares before preferred share distributions . . . . .	3.65%	4.90%	5.51%	4.93%	4.41%
Ratio of operating expenses to average net assets attributable to common stock before fees waived . . . . .	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) . . . . .	1.64%	1.75%	2.07%	1.92%	1.61%
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fees waived . . . . .	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) . . . . .	1.15%	1.18%	1.37%	1.27%	1.07%
Portfolio turnover rate ††† . . . . .	76%	61%	51%	32%	57%
<b>Preferred Stock:</b>					
<b>6.000% Series B Cumulative Preferred Stock</b>					
Liquidation value, end of period (in 000's) . . . . .	\$24,433	\$ 24,770	\$ 24,770	\$ 24,770	\$ 24,770
Total shares outstanding (in 000's) . . . . .	977	991	991	991	991
Liquidation preference per share . . . . .	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value (d) . . . . .	\$ 22.75	\$ 24.07	\$ 24.10	\$ 25.14	\$ 24.90
Asset coverage per share . . . . .	\$ 93.91	\$ 75.02	\$ 76.43	\$ 73.00	\$ 73.93
<b>Series C Auction Rate Cumulative Preferred Stock</b>					
Liquidation value, end of period (in 000's) . . . . .	—	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Total shares outstanding (in 000's) . . . . .	—	1	1	1	1
Liquidation preference per share . . . . .	—	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value (d) . . . . .	—	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share . . . . .	—	\$ 75,025	\$ 76,431	\$ 72,998	\$ 73,941
<b>Asset Coverage (e)</b> . . . . .	376%	300%	306%	292%	296%

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

†† Based on market value per share, adjusted for reinvestment of distributions at prices dependent 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 retroactively, the portfolio turnover rate for the years ended December 31, 2007, 2006, 2005, and 2004 would have been 98%, 65%, 59%, and 72%, 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. Including such custodian fee credits for the years ended December 31, 2007 and December 31, 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, 2008 and December 31, 2005, the effect of the 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 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%. For the year ended December 31, 2007, the effect of the dividend expense on securities sold short was minimal.
- (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.

See accompanying notes to financial statements.

# THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.

## NOTES TO FINANCIAL STATEMENTS

**1. Organization.** 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”), whose investment objective is to seek a high level of total return through a combination of current income and capital appreciation by investing in convertible securities. The Fund was incorporated in Maryland on December 19, 1988 as a diversified open-end management investment company and commenced investment operations on July 3, 1989 as The Gabelli Convertible Securities Fund, Inc. The Board of Directors (the “Board”), at a special meeting of shareholders held on February 17, 1995, voted to approve the conversion of the Fund to closed-end status, effective March 31, 1995.

Effective August 1, 2002, the Fund changed its name to The Gabelli Convertible and Income Securities Fund Inc. Consistent with its new name, under normal market conditions, the Fund will invest at least 80% of its net assets in a combination of convertible securities and income producing securities (the “80% Policy”). The Fund expects to continue its practice of focusing on convertible securities to the extent attractive opportunities are available. The 80% Policy may be changed without shareholder approval. However, the Fund has adopted a policy to provide shareholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

**2. Significant Accounting Policies.** The preparation of financial statements in accordance with United States (“U.S.”) generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

*Security Valuation.* Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. 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 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 60 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 60 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. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons with the valuation and changes in valuation of similar securities, including a comparison of foreign securities with the equivalent U.S. dollar value ADR securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

Statement of Financial Accounting Standard No. 157, “Fair Value Measurements” (“SFAS 157”) clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. The three levels of the fair value hierarchy under SFAS 157 are described 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 CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

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, 2008 is, as follows:

<u>Valuation Inputs</u>	<u>Investments in Securities (Market Value) Assets</u>	<u>Other Financial Instruments (Unrealized Appreciation)* Assets</u>
Level 1 – Quoted Prices	\$33,906,252	—
Level 2 – Other Significant Observable Inputs	58,496,810	\$20,509
Level 3 – Other Significant Unobservable Inputs	78,679	—
Total	<u>\$92,481,741</u>	<u>\$20,509</u>

\*Other financial instruments are derivative instruments not reflected in the Schedule of Investments, such as futures, forwards, and swaps which are valued at the unrealized appreciation/depreciation on the investment.

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

	<u>Investments in Securities (Market Value)</u>
<b>Balance as of 12/31/07</b>	\$ 437,162
Accrued discounts/(premiums)	16,987
Realized gain/(loss)	—
Change in unrealized appreciation/(depreciation)†	40,589
Net purchases/(sales)	(486,300)
Transfers in and/or out of Level 3	<u>70,241</u>
<b>Balance as of 12/31/08</b>	<u>\$ 78,679</u>
Net change in unrealized appreciation/(depreciation) during the period on Level 3 investments held at 12/31/08†	<u>\$ (1,469,924)</u>

† Net change in unrealized appreciation/(depreciation) is included in the related amounts on investments in the Statement of Operations.

In March 2008, the Financial Accounting Standards Board (the "FASB") issued Statement of Financial Accounting Standard No. 161, "Disclosures about Derivative Instruments and Hedging Activities" ("SFAS 161") that is effective for fiscal years beginning after November 15, 2008. SFAS 161 is intended to improve financial reporting for derivative instruments by requiring enhanced disclosure that enables investors to understand how and why an entity uses derivatives, how derivatives are accounted for, and how derivative instruments affect an entity's results of operations and financial position. Management is currently evaluating the implications of SFAS 161 on the Fund's financial statement disclosures.

*Repurchase Agreements.* The Fund may enter into repurchase agreements with primary government securities dealers recognized by the Federal Reserve Board, with member banks of the Federal Reserve System, or with other brokers or dealers that meet credit guidelines established by the Adviser and reviewed by the Board. Under the terms of a typical repurchase agreement, the Fund takes possession of an underlying debt obligation subject to an obligation of the seller to repurchase, and the Fund to resell, the obligation at an agreed-upon price and time, thereby determining the yield during the Fund's holding period. It is the policy of the Fund to always receive and maintain securities as collateral whose market value, including accrued interest, are at least equal to 102% of the dollar amount invested by the Fund in each agreement. The Fund will make payment for such securities only upon physical delivery or upon evidence of book entry transfer of the collateral to the account of the custodian. To the extent that any repurchase transaction exceeds one business day, the value of the collateral is marked-to-market on a daily basis to maintain the adequacy of the collateral. If the seller defaults and the value of the collateral declines or if bankruptcy proceedings are commenced with respect to the seller of the security, realization of the collateral by the Fund may be delayed or limited. At December 31, 2008, there were no open repurchase agreements.

*Swap Agreements.* The Fund may enter into equity and contract for difference swap transactions. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio transactions. In a swap, a set of future cash flows are 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. There is no assurance that the swap contract counterparties will be able to meet their obligations pursuant to a swap contract or that, in the event of default, the Fund will succeed in pursuing contractual remedies. The Fund thus assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to a swap contract. The creditworthiness of the swap contract counterparties is closely monitored in order to minimize this risk. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

the Fund's ability to make dividend payments. In addition, 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. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments.

The use of derivative instruments involves, to varying degrees, elements of market and counterparty risk in excess of the amount recognized below.

Unrealized gains related to swaps are reported as an asset and unrealized losses are reported as a liability in the Statement of Assets and Liabilities. The change in value of swaps, including the accrual of periodic amounts of interest to be paid or received on swaps, is reported as unrealized gains or losses in the Statement of Operations. A realized gain or loss is recorded upon payment or receipt of a periodic payment or termination of swap agreements.

Effective March 16, 2008, Bear, Stearns International Limited entered into a Guaranty Agreement with JPMorgan Chase & Co., whereby JPMorgan Chase & Co. unconditionally guarantees the due and punctual payment of certain liabilities of Bear, Stearns International Limited, including the current liabilities of Bear, Stearns International Limited to the Fund. As of December 31, 2008, the Fund held a contract for difference swap with Bear, Stearns International Limited which is covered by the JPMorgan Chase & Co. Guaranty Agreement as of the date of the report. Details of the swap at December 31, 2008 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</u>
\$208,559 (47,500 Shares)	Market Value Appreciation on: Rolls-Royce Group plc	Overnight LIBOR plus 40 bps plus Market Value Depreciation on: Rolls-Royce Group plc	11/17/09	\$20,509

*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 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, 2008, there were no open futures contracts.

*Securities Sold Short.* The Fund may enter into short sale transactions. Short selling involves selling securities that may or may not be owned and, at times, borrowing the same securities for delivery to the purchaser, with an obligation to replace such borrowed securities at a later date. The proceeds received from short sales are recorded as liabilities and the Fund records an unrealized gain or loss to the extent of the difference between the proceeds received and the value of an open short position on the day of determination. The Fund records a realized gain or loss when the short position is closed out. By entering into a short sale, the Fund bears the market risk of an unfavorable change in the price of the security sold short. Dividends on short sales are recorded as an expense by the Fund on the ex-dividend date and interest expense is recorded on the accrual basis. The Fund did not hold any short positions as of December 31, 2008.

*Forward Foreign Exchange Contracts.* The Fund may engage in forward foreign exchange contracts for 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, 2008, there were no open forward foreign exchange contracts.

*Foreign Currency Translations.* The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at the current exchange rates. Purchases and sales of investment securities,

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial trade date and subsequent sale trade date is included in realized gain/loss on investments.

*Foreign Securities.* The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the ability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than those of securities of comparable U.S. issuers.

*Foreign Taxes.* The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

*Restricted and Illiquid Securities.* The Fund may invest up to 15% of its net assets in securities for which the markets are illiquid. Illiquid securities include securities the disposition of which is subject to substantial legal or contractual restrictions. The sale of illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Securities freely saleable among qualified institutional investors under special rules adopted by the SEC may be treated as liquid if they satisfy liquidity standards established by the Board. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly the Board will monitor their liquidity.

*Securities Transactions and Investment Income.* Securities transactions are accounted for on the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date except for certain dividends which are recorded as soon as the Fund is informed of the dividend.

*Custodian Fee Credits and Interest Expense.* When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as “custodian fee credits.” When cash balances are overdrawn, the Fund is charged an overdraft fee of 2.00% above the federal funds rate on outstanding balances. This amount, if any, would be included in “interest expense” in the Statement of Operations.

*Distributions to Shareholders.* Distributions to common shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under U.S. generally accepted accounting principles. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences, and differing characterizations of distributions made by the Fund. Distributions from net investment income include net realized gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. These reclassifications have no impact on the NAV of the Fund. For the year ended December 31, 2008, reclassifications were made to increase accumulated distributions in excess of net investment income by \$129,879 and decrease accumulated net realized loss on investments, swap contracts, and foreign currency transactions by \$98,104, with an offsetting adjustment to paid-in capital.

Distributions to shareholders of the Fund’s 6.00% Series B Cumulative Preferred Stock and Series C Auction Rate Cumulative Preferred Stock (“Cumulative Preferred Stock”) are recorded on a daily basis and are determined as described in Note 5.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

The tax character of distributions paid during the years ended December 31, 2008 and December 31, 2007 was as follows:

	<u>Year Ended</u> <u>December 31, 2008</u>		<u>Year Ended</u> <u>December 31, 2007</u>	
	<u>Common</u>	<u>Preferred</u>	<u>Common</u>	<u>Preferred</u>
<b>Distributions paid from:</b>				
Ordinary income				
(inclusive of short-term capital gains) . . . . .	\$ 1,258,279	\$1,867,293	\$5,549,933	\$2,001,944
Net long-term capital gains . . . . .	59,945	88,960	2,243,463	809,250
Return of capital . . . . .	8,866,584	—	2,153,250	—
Total distributions paid . . . . .	<u>\$10,184,808</u>	<u>\$1,956,253</u>	<u>\$9,946,646</u>	<u>\$2,811,194</u>

*Provision for Income Taxes.* The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the “Code”). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

At December 31, 2008, the difference between book basis and tax basis unrealized depreciation was primarily due to deferral of losses from wash sales for tax purposes, basis adjustments for investments in partnerships, and prior tax elections.

As of December 31, 2008, the components of accumulated earnings/losses on a tax basis were as follows:

Net unrealized depreciation on investments . . . . .	\$(22,358,576)
Other temporary differences* . . . . .	(182,157)
Total . . . . .	<u>\$(22,540,733)</u>

\*Other temporary differences are primarily due to adjustments on dividend payables, conversion premiums, and basis adjustments from investments in hybrid securities.

The following summarizes the tax cost of investments, swap contracts, and the related unrealized appreciation/depreciation at December 31, 2008:

	<u>Cost</u>	<u>Gross</u> <u>Unrealized</u> <u>Appreciation</u>	<u>Gross</u> <u>Unrealized</u> <u>Depreciation</u>	<u>Net Unrealized</u> <u>Depreciation</u>
Investments . . . . .	\$114,840,317	\$1,555,480	\$(23,914,056)	\$(22,358,576)

FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes” (“FIN 48”) provides guidance for how uncertain tax positions should be recognized, measured, presented, and disclosed in the financial statements. FIN 48 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Fund’s tax returns to determine whether the tax positions are “more-likely-than-not” of being sustained by the applicable tax authority. Tax positions not deemed to meet the “more-likely-than-not” threshold are recorded as a tax benefit or expense in the current year. In accordance with FIN 48, management has analyzed the Fund’s tax positions taken on the federal and state income tax returns for all open tax years (the current and prior three tax years) and has concluded that no provision for income tax is required in the Fund’s financial statements. Management’s determination regarding FIN 48 may be subject to review and adjustment at a later date based on factors including, but not limited to, an on-going analysis of tax laws, regulations, and interpretations thereof.

**3. Agreements and Transactions with Affiliates.** The Fund has an investment advisory agreement (the “Advisory Agreement”) with the Adviser which provides that the Fund will pay the Adviser a fee, computed daily and paid monthly, equal on an annual basis to 1.00% of the value of the Fund’s average daily net assets including the liquidation value of preferred stock. In accordance with the Advisory Agreement, the Adviser provides a continuous investment program for the Fund’s portfolio and oversees the administration of all aspects of the Fund’s business and affairs. The Adviser has agreed to reduce the management fee on the incremental assets attributable to the Cumulative Preferred Stock if the total return of the NAV of the common shares of the Fund, including distributions and advisory fee subject to reduction, does not exceed the stated dividend rate or corresponding swap rate of each particular series of the Cumulative Preferred Stock for the year.

The Fund’s total return on the NAV of the Common Shares is monitored on a monthly basis to assess whether the total return on the NAV of the Common Shares exceeds the stated dividend rate or corresponding swap rate of each particular series of Cumulative Preferred Stock for the period. For the year ended December 31, 2008, the Fund’s total return on the NAV of the Common Shares did not exceed the stated dividend rate or net swap expense on any outstanding Preferred Stock. Thus, management fees with respect to the liquidation value of the preferred stock assets were reduced by \$365,706.

During the year ended December 31, 2008, the Fund paid brokerage commissions on security trades of \$31,017 to Gabelli & Company, Inc. (“Gabelli & Company”), an affiliate of the Adviser.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

The cost of calculating the Fund's NAV per share is a Fund expense pursuant to the Advisory Agreement between the Fund and the Adviser. During the year ended December 31, 2008, the Fund paid or accrued \$45,000 to the Adviser in connection with the cost of computing the Fund's NAV.

As per the approval of the Board, the Fund compensates officers of the Fund, who are employed by the Fund and are not employed by the Adviser (although the officers may receive incentive based variable compensation from affiliates of the Adviser), and pays its allocated portion of the cost of the Fund's Chief Compliance Officer. For the year ended December 31, 2008, the Fund paid or accrued \$135,480, which is included in payroll expenses in the Statement of Operations.

The Fund pays each Director who is not considered to be an affiliated person an annual retainer of \$5,000 plus \$750 for each Board meeting attended and they are reimbursed for any out of pocket expenses incurred in attending meetings. All Board committee members receive \$500 per meeting attended. In addition, the Audit Committee Chairman receives an annual fee of \$3,000, the Nominating Committee Chairman receives an annual fee of \$2,000, and the Lead Director receives an annual fee of \$1,000. Directors who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

**4. Portfolio Securities.** Purchases and proceeds from the sales of securities for the year ended December 31, 2008, other than short-term securities and U.S. Government obligations, aggregated \$47,097,906 and \$53,188,916, respectively.

Purchases and proceeds from the sales of U.S. Government obligations for the year ended December 31, 2008, other than short-term obligations, aggregated \$13,343,263 and \$24,100,000, respectively.

**5. Capital.** The charter permits the Fund to issue 998,000,000 shares of common stock (par value \$0.001). The Board has authorized the repurchase of up to 500,000 common shares on the open market when the shares are trading at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the NAV of the shares. During the year ended December 31, 2008, the Fund did not repurchase any shares of its common stock in the open market.

Transactions in common stock were as follows:

	Year Ended December 31, 2008		Year Ended December 31, 2007	
	Shares	Amount	Shares	Amount
Net increase from shares issued upon reinvestment of distributions . . . . .	369,897	\$2,351,910	275,924	\$2,337,964

The Fund's Articles of Incorporation authorize the issuance of up to 2,000,000 shares of \$0.001 par value Cumulative Preferred Stock. The Cumulative Preferred Stock is senior to the common stock and results in the financial leveraging of the common stock. Such leveraging tends to magnify both the risks and opportunities to common shareholders. Dividends on shares of the Cumulative Preferred Stock are cumulative. The Fund is required by the 1940 Act and by the Articles Supplementary to meet certain asset coverage tests with respect to the Cumulative Preferred Stock. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the 6.00% Series B Cumulative Preferred Stock at a redemption price of \$25.00, per share plus an amount equal to the accumulated and unpaid dividends whether or not declared on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to common shareholders and could lead to sales of portfolio securities at inopportune times. The income received on the Fund's assets may vary in a manner unrelated to the fixed and variable rates, which could have either a beneficial or detrimental impact on net investment income and gains available to common shareholders.

At the Fund's February 19, 2008 Board meeting, the Board approved the filing of a shelf registration with the SEC. The shelf offering went effective June 12, 2008 and gives the Fund the ability to offer additional preferred shares and promissory notes.

On March 18, 2003, the Fund received net proceeds of \$23,994,241 after underwriting discounts of \$787,500 and offering expenses of \$218,259 from the public offering of 1,000,000 shares of 6.00% Series B Cumulative Preferred Stock. Commencing March 19, 2008 and thereafter, the Fund, at its option, may redeem the 6.00% Series B Cumulative Preferred Stock in whole or in part at the redemption price at any time. The Board has authorized the repurchase on the open market at prices less than the \$25 liquidation value of the Cumulative Preferred Stock. During the year ended December 31, 2008, the Fund repurchased 13,458 shares of 6.00% Series B Cumulative Preferred Stock in the open market at a cost of \$262,495 and an average discount of approximately 20.93% from its liquidation preference. All 6.00% Series B Cumulative Preferred Stock repurchased has been retired. At December 31, 2008, 977,342 shares of 6.00% Series B Cumulative Preferred Stock were outstanding and accrued dividends amounted to \$24,434.

On March 18, 2003, the Fund received net proceeds of \$24,531,741 after underwriting discounts of \$250,000 and offering expenses of \$218,259 from the public offering of 1,000 shares of Series C Auction Rate Cumulative Preferred Stock. The dividend rate, as set by the auction process, which is generally held every seven days, is expected to vary with short-term interest rates. If the number of Series C Auction Rate Cumulative Preferred Stock subject to bid orders by potential holders is less than the number of Series C Auction Rate Cumulative Preferred Stock subject to sell orders, then the auction is considered to be a failed auction, and

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**

the dividend rate will be the maximum rate. In that event, holders that have submitted sell orders may not be able to sell any or all of the Series C Auction Rate Cumulative Preferred Stock for which they have submitted sell orders. On June 25, 2008, the Fund, as authorized by the Board, redeemed 100% (1,000 shares) of its Series C Auction Rate Cumulative Preferred Stock (the "Series C Preferred Stock"). Shareholders of the Series C Preferred Stock received the redemption price of \$25,000 per share, which was equal to the liquidation preference of the Series C Preferred Stock, together with any accumulated and unpaid dividends, for each of his or her shares of Series C Preferred Stock redeemed.

The holders of Cumulative Preferred Stock generally are entitled to one vote per share held on each matter submitted to a vote of shareholders of the Fund and will vote together with holders of common stock as a single class. The holders of Cumulative Preferred Stock voting together as a single class also have the right currently to elect two Directors and under certain circumstances are entitled to elect a majority of the Board of Directors. In addition, the affirmative vote of a majority of the votes entitled to be cast by holders of all outstanding shares of the preferred stock, voting as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock, and the approval of two-thirds of each class, voting separately, of the Fund's outstanding voting stock must approve the conversion of the Fund from a closed-end to an open-end investment company. The approval of a majority (as defined in the 1940 Act) of the outstanding preferred stock and a majority (as defined in the 1940 Act) of the Fund's outstanding voting securities are required to approve certain other actions, including changes in the Fund's investment objectives or fundamental investment policies.

**6. Transactions in Securities of Affiliated Issuers.** The 1940 Act defines affiliated issuers as those in which the Fund's holdings of an issuer represent 5% or more of the outstanding voting securities of the issuer. A summary of the Fund's transactions in the securities of this issuer during the year ended December 31, 2008 is set forth below:

	<u>Beginning Shares</u>	<u>Shares Sold</u>	<u>Ending Shares</u>	<u>Net Change in Unrealized Depreciation</u>	<u>Realized Loss</u>	<u>Value at December 31, 2008</u>	<u>Percent Owned of Shares Outstanding</u>
Trans-Lux Corp.	324,000	(14,000)	310,000	\$(1,729,637)	\$(73,914)	\$238,700	15.35%

**7. Indemnifications.** The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts and expects the risk of loss to be remote.

**8. Other Matters.** On April 24, 2008, the Adviser entered into an administrative settlement with the SEC to resolve the SEC's inquiry regarding prior frequent trading activity in shares of the GAMCO Global Growth Fund (the "Global Growth Fund") by one investor who was banned from the Global Growth Fund in August 2002. In the settlement, the SEC found that the Adviser had violated Section 206(2) of the Investment Advisers Act, Section 17(d) of the 1940 Act, and Rule 17d-1 thereunder and had aided and abetted and caused violations of Section 12(d)(1)(B)(i) of the 1940 Act. Under the terms of the settlement, the Adviser, while neither admitting nor denying the SEC's findings and allegations, agreed, among other things, to pay the previously reserved total of \$16 million (including a \$5 million penalty), of which at least \$11 million will be distributed to shareholders of the Global Growth Fund in accordance with a plan to be developed by an independent distribution consultant and approved by the independent directors of the Global Growth Fund and the staff of the SEC and to cease and desist from future violations of the above referenced federal securities laws. The settlement is not expected to impact the Fund and will not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement. On the same day, the SEC filed a civil action against the Executive Vice President and Chief Operating Officer of the Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer is also an officer of the Global Growth Fund and other funds in the Gabelli/GAMCO fund complex including the Fund. The officer denies the allegations and is continuing in his positions with the Adviser and the funds. The Adviser currently expects that any resolution of the action against the officer will not have a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement.

In a separate matter, on January 12, 2009, the SEC issued an administrative action approving a final settlement of a previously disclosed matter with the Adviser involving compliance with Section 19(a) of the Investment Company Act of 1940 and Rule 19a-1 thereunder by two closed-end funds. These provisions require registered investment companies when making a distribution in the nature of a dividend from sources other than net investment income to contemporaneously provide written statements to shareholders, which adequately disclose the source or sources of such distribution. While the two funds sent annual statements and provided other materials containing this information, the shareholders did not receive the notices required by Rule 19a-1 with any of the distributions that were made for 2002 and 2003. The Adviser believes that the funds have been in compliance with Section 19(a) and Rule 19a-1 since the beginning of 2004. As part of the settlement, in which the Adviser neither admits nor denies the findings by the SEC, the Adviser agreed to pay a civil monetary penalty of \$450,000 and to cease and desist from causing violations of Section 19(a) and Rule 19a-1. In connection with the settlement, the SEC noted the remedial actions previously undertaken by the Adviser.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.  
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
The Gabelli Convertible and Income Securities Fund Inc.:

In our opinion, the accompanying statement of assets and liabilities, including the schedule of investments, and the related statements of operations and of changes in net assets and the financial highlights present fairly, in all material respects, the financial position of The Gabelli Convertible and Income Securities Fund Inc. (hereafter referred to as the "Fund") at December 31, 2008, the results of its operations for the year then ended, the changes in its net assets for each of the two years in the period then ended and the financial highlights for each of the five years in the period then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements and financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits, which included confirmation of securities at December 31, 2008 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
New York, New York  
February 27, 2009

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**ADDITIONAL FUND INFORMATION (Unaudited)**

The business and affairs of the Fund are managed under the direction of the Fund's Board of Directors. Information pertaining to the Directors and officers of the Fund is set forth below. The Fund's Statement of Additional Information includes additional information about the Fund's Directors and is available without charge, upon request, by calling 800-GABELLI (800-422-3554) or by writing to The Gabelli Convertible and Income Securities Fund Inc. at One Corporate Center, Rye, NY 10580-1422.

<b>Name, Position(s) Address<sup>1</sup> and Age</b>	<b>Term of Office and Length of Time Served<sup>2</sup></b>	<b>Number of Funds in Fund Complex Overseen by Director</b>	<b>Principal Occupation(s) During Past Five Years</b>	<b>Other Directorships Held by Director<sup>5</sup></b>
<b><u>INTERESTED DIRECTORS<sup>3</sup>:</u></b>				
<b>Mario J. Gabelli</b> Director and Chief Investment Officer Age: 66	Since 1989**	26	Chairman and Chief Executive Officer of GAMCO Investors, Inc. and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc.; Director/Trustee or Chief Investment Officer of other registered investment companies in the Gabelli/GAMCO Funds complex; Chairman and Chief Executive Officer of GGCP, Inc.	Director of Morgan Group Holdings, Inc. (holding company); Chairman of the Board of LICT Corp. (multimedia and communication services company)
<b><u>INDEPENDENT DIRECTORS<sup>4</sup>:</u></b>				
<b>E. Val Cerutti</b> Director Age: 69	Since 1989*	7	Chief Executive Officer of Cerutti Consultants, Inc.	Director of The LGL Group, Inc. (diversified manufacturing)
<b>Anthony J. Colavita<sup>4</sup></b> Director Age: 73	Since 1989***	36	Partner in the law firm of Anthony J. Colavita, P.C.	—
<b>Dugald A. Fletcher</b> Director Age: 79	Since 1989*	2	President, Fletcher & Company, Inc.	Director of Harris and Harris Group, Inc. (venture capital)
<b>Anthony R. Pustorino</b> Director Age: 83	Since 1989*	13	Certified Public Accountant; Professor Emeritus, Pace University	Director of The LGL Group, Inc. (diversified manufacturing)
<b>Werner J. Roeder, MD<sup>4</sup></b> Director Age: 68	Since 2001**	22	Medical Director of Lawrence Hospital and practicing private physician	—
<b>Anthonie C. van Ekris</b> Director Age: 74	Since 1992***	20	Chairman of BALMAC International, Inc. (commodities and futures trading)	—
<b>Salvatore J. Zizza</b> Director Age: 63	Since 1991***	28	Chairman of Zizza & Co., Ltd. (consulting)	Director of Hollis-Eden Pharmaceuticals (biotechnology) and Earl Scheib, Inc. (automotive services)

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**ADDITIONAL FUND INFORMATION (Unaudited) (Continued)**

<u>Name, Position(s) Address<sup>1</sup> and Age</u>	<u>Term of Office and Length of Time Served<sup>2</sup></u>	<u>Principal Occupation(s) During Past Five Years</u>
<b>OFFICERS:</b>		
<b>Bruce N. Alpert</b> President Age: 57	Since 2003	Executive Vice President and Chief Operating Officer of Gabelli Funds, LLC since 1988 and an officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex. Director and President of Teton Advisors, Inc. (formerly Gabelli Advisers, Inc.) since 1998
<b>Laurissa M. Martire</b> Vice President and Ombudsman Age: 32	Since 2004	Vice President of The Gabelli Global Multimedia Trust Inc. since 2004. Assistant Vice President of GAMCO Investors, Inc. since 2003. Prior to 2003, Sales Assistant for GAMCO Investors, Inc.
<b>Agnes Mullady</b> Treasurer and Secretary Age: 50	Since 2006	Vice President of Gabelli Funds, LLC since 2007; Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex; Senior Vice President of U.S. Trust Company, N.A. and Treasurer and Chief Financial Officer of Excelsior Funds from 2004 through 2005; Chief Financial Officer of AMIC Distribution Partners from 2002 through 2004
<b>Peter D. Goldstein</b> Chief Compliance Officer Age: 55	Since 2004	Director of Regulatory Affairs at GAMCO Investors, Inc. since 2004; Chief Compliance Officer of all of the registered investment companies in the Gabelli/GAMCO Funds complex; Vice President of Goldman Sachs Asset Management from 2000 through 2004

<sup>1</sup> Address: One Corporate Center, Rye, NY 10580-1422, unless otherwise noted.

<sup>2</sup> The Fund's Board of Directors is divided into three classes, each class having a term of three years. Each year the term of office of one class expires and the successor or successors elected to such class serve for a three year term. The three year term for each class expires as follows:

\* – Term expires at the Fund's 2009 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

\*\* – Term expires at the Fund's 2010 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

\*\*\* – Term expires at the Fund's 2011 Annual Meeting of Shareholders or until their successors are duly elected and qualified.

Each officer will hold office for an indefinite term until the date he or she resigns or retires or until his or her successor is elected and qualified.

<sup>3</sup> "Interested person" of the Fund as defined in the 1940 Act. Mr. Gabelli is considered an "interested person" because of his affiliation with Gabelli Funds, LLC which acts as the Fund's investment adviser.

<sup>4</sup> Represents holders of the Fund's Preferred Stock.

<sup>5</sup> This column includes only directorships of companies required to report to the SEC under the Securities Exchange Act of 1934, as amended (i.e. public companies) or other investment companies registered under the 1940 Act.

<sup>6</sup> Directors who are not interested persons are considered "Independent" Directors.

**Certifications**

The Fund's Chief Executive Officer has certified to the New York Stock Exchange ("NYSE") that, as of June 17, 2008, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund reports to the Securities and Exchange Commission on Form N-CSR which contains certifications by the Fund's principal executive officer and principal financial officer that relate to the Fund's disclosure in such reports and that are required by Rule 30a-2(a) under the 1940 Act.

The Annual Meeting of The Gabelli Convertible and Income Securities Fund's shareholders will be held on Monday, May 18, 2009 at the Greenwich Library in Greenwich, Connecticut.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**INCOME TAX INFORMATION (Unaudited)**  
**December 31, 2008**

<b>Cash Dividends and Distributions</b>		<b>Total Amount Paid Per Share (a)</b>	<b>Ordinary Investment Income (a)</b>	<b>Long-Term Capital Gain (a)</b>	<b>Return of Capital (c)</b>	<b>Dividend Reinvestment Price</b>
<u>Payable Date</u>	<u>Record Date</u>					
<b>Common Shares</b>						
03/25/08	03/17/08	\$0.20000	\$0.03033	\$0.00199	\$0.16768	\$7.03000
06/24/08	06/16/08	0.20000	0.03033	0.00199	0.16768	6.96350
09/24/08	09/16/08	0.20000	0.03033	0.00199	0.16768	6.06100
12/17/08	12/12/08	0.20000	0.03033	0.00199	0.16768	5.00650
		<u>\$0.80000</u>	<u>\$0.12132</u>	<u>\$0.00796</u>	<u>\$0.67072</u>	
<b>6.000% Series B Cumulative Preferred Stock</b>						
03/26/08	03/18/08	\$0.37500	\$0.35190	\$0.02310		
06/26/08	06/19/08	0.37500	0.35190	0.02310		
09/26/08	09/19/08	0.37500	0.35190	0.02310		
12/26/08	12/18/08	0.37500	0.35190	0.02310		
		<u>\$1.50000</u>	<u>\$1.40760</u>	<u>\$0.09240</u>		

**Series C Auction Rate Cumulative Preferred Stock**

The percentage of 2008 distributions derived from long-term capital gains for the Series C Auction Rate Cumulative Preferred Stock was 6.16%.

A Form 1099-DIV has been mailed to all shareholders of record for the distributions mentioned above, setting forth specific amounts to be included in the 2008 tax returns. Ordinary income distributions include net investment income and net realized short-term capital gains. The long-term gain distributions for the year ended December 31, 2008 were \$221,832, or the maximum allowable.

**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**INCOME TAX INFORMATION (Continued) (Unaudited)**

**December 31, 2008**

**Corporate Dividends Received Deduction, Qualified Dividend Income, and U.S. Government Securities Income**

The Fund paid to common and 6.00% Series B Cumulative Preferred shareholders ordinary income dividends of \$0.12132 and \$1.40760 per share, respectively, in 2008. The Fund paid weekly distributions to Series C Auction Rate Cumulative Preferred shareholders at varying rates through its redemption date, June 25, 2008, including an ordinary income dividend totalling \$414.59644 per share in 2008. For the year ended December 31, 2008, 33.53% of the ordinary dividend qualified for the dividends received deduction available to corporations, and 41.53% of the ordinary income distribution was qualified dividend income. The percentage of ordinary income dividends paid by the Fund during 2008 derived from U.S. Treasury securities was 5.40%. Such income is exempt from state and local tax in all states. However, many states, including New York and California, allow a tax exemption for a portion of the income earned only if a mutual fund has invested at least 50% of its assets at the end of each quarter of the Fund's fiscal year in U.S. Government securities. The Fund did not meet this strict requirement in 2008. The percentage of net assets of U.S. Treasury securities held as of December 31, 2008 was 58.41%.

**Historical Distribution Summary**

Common Shares	Investment Income (b)	Short-Term Capital Gains (b)	Long-Term Capital Gains	Return of Capital (c)	Total Distributions (a)	Adjustment to Cost Basis (d)
2008	\$0.11672	\$0.00460	\$0.00796	\$0.67072	\$0.80000	\$0.67072
2007	0.30784	0.07582	0.24480	0.17154	0.80000	0.17154
2006	0.34356	0.12104	0.33540	—	0.80000	—
2005	0.29540	0.05780	0.20644	0.24036	0.80000	0.24036
2004	0.18800	—	—	0.61200	0.80000	0.61200
2003	0.18800	—	0.05160	0.56040	0.80000	0.56040
2002	0.27170	—	—	0.47830	0.75000	0.47830
2001	0.47550	0.06950	0.26500	—	0.81000	—
2000	0.56610	0.32670	0.40720	—	1.30000	—
1999	0.38990	0.44590	0.19420	—	1.03000	—
1998	0.38660	0.24130	0.29210	—	0.92000	—
1997	0.39690	0.22850	0.33460	—	0.96000	—
1996	0.49000	0.14160	0.10340	—	0.73500	—
1995	0.55740	0.20410	0.35950	0.02900	1.15000	0.02900
1994	0.57300	0.11500	0.21200	—	0.90000	—
1993	0.56100	0.20000	0.66400	—	1.42500	—
1992	0.65400	0.09000	0.13200	—	0.87600	—
1991	0.70600	0.11200	0.04700	—	0.86500	—
1990	0.69000	—	—	—	0.69000	—
1989	0.11500	—	—	—	0.11500	—
<b>6.000% Series B Cumulative Preferred Stock</b>						
2008	\$1.35400	\$0.05360	\$0.09240	—	\$1.50000	—
2007	0.73128	0.18220	0.58652	—	1.50000	—
2006	0.64417	0.22693	0.62890	—	1.50000	—
2005	0.79175	0.15491	0.55334	—	1.50000	—
2004	1.50000	—	—	—	1.50000	—
2003	0.90900	—	0.24930	—	1.15830	—
<b>Series C Auction Rate Cumulative Preferred Stock</b>						
2008	\$398.85232	\$ 15.74412	\$ 27.20356	—	\$ 441.80000	—
2007	656.77286	163.65570	526.77144	—	1,347.20000	—
2006	525.22150	185.03180	512.76670	—	1,223.02000	—
2005	438.5016	85.79450	306.46390	—	830.76000	—
2004	375.0800	—	—	—	375.08000	—
2003	187.3200	—	51.34000	—	238.66000	—

- (a) Total amounts may differ due to rounding.
- (b) Taxable as ordinary income for Federal tax purposes.
- (c) Non-taxable.
- (d) Decrease in cost basis.

All designations are based on financial information available as of the date of this annual report and, accordingly, are subject to change. For each item, it is the intention of the Fund to designate the maximum amount permitted under the Internal Revenue Code and the regulations thereunder.

**DIRECTORS AND OFFICERS**  
**THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**  
**One Corporate Center, Rye, NY 10580-1422**

***Directors***

Mario J. Gabelli, CFA  
*Chairman & Chief Executive Officer,*  
*GAMCO Investors, Inc.*

E. Val Cerutti  
*Chief Executive Officer,*  
*Cerutti Consultants, Inc.*

Anthony J. Colavita  
*Attorney-at-Law,*  
*Anthony J. Colavita, P.C.*

Dugald A. Fletcher  
*President, Fletcher & Company, Inc.*

Anthony R. Pustorino  
*Certified Public Accountant,*  
*Professor Emeritus, Pace University*

Werner J. Roeder, MD  
*Medical Director,*  
*Lawrence Hospital*

Anthonie C. van Ekris  
*Chairman, BALMAC International, Inc.*

Salvatore J. Zizza  
*Chairman, Zizza & Co., Ltd.*

***Officers***

Bruce N. Alpert  
*President*

Peter D. Goldstein  
*Chief Compliance Officer*

Laurissa M. Martire  
*Vice President & Ombudsman*

Agnes Mullady  
*Treasurer and Secretary*

***Investment Adviser***

Gabelli Funds, LLC  
 One Corporate Center  
 Rye, New York 10580-1422

***Custodian***

State Street Bank and Trust Company

***Counsel***

Skadden, Arps, Slate, Meagher & Flom LLP

***Transfer Agent and Registrar***

Computershare Trust Company, N.A.

***Stock Exchange Listing***

	<u>Common</u>	<u>6.00% Preferred</u>
NYSE-Symbol:	GCV	GCV PrB
Shares Outstanding:	12,968,295	977,342

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading “Convertible Securities Funds,” in Monday’s The Wall Street Journal. It is also listed in Barron’s Mutual Funds/Closed End Funds section under the heading “Convertible Securities Funds.”

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting [www.gabelli.com](http://www.gabelli.com).

For general information about the Gabelli Funds, call **800-GABELLI** (800-422-3554), fax us at 914-921-5118, visit Gabelli Funds’ Internet homepage at: [www.gabelli.com](http://www.gabelli.com), or e-mail us at: [closedend@gabelli.com](mailto:closedend@gabelli.com)

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase shares of its common stock in the open market when the Fund’s shares are trading at a discount of 10% or more from the net asset value of the shares. The Fund may also, from time to time, purchase shares of its preferred stock in the open market when the preferred shares are trading at a discount to the liquidation value.

# **THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.**

**One Corporate Center, Rye, NY 10580-1422**

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**GCV Q4/2008**