

# Gabelli Enterprise Mergers and Acquisitions Fund

## Shareholder Commentary October 31, 2009



Morningstar® rated the Gabelli Enterprise Mergers and Acquisitions Fund Class A Shares 4 stars overall and 4 stars for the three and five year periods ended October 31, 2009 among 378, 378, and 298 Mid-Cap Blend funds, respectively.

### To Our Shareholders,

The Gabelli Enterprise Mergers and Acquisitions Fund's (the "Fund") net asset value ("NAV") per Class A Share rose 4.70% in the three months ended October 31, 2009, while the S&P 500 Index increased 5.48%. For the twelve months ended October 31, 2009, the NAV was up 16.09%, outperforming the S&P 500, that grew 9.80%.

### Comparative Results

#### Average Annual Returns through October 31, 2009 (a)(b)

	Quarter	Calendar Year to Date	1 Year	3 Year	5 Year	Since Inception (2/28/01)
<b>Gabelli Enterprise Mergers and Acquisitions Fund Class A</b> .....	4.70% (0.27)(c)	18.26% 12.65(c)	16.09% 10.57(c)	(3.12)% (4.68)(c)	2.17% 1.18(c)	3.03% 2.45(c)
Class B .....	4.56 (0.44)(d)	17.68 12.68(d)	15.43 10.43(d)	(3.65) (4.62)(d)	1.61 1.23(d)	2.46 2.46
Class C .....	4.56 3.56(e)	17.68 16.68(e)	15.43 14.43(e)	(3.66) (3.66)	1.61 1.61	2.46 2.46
Class Y .....	4.78	18.64	16.64	(2.70)	2.63	3.49
S&P 500 Index .....	5.48	17.06	9.80	(7.02)	0.33	(0.19)

**In the current prospectus, the expense ratio for the Class A, Class B, Class C, and Class Y Shares is 1.86%, 2.41%, 2.41%, and 1.41%, respectively. Class Y Shares have no sales charge. Prior to November 4, 2009, the maximum sales charge for the Class A, Class B, and Class C Shares was 4.75%, 5.00%, and 1.00%, respectively. Effective November 4, 2009, the maximum sales charge for Class A Shares is 5.75%**

- (a) **Returns represent past performance and do not guarantee future results.** Total returns and average annual returns reflect changes in share price and reinvestment of dividends and are net of expenses. Investment returns and the principal value of an investment will fluctuate. When shares are redeemed, they may be worth more or less than their original cost. Performance returns for periods of less than one year are not annualized. Current performance may be lower or higher than the performance data presented. Visit [www.gabelli.com](http://www.gabelli.com) for performance information as of the most recent month end. **Investors should carefully consider the investment objectives, risks, charges, and expenses of the Fund before investing. The prospectus contains more information about this and other matters and should be read carefully before investing.** The S&P 500 Index is an unmanaged indicator of stock market performance. Dividends are considered reinvested. You cannot invest directly in an index.
- (b) The Fund's fiscal year ends October 31.
- (c) Includes the effect of the maximum 4.75% sales charge at the beginning of the period.
- (d) Performance results include the deferred sales charges for the Class B Shares upon redemption at the end of the quarter, year to date, one year, three year, and five year periods of 5%, 5%, 5%, 3%, and 2%, respectively, of the Fund's net asset value ("NAV") per share at the time of purchase or sale, whichever is lower. Class B Shares are not available for new purchases.
- (e) Performance results include the deferred sales charges for the Class C Shares at the end of the quarter, year to date, and one year periods of 1% of the Fund's NAV per share at the time of purchase or sale, whichever is lower.

Morningstar Rating™ is based on risk-adjusted returns. The Overall Morningstar Rating is derived from a weighted average of the performance figures associated with a fund's three, five, and ten year (if applicable) Morningstar Rating metrics. For funds with at least a three year history, a Morningstar Rating is based on a risk-adjusted return measure (including the effects of sales charges, loads, and redemption fees) placing more emphasis on downward variations and rewarding consistent performance. That accounts for variations in a fund's monthly performance. The top 10% of funds in each category receive 5 stars, the next 22.5% 4 stars, the next 35% 3 stars, the next 22.5% 2 stars, and the bottom 10% 1 star. (Each share class is counted as a fraction of one fund within this scale and rated separately, which may cause slight variations in the distribution percentages.) Morningstar Rating is for the A Share class only; other classes may have different performance characteristics. Ratings reflect relative performance. Results for certain periods were negative.

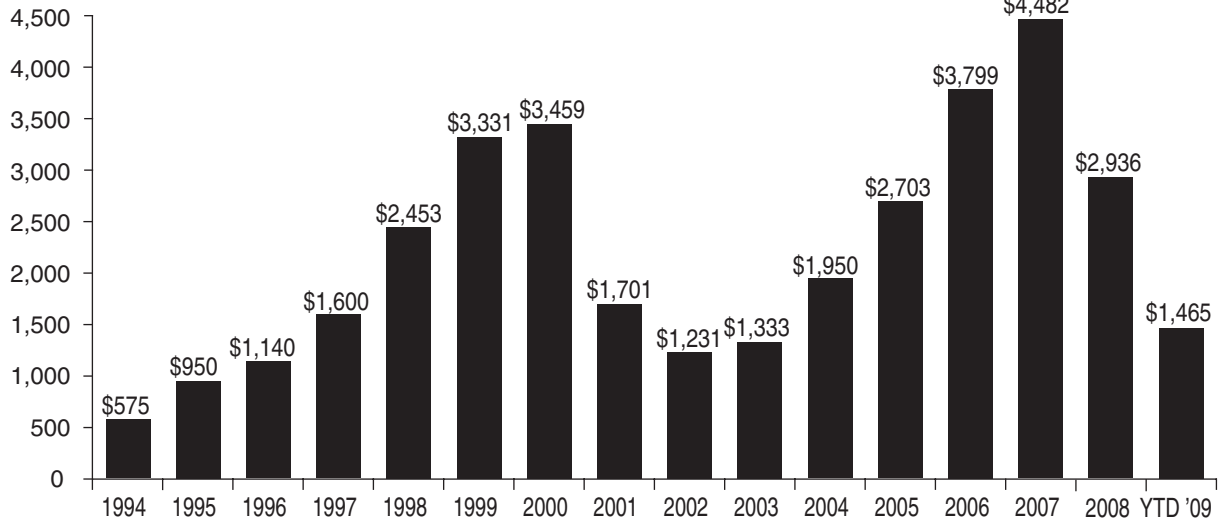
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## COMMENTARY

In the third quarter of 2009, the merger and acquisitions (“M&A”) market showed signs of a tentative recovery, mirroring the overall markets. Carrying over weakness from the second quarter, the early third quarter was stagnant, but activity picked up rapidly in September. As reported by Citi in its “Executive M&A Summary”, global announced M&A volume in the third quarter totaled \$453 billion, down about 43% compared with the third quarter of 2008.

US\$ Billions

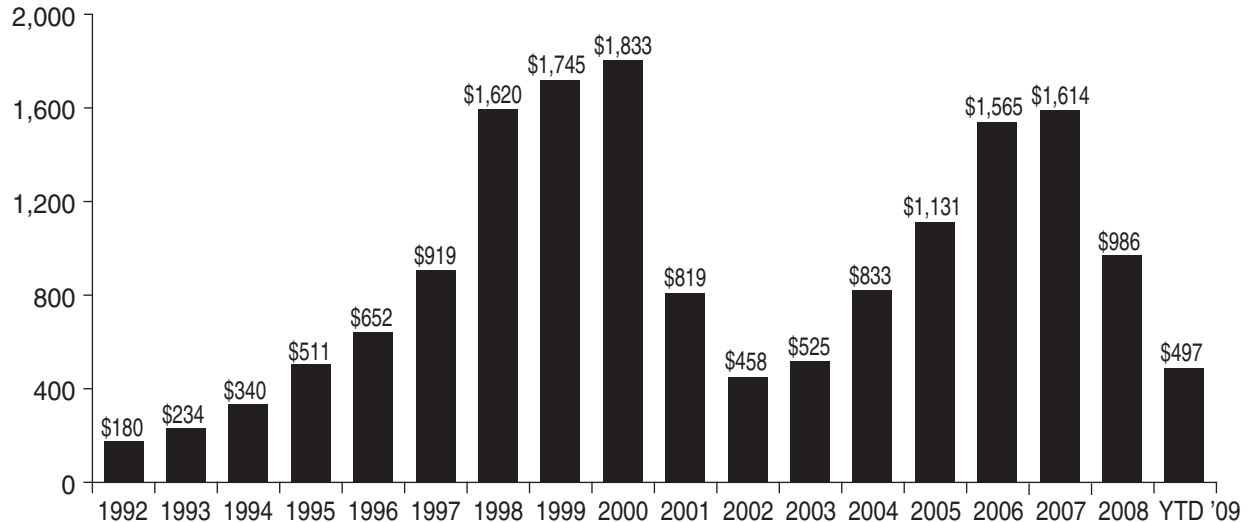
### Global Deal Activity



Source: Thomson Reuters/Gabelli Research

\$ Billions

### U.S. Deal Activity



Source: Thomson Reuters/Gabelli Research

However, the third quarter ended on a positive note, with \$165 billion of global deals announced in September alone, to date the most active month of 2009. As in the U.S., cross border transactions began weakly but strengthened in numbers towards quarter end. Following the pattern of the prior three months, the technology, industrial, and healthcare sectors showed the most deal activity.

Of these deals, the great majority were initiated by companies with cash rich balance sheets looking to take advantage of depressed valuations of competitors. We expect that these opportunities will continue to appear as companies look to strategic acquisitions to expand their businesses.

2009 was a terrific year for the portfolio. The portion invested in announced deal stocks had many successes. Fewer firms are participating in the strategy and credit has begun to ease, resulting in historically attractive spreads relative to short-term interest rates.

Stocks rose sharply as we have emerged from recession and potential deal stocks in the portfolio were strong performers. Notably, Advanced Medical Optics and Alpharma were the object of deals and Cadbury will possibly be bought by Kraft. In the past wave of takeovers, merger and acquisition activity was dominated by private equity. Today corporate buyers are acquiring other companies to add global growth and scale. The strong are taking advantage of low valuations and excess corporate cash to get stronger.

### **Selected Stock Holdings**

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

*Perot Systems Corp. (3.7% of net assets as of October 31, 2009) (PER - \$29.94 - NYSE)* provides custom information technology services and business solutions that enable clients to accelerate growth, streamline operations, and create new levels of customer value. On September 21st, the company announced that it had entered into an agreement with Dell to be acquired for \$30.00 per share in cash. The transaction closed on November 3, 2009, and was valued at a total of \$3.9 billion.

*SanDisk (0.1%) (SNDK - \$20.48 - Nasdaq)*, headquartered in Milpitas, CA, manufactures NAND based flash memory cards. The company generated \$3.35 billion in sales in 2008. The NAND flash memory cards are widely used in consumer electronics products, e.g., digital cameras, multimedia players, handsets, smartphones, and solid state drives. SanDisk's major end markets are mobile devices and imaging applications, which accounted for 33% and 25% of 2008 revenue, respectively. The NAND flash memory market has seen oversupply, excess inventories, and up to 60% average annual selling price decline (based on memory size) until early 2009. The oversupplied market and global macroeconomic recession had driven major flash memory manufacturers to lower their production significantly. This is leading to a more balanced demand/supply market and reversing the pricing trend to a sequential price increase starting in the second quarter of 2009. Market research predicts that even if all major players gear their production levels back to 100% levels, the NAND flash memory market will still end up in supply shortage by the end of 2009. SanDisk is working toward large volume production of its advanced NAND memory chips, memory chips that can store higher capacity of 3-bits (X3) and 4-bits (X4) of memory in one cell, versus one bit and 2-bits of memory chips widely used today. SanDisk set a goal of producing 50% of its total bit production in X3 and X4 in 2009. Management expects large volume production of X3 and X4 chips will generate 15-20% extra margins. Strategically, SanDisk is also shifting its business model toward a mix of captive and non-captive production. This will reduce capital expenditures significantly and help SanDisk manage the cyclical nature of demand/supply imbalance in its memory market. Lastly, SanDisk has a strong balance sheet, with \$1.11 billion in cash (\$4.90/share).

*Varian Inc. (2.9%) (VARI - \$51.20 - Nasdaq)* is a worldwide supplier of scientific instruments and vacuum technologies for life science, environmental, energy, applied research, and other applications. On July 27th the company entered into an agreement to be acquired by Agilent Technologies. Under the terms of the merger agreement, Agilent will acquire all of the outstanding shares of Varian for \$52.00 per share, valuing the transaction at \$1.5 billion. The merger is subject to regulatory approval and is expected to be completed by the end of 2009.

Sincerely,

Handwritten signature of Mario J. Gabelli in black ink.

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

December 16, 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.

**www.gabelli.com**

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

The Fund's daily net asset value is available in the financial press and each evening after 6:00 PM (Eastern Time) by calling 800-GABELLI (800-422-3554). The Fund's Nasdaq symbol is EMAAX for Class A Shares. Please call us during the business day for further information.

**e-delivery**

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

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

Perot Systems Corp. 3.7%	Cadbury plc, ADR 2.2%
I-Flow Corp. 3.2%	NorthWestern Corp. 2.2%
Avocent Corp. 3.1%	Sara Lee Corp. 2.2%
Sun Microsystems Inc. 2.3%	SWS Group Inc. 2.2%
Centennial Communications Corp. 2.2%	Yahoo! Inc. 2.1%

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.

## **Gabelli/GAMCO Funds and Your Personal Privacy**

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### **Who are we?**

The Gabelli/GAMCO Funds are investment companies registered with the Securities and Exchange Commission under the Investment Company Act of 1940. We are managed by Gabelli Funds, LLC or Teton Advisors, Inc., which are affiliated with GAMCO Investors, Inc. GAMCO Investors, Inc. is a publicly held company that has subsidiaries that provide investment advisory or brokerage services for a variety of clients. Teton Advisors, Inc. is a publicly held company that provides investment advisory services to the GAMCO Westwood Funds.

### **What kind of non-public information do we collect about you if you become a shareholder?**

If you apply to open an account directly with us, you will be giving us some non-public information about yourself. The non-public information we collect about you is:

- *Information you give us on your application form.* This could include your name, address, telephone number, social security number, bank account number, and other information.
- *Information about your transactions with us, any transactions with our affiliates, and transactions with the entities we hire to provide services to you.* This would include information about the shares that you buy or redeem. If we hire someone else to provide services—like a transfer agent—we will also have information about the transactions that you conduct through them.

### **What information do we disclose and to whom do we disclose it?**

We do not disclose any non-public personal information about our customers or former customers to anyone other than our affiliates, our service providers who need to know such information, and as otherwise permitted by law. If you want to find out what the law permits, you can read the privacy rules adopted by the Securities and Exchange Commission. They are in volume 17 of the Code of Federal Regulations, Part 248. The Commission often posts information about its regulations on its website, [www.sec.gov](http://www.sec.gov).

### **What do we do to protect your personal information?**

We restrict access to non-public personal information about you to the people who need to know that information in order to provide services to you or the Fund and to ensure that we are complying with the laws governing the securities business. We maintain physical, electronic, and procedural safeguards to keep your personal information confidential.

# GABELLI FAMILY OF FUNDS

## VALUE

### **Gabelli Asset Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

### **Gabelli Blue Chip Value Fund**

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

Portfolio Manager: Barbara Marcin, CFA

### **GAMCO Westwood Equity Fund**

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

Portfolio Manager: Susan M. Byrne

## FOCUSED VALUE

### **Gabelli Value Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

## SMALL CAP VALUE

### **Gabelli Small Cap Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

### **GAMCO Westwood SmallCap Equity Fund**

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

Portfolio Manager: Nicholas F. Galluccio

### **Gabelli Woodland Small Cap Value Fund**

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

Portfolio Manager: Elizabeth M. Lilly, CFA

## GROWTH

### **GAMCO Growth Fund**

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

Portfolio Manager: Howard F. Ward, CFA

### **GAMCO International Growth Fund**

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

Portfolio Manager: Caesar Bryan

## AGGRESSIVE GROWTH

### **GAMCO Global Growth Fund**

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

Team Managed

## MICRO-CAP

### **GAMCO Westwood Mighty Mites<sup>SM</sup> Fund**

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

Team Managed

## EQUITY INCOME

### **Gabelli Equity Income Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

### **GAMCO Westwood Balanced Fund**

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

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

### **GAMCO Westwood Income Fund**

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

Portfolio Manager: Barbara Marcin, CFA

## SPECIALTY EQUITY

### **GAMCO Global Convertible Securities Fund**

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

Team Managed

### **GAMCO Global Opportunity Fund**

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

Team Managed

### **Gabelli SRI Green Fund**

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

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

## SECTOR

### **GAMCO Global Telecommunications Fund**

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

Team Managed

## GAMCO Gold Fund

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

Portfolio Manager: Caesar Bryan

## Gabelli Utilities Fund

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

Team Managed

## MERGER AND ARBITRAGE

### **Gabelli ABC Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

### **Gabelli Enterprise Mergers and Acquisitions Fund**

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

Portfolio Manager: Mario J. Gabelli, CFA

## CONTRARIAN

### **GAMCO Mathers Fund**

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

Portfolio Manager: Henry Van der Eb, CFA

### **Comstock Capital Value Fund**

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

Portfolio Manager: Martin Weiner, CFA

## FIXED INCOME

### **GAMCO Westwood Intermediate Bond Fund**

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

Portfolio Manager: Mark Freeman, CFA

## CASH MANAGEMENT-MONEY MARKET

### **Gabelli U.S. Treasury Money Market Fund**

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

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

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

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

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

**Gabelli Enterprise Mergers and  
Acquisitions Fund**

A Portfolio of the 787 Fund, Inc.  
One Corporate Center  
Rye, New York 10580-1422

**800-GABELLI**

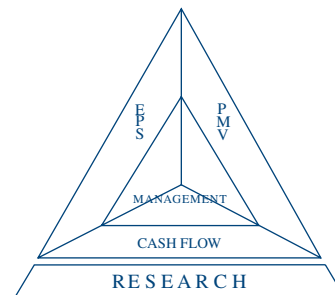
**800-422-3554**

**fax: 914-921-5118**

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

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

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



**Board of Directors**

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*Anthony J. Colavita, P.C.*

Kuni Nakamura  
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*Director of GAMCO Asset*  
*Management Inc.*

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Agnes Mullady  
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Gabelli and Company, Inc.

**Custodian, Transfer Agent, and Dividend Agent**

State Street Bank and Trust Company

**Legal Counsel**

Paul, Hastings, Janofsky & Walker LLP

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

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**SHAREHOLDER COMMENTARY**  
**OCTOBER 31, 2009**