

Dated June 25, 2002

**THE GABELLI EQUITY TRUST INC.**

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**STATEMENT OF ADDITIONAL INFORMATION**

The Gabelli Equity Trust Inc. (the "Fund") is a non-diversified, closed-end management investment company that seeks long-term growth of capital by investing primarily in a portfolio of equity securities selected by Gabelli Funds, LLC, the Investment Adviser to the Fund. Income is a secondary investment objective. It is the policy of the Fund, under normal market conditions, to invest at least 65% (80% commencing on July 31, 2002) of its total assets in equity securities.

This Statement of Additional Information ("SAI") is not a prospectus, but should be read in conjunction with the prospectus relating to the Series C Auction Rate Cumulative Preferred Stock of the Fund dated June 25, 2002 (the "Prospectus"). Investors should obtain and read the Prospectus prior to purchasing Series C Preferred. A copy of the Prospectus may be obtained without charge by calling the Fund at 1-800-GABELLI (1-800-422-3554) or (914) 921-5070. This SAI incorporates by reference the entire Prospectus.

Capitalized terms used but not defined in this SAI have the meanings assigned to them in the Prospectus or in the glossary of this SAI.

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The Prospectus and this SAI omit certain of the information contained in the registration statement filed with the Securities and Exchange Commission, Washington, D.C. The registration statement may be obtained from the Securities and Exchange Commission upon payment of the fee prescribed, or inspected at the Securities and Exchange Commission's office at no charge.

This SAI is dated June 25, 2002.

## THE FUND

The Gabelli Equity Trust Inc., or the Fund, is a closed-end non-diversified management investment company organized as a Maryland corporation on May 20, 1986 and registered under the 1940 Act that has a primary investment objective of long-term growth of capital and a secondary investment objective of income. The Fund commenced investment operations on August 21, 1986. The Fund's investments are selected by Gabelli Funds, LLC, its Investment Adviser. The Fund invests primarily in equity securities including common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities.

### INVESTMENT OBJECTIVES AND POLICIES

#### INVESTMENT OBJECTIVES

The Fund's primary investment objective is long-term growth of capital. Income is a secondary objective. Under normal market conditions, the Fund will invest at least 65% (80% commencing on July 31, 2002) of its total assets in equity securities. See "Investment Objectives and Policies" in the Prospectus.

#### INVESTMENT PRACTICES

Special Situations. Subject to the Fund's policy of investing at least 65% (80% commencing on July 31, 2002) of its total assets in companies on the basis of fundamental value, the Fund from time to time may, as a non-principal investment strategy, invest in companies that are determined by the Investment Adviser to possess "special situation" characteristics. In general, a special situation company is a company whose securities are expected to increase in value solely by reason of a development particularly or uniquely applicable to the company. Developments that may create special situations include, among others, a liquidation, reorganization, recapitalization or merger, material litigation, technological breakthrough or new management or management policies. The principal risk associated with investments in special situation companies is that the anticipated development thought to create the special situation may not occur and the investment therefore may not appreciate in value or may decline in value.

Temporary Investments. Although under normal market conditions at least 65% (80% commencing on July 31, 2002) of the Fund's assets will consist of equity securities, including common stock, preferred stock, convertible securities, options and warrants, when a temporary defensive posture is believed by the Investment Adviser to be warranted ("temporary defensive periods"), the Fund may hold without limitation cash or invest its assets in money market instruments and repurchase agreements in respect of those instruments. The money market instruments in which the Fund may invest are U.S. Government Obligations; commercial paper rated A-1 or higher by Standard & Poor's Ratings Services ("S&P") or Prime-1 by Moody's Investors Service, Inc. ("Moody's"); and certificates of deposit and bankers' acceptances issued by

domestic branches of U.S. banks that are members of the Federal Deposit Insurance Corporation. For a description of such ratings, see Appendix A to the Prospectus. The Fund may also invest up to 10% of the market value of its total assets during temporary defensive periods in shares of money market mutual funds that invest primarily in U.S. Government Obligations and repurchase agreements in respect of those securities. Money market mutual funds are investment companies and the investments by the Fund in those companies are subject to certain other limitations. See "Investment Restrictions." As a shareholder in a mutual fund, the Fund will bear its ratable share of the fund's expenses, including management fees, and will remain subject to payment of the fees to the Investment Adviser with respect to assets so invested.

Lower Rated Securities. The Fund may invest up to 10% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, such as securities rated CCC or lower by S&P or Caa or lower by Moody's, or non-rated securities of comparable quality. These debt securities are predominantly speculative and involve major risk exposure to adverse conditions and are often referred to in the financial press as "junk bonds."

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

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

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

The Fund may invest in securities of issuers in default. The Fund will invest in securities of issuers in default only when the Investment Adviser believes that such issuers will honor their obligations or emerge from bankruptcy protection and the value of these securities will appreciate. By investing in securities of issuers in default, the Fund bears the risk that these issuers will not continue to honor their obligations or emerge from bankruptcy protection or that the value of the securities will not appreciate.

In addition to using recognized rating agencies and other sources, the Investment Adviser also performs its own analysis in seeking investments that it believes to be underrated (and thus higher-yielding) in light of the financial condition of the issuer. Its analysis of issuers may include, among other things, current and anticipated cash flow and borrowing requirements, value of assets in relation to historical cost, strength of management, responsiveness to business conditions, credit standing and current and anticipated results of operations. In selecting investments for the Fund, the Investment Adviser may also consider general business conditions, anticipated changes in interest rates and the outlook for specific industries.

Subsequent to its purchase by the Fund, an issue of securities may cease to be rated or its rating may be reduced. In addition, it is possible that statistical rating agencies might not change their ratings of a particular issue or reflect subsequent events on a timely basis. Moreover, such ratings do not assess the risk of a decline in market value. None of these events will require the sale of the securities by the Fund, although the Investment Adviser will consider these events in determining whether the Fund should continue to hold the securities.

The market for certain lower rated and comparable unrated securities has in the past experienced a major economic recession. The recession adversely affected the value of such securities as well as the ability of certain issuers of such securities to repay principal and pay interest thereon. The market for those securities could react in a similar fashion in the event of any future economic recession.

As a result of all these factors, to the extent the Fund invests in high yield bonds, its net asset value is expected to be more volatile than the net asset value of funds that invest solely in higher rated debt securities.

Options. A call option is a contract that, in return for a premium, gives the holder of the option the right to buy from the writer of the call option the security or currency underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation, upon exercise of the option, to deliver the underlying security or currency upon payment of the exercise price during the option period. A put option is the reverse of a call option, giving the holder the right to sell the security or currency to the writer and obligating the writer to purchase the underlying security or currency from the holder.

A call option is "covered" if the Fund owns the underlying instrument covered by the call or has an absolute and immediate right to acquire that instrument without additional cash consideration upon conversion or exchange of another instrument held in its portfolio or for additional cash consideration held in a segregated account by its custodian. A call option is also covered if the Fund holds a call on the same instrument as the call written where the exercise price of the call held is (i) equal to or less than the exercise price of the call written or (ii) greater than the exercise price of the call written if the difference is maintained by the Fund in cash, U.S. Government Obligations or other high grade short-term obligations in a segregated account held with its custodian. A put option is "covered" if the Fund maintains cash or other high grade short-term obligations with a value equal to the exercise price in a segregated account held with its custodian, or else holds a put on the same instrument as the put written where the exercise price of the put held is equal to or greater than the exercise price of the put written.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. However, once it has been assigned an exercise notice, the Fund will effect a closing purchase transaction. Similarly, if the Fund is the holder of an option it may liquidate its position by effecting a closing sale transaction. This is accomplished by selling an option of the same series as the option previously purchased. There can be no assurance that a closing purchase or sale transaction can be effected when the Fund so desires.

The Fund will realize a profit from a closing transaction if the price of the transaction is less than the premium received from writing the option or is more than the premium paid to purchase the option; the Fund will realize a loss from a closing transaction if the price of the transaction is more than the premium received from writing the option or is less than the premium paid to purchase the option. Since call option prices generally reflect increases in the price of the underlying security, any loss resulting from the repurchase of a call option may also be wholly or partially offset by unrealized appreciation of the underlying security. Other principal factors affecting the market value of a put or a call option include supply and demand, interest rates, the current market price and price volatility of the underlying security and the time remaining until the expiration date. Gains and losses on investments in options depend, in part, on the ability of the Investment Adviser to predict correctly the effect of these factors. The use of options cannot serve as a complete hedge since the price movement of securities underlying the options will not necessarily follow the price movements of the portfolio securities subject to the hedge.

An option position may be closed out only on an exchange which provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option. In such event, it might not be possible to effect closing transactions in particular options, so that the Fund would have to exercise its options in order to realize any profit and would incur brokerage commissions upon the exercise of call options and upon the subsequent disposition of underlying securities for the exercise of put options. If the Fund, as a covered call option writer, is unable to effect a closing purchase transaction in a secondary market, it will not be able to sell the underlying security until the option expires or it delivers the underlying security upon exercise or otherwise covers the position.

In addition to options on securities, the Fund may also purchase and sell call and put options on securities indices. A stock index reflects in a single number the market value of many different stocks. Relative values are assigned to the stocks included in an index and the index fluctuates with changes in the market values of the stocks. The options give the holder the right to receive a cash settlement during the term of the option based on the difference between the exercise price and the value of the index. By writing a put or call option on a securities index, the Fund is obligated, in return for the premium received, to make delivery of this amount. The Fund may offset its position in the stock index options prior to expiration by entering into a closing transaction on an exchange or it may let the option expire unexercised.

The Fund also may buy or sell and call options on foreign currencies. A put option on a foreign currency gives the purchaser of the option the right to sell a foreign currency at the exercise price until the option expires. A call option on a foreign currency gives the purchaser of the option the right to purchase the currency at the exercise price until the option expires. Currency options traded on U.S. or other exchanges may be subject to position limits which may limit the ability of the Fund to reduce foreign currency risk using such options. Over-the-counter options differ from exchange-traded options in that they are two-party contracts with price and other terms negotiated between buyer and seller and generally do not have as much market liquidity as exchange-traded options. Over-the-counter options are illiquid securities.

Use of options on securities indices entails the risk that trading in the options may be interrupted if trading in certain securities included in the index is interrupted. The Fund will not purchase these options unless the Investment Adviser is satisfied with the development, depth and liquidity of the market and the Investment Adviser believes the options can be closed out.

Price movements in the portfolio of the Fund may not correlate precisely with movements in the level of an index and, therefore, the use of options on indexes cannot serve as a complete hedge and will depend, in part, on the ability of the Investment Adviser to predict correctly movements in the direction of the stock market generally or of a particular industry. Because options on securities indexes require settlement in cash, the Investment Adviser may be forced to liquidate portfolio securities to meet settlement obligations.

Although the Investment Adviser will attempt to take appropriate measures to minimize the risks relating to the Fund's writing of put and call options, there can be no assurance that the Fund will succeed in any option writing program it undertakes.

Futures Contracts and Options on Futures. The Fund will not enter into futures contracts or options on futures contracts unless (i) the aggregate initial margins and premiums do not exceed 5% of the fair market value of its assets and (ii) the aggregate market value of its outstanding futures contracts and the market value of the currencies and futures contracts subject to outstanding options written by the Fund, as the case may be, do not exceed 50% of the market value of its total assets. It is anticipated that these investments, if any, will be made by the Fund solely for the purpose of bona fide hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Such investments will only be made if they are economically appropriate to the reduction of risks involved in the management of the Fund. In this regard, the Fund may enter into futures contracts or options on futures for the purchase or sale of securities indices or other financial instruments including but not limited to U.S. Government Obligations.

A "sale" of a futures contract (or a "short" futures position) means the assumption of a contractual obligation to deliver the assets underlying the contract at a specified price at a specified future time. A "purchaser" of a futures contract (or a "long" futures position) means the assumption of a contractual obligation to acquire the assets underlying the contract at a specified future time. Certain futures contracts, including stock and bond index futures, are settled on a net cash payment basis rather than by the sale and delivery of the assets underlying the futures contracts.

No consideration will be paid or received by the Fund upon the purchase or sale of a futures contract. Initially, the Fund will be required to deposit with the broker an amount of cash or cash equivalents equal to approximately 1% to 10% of the contract amount (this amount is subject to change by the exchange or board of trade on which the contract is traded and brokers or members of such board of trade may charge a higher amount). This amount is known as "initial margin" and is in the nature of a performance bond or good faith deposit on the contract. Subsequent payments, known as "variation margin," to and from the broker will be made daily as the price of the index or security underlying the futures contract fluctuates. At any time prior to the expiration of a futures contract, the Fund may elect to close the position by taking an opposite position, which will operate to terminate its existing position in the contract.

An option on a futures contract gives the purchaser the right, in return for the premium paid, to assume a position in a futures contract at a specified exercise price at any time to the expiration of the option. Upon exercise of an option, the delivery of the futures position by the writer of the option to the holder of the option will be accompanied by delivery of the accumulated balance in the writer's futures margin account attributable to that contract, which represents the amount by which the market price of the futures contract exceeds, in the case of a call, or is less than, in the case of a put, the exercise price of the option on the futures contract. The



potential loss related to the purchase of an option on futures contracts is limited to the premium paid for the option (plus transaction costs). Because the value of the option purchased is fixed at the point of sale, there are no daily cash payments by the purchaser to reflect changes in the value of the underlying contract; however, the value of the option does change daily and that change would be reflected in the net assets of the Fund.

Futures and options on futures entail certain risks, including but not limited to the following: no assurance that futures contracts or options on futures can be offset at favorable prices, possible reduction of the yield of the Fund due to the use of hedging, possible reduction in value of both the securities hedged and the hedging instrument, possible lack of liquidity due to daily limits on price fluctuations, imperfect correlation between the contracts and the securities being hedged, losses from investing in futures transactions that are potentially unlimited and the segregation requirements described below.

In the event the Fund sells a put option or enters into long futures contracts, under current interpretations of the Investment Company Act of 1940, as amended (the "1940 Act") an amount of cash or liquid securities equal to the market value of the contract must be deposited and maintained in a segregated account with the custodian of the Fund to collateralize the positions, thereby ensuring that the use of the contract is unleveraged. For short positions in futures contracts and sales of call options, the Fund may establish a segregated account (not with a futures commission merchant or broker) with cash or liquid securities that, when added to amounts deposited with a futures commission merchant or a broker as margin, equal the market value of the instruments or currency underlying the futures contract or call options, respectively (but are not less than the stock price of the call option or the market price at which the short positions were established).

Interest Rate Futures Contracts and Options Thereon. The Fund may purchase or sell interest rate futures contracts to take advantage of or to protect the Fund against fluctuations in interest rates affecting the value of debt securities which the Fund holds or intends to acquire. For example, if interest rates are expected to increase, the Fund might sell futures contracts on debt securities, the values of which historically have a high degree of positive correlation to the values of the Fund's portfolio securities. Such a sale would have an effect similar to selling an equivalent value of the Fund's portfolio securities. If interest rates increase, the value of the Fund's portfolio securities will decline, but the value of the futures contracts to the Fund will increase at approximately an equivalent rate thereby keeping the net asset value of the Fund from declining as much as it otherwise would have. The Fund could accomplish similar results by selling debt securities with longer maturities and investing in debt securities with shorter maturities when interest rates are expected to increase. However, since the futures market may be more liquid than the cash market, the use of futures contracts as a risk management technique allows the Fund to maintain a defensive position without having to sell its portfolio securities.

Similarly, the Fund may purchase interest rate futures contracts when it is expected that interest rates may decline. The purchase of futures contracts for this purpose constitutes a hedge

against increases in the price of debt securities (caused by declining interest rates) which the Fund intends to acquire. Since fluctuations in the value of appropriately selected futures contracts should approximate that of the debt securities that will be purchased, the Fund can take advantage of the anticipated rise in the cost of the debt securities without actually buying them. Subsequently, the Fund can make its intended purchase of the debt securities in the cash market and currently liquidate its futures position. To the extent the Fund enters into futures contracts for this purpose, it will maintain in a segregated asset account with the Fund's custodian assets sufficient to cover the Fund's obligations with respect to such futures contracts, which will consist of cash or other liquid securities from its portfolio in an amount equal to the difference between the fluctuating market value of such futures contracts and the aggregate value of the initial margin deposited by the Fund with its custodian with respect to such futures contracts.

The purchase of a call option on a futures contract is similar in some respects to the purchase of a call option on an individual security. Depending on the pricing of the option compared to either the price of the futures contract upon which it is based or the price of the underlying debt securities, it may or may not be less risky than ownership of the futures contract or underlying debt securities. As with the purchase of futures contracts, when the Fund is not fully invested it may purchase a call option on a futures contract to hedge against a market advance due to declining interest rates.

The purchase of a put option on a futures contract is similar to the purchase of protective put options on portfolio securities. The Fund will purchase a put option on a futures contract to hedge the Fund's portfolio against the risk of rising interest rates and consequent reduction in the value of portfolio securities.

The writing of a call option on a futures contract constitutes a partial hedge against declining prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is below the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any decline that may have occurred in the Fund's portfolio holdings. The writing of a put option on a futures contract constitutes a partial hedge against increasing prices of the securities which are deliverable upon exercise of the futures contract. If the futures price at expiration of the option is higher than the exercise price, the Fund will retain the full amount of the option premium which provides a partial hedge against any increase in the price of debt securities which the Fund intends to purchase. If a put or call option the Fund has written is exercised, the Fund will incur a loss which will be reduced by the amount of the premium it received. Depending on the degree of correlation between changes in the value of its portfolio securities and changes in the value of its futures positions, the Fund's losses from options on futures it has written may to some extent be reduced or increased by changes in the value of its portfolio securities.

Currency Futures and Options Thereon. Generally, foreign currency futures contracts and options thereon are similar to the interest rate futures contracts and options thereon discussed previously. By entering into currency futures and options thereon, the Fund will seek to establish

the rate at which it will be entitled to exchange US dollars for another currency at a future time. By selling currency futures, the Fund will seek to establish the number of dollars it will receive at delivery for a certain amount of a foreign currency. In this way, whenever the Fund anticipates a decline in the value of a foreign currency against the US dollar, the Fund can attempt to "lock in" the US dollar value of some or all of the securities held in its portfolio that are denominated in that currency. By purchasing currency futures, the Fund can establish the number of dollars it will be required to pay for a specified amount of a foreign currency in a future month. Thus, if the Fund intends to buy securities in the future and expects the US dollar to decline against the relevant foreign currency during the period before the purchase is effected, the Fund can attempt to "lock in" the price in US dollars of the securities it intends to acquire.

The purchase of options on currency futures will allow the Fund, for the price of the premium and related transaction costs it must pay for the option, to decide whether or not to buy (in the case of a call option) or to sell (in the case of a put option) a futures contract at a specified price at any time during the period before the option expires. If the Investment Adviser, in purchasing an option, has been correct in its judgment concerning the direction in which the price of a foreign currency would move as against the US dollar, the Fund may exercise the option and thereby take a futures position to hedge against the risk it had correctly anticipated or close out the option position at a gain that will offset, to some extent, currency exchange losses otherwise suffered by the Fund. If exchange rates move in a way the Fund did not anticipate, however, the Fund will have incurred the expense of the option without obtaining the expected benefit; any such movement in exchange rates may also thereby reduce rather than enhance the Fund's profits on its underlying securities transactions.

Securities Index Futures Contracts and Options Thereon. Purchases or sales of securities index futures contracts are used for hedging purposes to attempt to protect the Fund's current or intended investments from broad fluctuations in stock or bond prices. For example, the Fund may sell securities index futures contracts in anticipation of or during a market decline to attempt to offset the decrease in market value of the Fund's securities portfolio that might otherwise result. If such decline occurs, the loss in value of portfolio securities may be offset, in whole or part, by gains on the futures position. When the Fund is not fully invested in the securities market and anticipates a significant market advance, it may purchase securities index futures contracts in order to gain rapid market exposure that may, in part or entirely, offset increases in the cost of securities that the Fund intends to purchase. As such purchases are made, the corresponding positions in securities index futures contracts will be closed out. The Fund may write put and call options on securities index futures contracts for hedging purposes.

Limitations on the Purchase and Sale of Futures Contracts and Options on Futures Contracts. Subject to the guidelines of the Board of Directors, the Fund may engage in transactions in futures contracts and options hereon only for bona fide hedging, yield enhancement and risk management purposes, in each case in accordance with the rules and regulations of the Commodity Futures Trading Commission, or CFTC, and not for speculation.

Regulations of the CFTC applicable to the Fund permit the Fund's futures and options on futures transactions to include (i) bona fide hedging transactions without regard to the percentage of the Fund's assets committed to margin and option premiums, and (ii) non-hedging transactions, provided that the Fund not enter into such non-hedging transactions if, immediately thereafter, the sum of the amount of initial margin deposits on the Fund's existing futures positions and option premiums would exceed 5% of the market value of the Fund's liquidating value, after taking into account unrealized profits and unrealized losses on any such transactions.

Forward Currency Exchange Contracts. The Fund may engage in currency transactions otherwise than on futures exchanges to protect against future changes in the level of future currency exchange rates. The Fund will conduct such currency exchange transactions either on a spot (i.e., cash) basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into forward contracts to purchase or sell currency. A forward contract on foreign currency involves an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract, at a price set on the date of the contract. The risk of shifting of a forward currency contract will be substantially the same as a futures contract having similar terms. The Fund's dealing in forward currency exchange will be limited to hedging involving either specific transactions or portfolio positions. Transaction hedging is the purchase or sale of forward currency with respect to specific receivables or payables of the Fund generally arising in connection with the purchase or sale of its portfolio securities and accruals of interest receivable and Fund expenses. Position hedging is the forward sale of currency with respect to portfolio security positions denominated or quoted in that currency or in a currency bearing a high degree of positive correlation to the value of that currency.

The Fund may not position hedge with respect to a particular currency for an amount greater than the aggregate market value (determined at the time of making any sale of forward currency) of the securities held in its portfolio denominated or quoted in, or currently convertible into, such currency. If the Fund enters into a position hedging transaction, the Fund's custodian or subcustodian will place cash or other liquid securities in a segregated account of the Fund in an amount equal to the value of the Fund's total assets committed to the consummation of the given forward contract. If the value of the securities placed in the segregated account declines, additional cash or securities will be placed in the account so that the value of the account will, at all times, equal the amount of the Fund's commitment with respect to the forward contract.

At or before the maturity of a forward sale contract, the Fund may either sell a portfolio security and make delivery of the currency, or retain the security and offset its contractual obligations to deliver the currency by purchasing a second contract pursuant to which the Fund will obtain, on the same maturity date, the same amount of the currency which it is obligated to delivery. If the Fund retains the portfolio security and engages in an offsetting transaction, the Fund, at the time of execution of the offsetting transaction, will incur a gain or a loss to the extent that movement has occurred in forward contract prices. Should forward prices decline during the period between the Fund's entering into a forward contract for the sale of a currency

and the date it enters into an offsetting contract for the purchase of the currency, the Fund will realize a gain to the extent the price of the currency it has agreed to purchase is less than the price of the currency it has agreed to sell. Should forward prices increase, the Fund will suffer a loss to the extent the price of the currency it has agreed to purchase exceeds the price of the currency it has agreed to sell. Closing out forward purchase contracts involves similar offsetting transactions.

The cost to the Fund of engaging in currency transactions varies with factors such as the currency involved, the length of the contract period and the market conditions then prevailing. Because forward transactions in currency exchange are usually conducted on a principal basis, no fees or commissions are involved. The use of foreign currency contracts does not eliminate fluctuations in the underlying prices of the securities, but it does establish a rate of exchange that can be achieved in the future. In addition, although forward currency 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 if the value of the currency increases.

If a decline in any currency is generally anticipated, the Fund may not be able to contract to sell the currency at a price above the level to which the currency is anticipated to decline.

Special Risk Considerations Relating to Futures and Options Thereon. The Fund's ability to establish and close out positions in futures contracts and options thereon will be subject to the development and maintenance of liquid markets. Although the Fund generally will purchase or sell only those futures contracts and options thereon for which there appears to be a liquid market, there is no assurance that a liquid market on an exchange will exist for any particular futures contract or option thereon at any particular time. In the event no liquid market exists for a particular futures contract or option thereon in which the Fund maintains a position, it will not be possible to effect a closing transaction in that contract or to do so at a satisfactory price and the Fund would have to either make or take delivery under the futures contract or, in the case of a written option, wait to sell the underlying securities until the option expires or is exercised or, in the case of a purchased option, exercise the option. In the case of a futures contract or an option thereon which the Fund has written and which the Fund is unable to close, the Fund would be required to maintain margin deposits on the futures contract or option thereon and to make variation margin payments until the contract is closed.

Successful use of futures contracts and options thereon and forward contracts by the Fund is subject to the ability of the Investment Adviser to predict correctly movements in the direction of interest and foreign currency rates. If the Investment Adviser's expectations are not met, the Fund will be in a worse position than if a hedging strategy had not been pursued. For example, if the Fund has hedged against the possibility of an increase in interest rates which would adversely affect the price of securities in its portfolio and the price of such securities increases instead, the Fund will lose part or all of the benefit of the increased value of its securities because it will have offsetting losses in its futures positions. In addition, in such situations, if the Fund has insufficient cash to meet daily variation margin requirements, it may have to sell securities to meet the

requirements. These sales may be, but will not necessarily be, at increased prices which reflect the rising market. The Fund may have to sell securities at a time when it is disadvantageous to do so.

Additional Risks of Foreign Options, Futures Contracts, Options on Futures Contracts and Forward Contracts. Options, futures contracts and options thereon and forward contracts on securities and currencies may be traded on foreign exchanges. Such transactions may not be regulated as effectively as similar transactions in the U.S., may not involve a clearing mechanism and related guarantees, and are subject to the risk of governmental actions affecting trading in, or the prices of, foreign securities. The value of such positions also could be adversely affected by (i) other complex foreign political, legal and economic factors, (ii) lesser availability than in the U.S. of data on which to make trading decisions, (iii) delays in the Fund's ability to act upon economic events occurring in the foreign markets during non-business hours in the U.S., (iv) the imposition of different exercise and settlement terms and procedures and margin requirements than in the U.S. and (v) lesser trading volume.

Exchanges on which options, futures and options on futures are traded may impose limits on the positions that the Fund may take in certain circumstances.

Risks of Currency Transactions. Currency transactions are also subject to risks different from those of other portfolio transactions. Because currency control is of great importance to the issuing governments and influences economic planning and policy, purchases and sales of currency and related instruments can be adversely affected by government exchange controls, limitations or restrictions on repatriation of currency, and manipulation, or exchange restrictions imposed by governments. These forms of governmental action can result in losses to the Fund if it is unable to deliver or receive currency or monies in settlement of obligations and could also cause hedges it has entered into to be rendered useless, resulting in full currency exposure as well as incurring transaction costs.

When Issued, Delayed Delivery Securities and Forward Commitments. The Fund may enter into forward commitments for the purchase or sale of securities, including on a "when issued" or "delayed delivery" basis, in excess of customary settlement periods for the type of security involved. In some cases, a forward commitment may be conditioned upon the occurrence of a subsequent event, such as approval and consummation of a merger, corporate reorganization or debt restructuring, i.e., a when, as and if issued security. When such transactions are negotiated, the price is fixed at the time of the commitment, with payment and delivery taking place in the future, generally a month or more after the date of the commitment. While it may only enter into a forward commitment with the intention of actually acquiring the security, the Fund may sell the security before the settlement date if it is deemed advisable.

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will

segregate with its custodian cash or liquid securities in an aggregate amount at least equal to the amount of its outstanding forward commitments.

Restricted and Illiquid Securities. The Fund may invest up to a total of 10% of its net assets in securities that are subject to restrictions on resale and securities the markets for which are illiquid, including repurchase agreements with more than seven days to maturity. 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. Unseasoned issuers are companies (including predecessors) that have operated less than three years. The continued liquidity of such securities may not be as well assured as that of publicly traded securities, and accordingly the Board of Directors will monitor their liquidity. The Board will review pertinent factors such as trading activity, reliability of price information and trading patterns of comparable securities in determining whether to treat any such security as liquid for purposes of the foregoing 10% test. To the extent the Board treats such securities as liquid, temporary impairments to trading patterns of such securities may adversely affect the Fund's liquidity.

In accordance with pronouncements of the Securities and Exchange Commission, the Fund may invest in restricted securities that can be traded among qualified institutional buyers under Rule 144A under the Securities Act of 1933 without registration under the Securities Act and may treat them as liquid for purposes of the foregoing 10% test if such securities are found to be liquid. The Board of Directors has adopted guidelines and delegated to the Investment Adviser, subject to the supervision of the Board of Directors, the function of determining and monitoring the liquidity of particular Rule 144A securities.

## INVESTMENT RESTRICTIONS

The Fund operates under the following restrictions that constitute fundamental policies that cannot be changed without the affirmative vote of the holders of a majority of the outstanding voting securities of the Fund (as defined in the 1940 Act). All percentage limitations set forth below apply immediately after a purchase or initial investment and any subsequent change in any applicable percentage resulting from market fluctuations does not require elimination of any security from the portfolio.

The Fund may not:

- Invest 25% or more of its total assets, taken at market value at the time of each investment, in the securities of issuers in any particular industry.

This restriction does not apply to investments in U.S. Government Obligations.

- Purchase securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, if more than 10% of the market value of the total assets of the Fund would be invested in securities of other investment companies, more than 5% of the market value of the total assets of the Fund would be invested in the securities of any one investment company or the Fund would own more than 3% of any other investment company's securities; provided, however, this restriction shall not apply to securities of any investment company organized by the Fund that are to be distributed pro rata as a dividend to its shareholders.
- Purchase or sell commodities or commodity contracts except that the Fund may purchase or sell futures contracts and related options thereon if immediately thereafter (i) no more than 5% of its total assets are invested in margins and premiums and (ii) the aggregate market value of its outstanding futures contracts and market value of the currencies and futures contracts subject to outstanding options written by the Fund do not exceed 50% of the market value of its total assets. The Fund may not purchase or sell real estate, provided that the Fund may invest in securities secured by real estate or interests therein or issued by companies which invest in real estate or interests therein.
- Purchase any securities on margin or make short sales, except that the Fund may obtain such short-term credit as may be necessary for the clearance of purchases and sales of portfolio securities.
- Make loans of money, except by the purchase of a portion of publicly distributed debt obligations in which the Fund may invest, and repurchase agreements with respect to those obligations, consistent with its investment objectives and policies. The Fund reserves the authority to make loans of its portfolio securities to financial intermediaries in an aggregate amount not exceeding 20% of its total assets. Any such loans may only be made upon approval of, and subject to any conditions imposed by, the Board of Directors of the Fund. Because these loans would at all times be fully collateralized, the risk of loss in the event of default of the borrower should be slight.
- Borrow money, except that the Fund may borrow from banks and other financial institutions on an unsecured basis, in an amount not exceeding 10% of its total assets, to finance the repurchase of its shares. The Fund also may borrow money on a secured basis from banks as a temporary measure for extraordinary or emergency purposes. Temporary borrowings



may not exceed 5% of the value of the total assets of the Fund at the time the loan is made. The Fund may pledge up to 10% of the lesser of the cost or value of its total assets to secure temporary borrowings. The Fund will not borrow for investment purposes. Immediately after any borrowing, the Fund will maintain asset coverage of not less than 300% with respect to all borrowings. While the borrowing of the Fund exceeds 5% of its respective total assets, the Fund will make no further purchases of securities, although this limitation will not apply to repurchase transactions as described above.

- Issue senior securities, except to the extent permitted by applicable law.
- Underwrite securities of other issuers except insofar as the Fund may be deemed an underwriter under the Securities Act in selling portfolio securities; provided, however, this restriction shall not apply to securities of any investment company organized by the Fund that are to be distributed pro rata as a dividend to its shareholders.
- Invest more than 10% of its total assets in illiquid securities, such as repurchase agreements with maturities in excess of seven days, or securities that at the time of purchase have legal or contractual restrictions on resale.

## MANAGEMENT OF THE FUND

### DIRECTORS AND OFFICERS

Overall responsibility for management and supervision of the Fund rests with its Board of Directors. The Board of Directors approves all significant agreements between the Fund and the companies that furnish the Fund with services, including agreements with the Investment Adviser, Boston Safe Deposit and Trust Company, the Fund's custodian (the "Custodian"), Equiserve Trust Company ("Equiserve"), the Fund's transfer agent, and The Bank of New York, the Fund's auction agent, paying agent and registrar with respect to the Series C Preferred. The day-to-day operations of the Fund are delegated to the Investment Adviser.

The names and business addresses of the Directors and Officers of the Fund are set forth in the following table, together with their positions with the Fund and their principal business occupations during the past five years and their affiliations, if any, with the Investment Adviser or the Fund's Administrator.

As of May 31, 2002 the Directors and Officers of the Fund as a group beneficially owned 1,619,873 shares of the Fund equaling 1.13% of the Fund's outstanding shares.

<u>NAME, POSITION(S) ADDRESS' AND AGE</u>	<u>TERM OF OFFICE AND LENGTH OF TIME SERVED<sup>2</sup></u>	<u>NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY DIRECTOR</u>	<u>PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS</u>	<u>OTHER DIRECTORSHIPS HELD BY DIRECTOR</u>
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INTERESTED DIRECTORS<sup>3</sup>:

MARIO J. GABELLI Director, President and Chief Investment Officer Age: 59	Since 1986**	21	Chairman of the Board and Chief Executive Officer of Gabelli Asset Management Inc. and Chief Investment Officer of Gabelli Funds, LLC and GAMCO Investors, Inc; Chairman and Chief Executive Officer of Lynch Interactive Corporation (multimedia and services); Chairman and Director of other registered investment companies in the Gabelli fund complex.	Director of Morgan Group Holdings, Inc. (transportation services); Vice Chairman of Lynch Corporation (diversified manufacturing company).
KARL OTTO POHL Director Age: 72	Since 1992*	30	Member of the Shareholder Committee of Sal. Oppenheim Jr. & Cie (private investment bank); Former President of the Deutsche Bundesbank and Chairman of its Central Bank Council (1980-1991); Director of other registered investment companies in the Gabelli fund complex.	Director of Gabelli Asset Management Inc.; Chairman, Incentive Capital and Incentive Asset Management (Zurich); Director at Sal Oppenheim Jr. & Cie, Zurich.

NON-INTERESTED DIRECTORS:

THOMAS E. BRATTER Director Age: 62	Since 1986**	3	Director, President and Founder, The John Dewey Academy (residential college preparatory therapeutic high school); Director of other registered investment companies in the Gabelli fund complex.	-
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<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>NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY DIRECTOR</u>	<u>PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS</u>	<u>OTHER DIRECTORSHIPS HELD BY DIRECTOR</u>
ANTHONY J. COLAVITA <sup>4</sup> Director Age: 66	Since 1999***	32	President and Attorney at Law in the law firm of Anthony J. Colavita, P.C.; Director of other registered investment companies in the Gabelli fund complex.	
JAMES P. CONN <sup>4</sup> Director Age: 64	Since 1989*	11	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings Ltd. (1992-1998); Director of First Republic Bank; Director of other registered investment companies in the Gabelli fund complex.	Director of LaQuinta Corp. (hotels) and First Republic Bank
FRANK J. FAHRENKOPF JR. Director Age: 62	Since 1998***	3	President and Chief Executive Officer of the American Gaming Association since June 1995; Partner of Hogan & Hartson (law firm); Chairman of International Trade Practice Group; Co-Chairman of the Commission on Presidential Debates; Former Chairman of the Republican National Committee; Director of other registered investment companies in the Gabelli fund complex.	--
ARTHUR V. FERRARA Director Age: 71	Since 2001**	9	Formerly, Chairman of the Board and Chief Executive Officer of The Guardian Life Insurance Company of America (1993-1995); President, Chief Executive Officer and a Director prior thereto; Director of other registered investment companies in the Gabelli fund complex.	Director of The Guardian Life Insurance Company of America; Director of The Guardian Insurance & Annuity Company, Inc., Guardian Investor Services Corporation, and 5 mutual funds within the Guardian Fund Complex

<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>NUMBER OF PORTFOLIOS IN FUND COMPLEX OVERSEEN BY DIRECTOR</u>	<u>PRINCIPAL OCCUPATION(S) DURING PAST FIVE YEARS</u>	<u>OTHER DIRECTORSHIPS HELD BY DIRECTOR</u>
ANTHONY R. PUSTORINO Director Age: 76	Since 1986*	16	Certified Public Accountant; Professor Emeritus, Pace University; Director of other registered investment companies in the Gabelli fund complex.	–
SALVATORE J. ZIZZA Director Age: 56	Since 1986***	8	Chairman of Hallmark Electrical Supplies Corp.; Former Executive Vice President of FMG Group (a healthcare provider); Former President and Chief Executive Officer of the Lehigh Group Inc. (an interior construction company) through 1997; Director of other registered investment companies in the Gabelli fund complex.	Director of Hollis Eden Pharmaceuticals, Bio Environmental Technologies Inc. and The Credit Store Inc.

OFFICERS:

BRUCE N. ALPERT Vice President and Treasurer Age: 50	Since 1998	--	Executive Vice President and Chief Operating Officer of the Gabelli Funds, LLC and an officer of all mutual funds advised by Gabelli Funds, LLC and its affiliates. Director and President of Gabelli Advisers, Inc.	
CARTER W. AUSTIN Vice President Age: 34	Since 2000	--	Vice President at the Fund since 2000. Vice President of Gabelli Funds, LLC since 1996.	
JAMES E. MCKEE Secretary Age: 38	Since 1995	--	Vice President General Counsel and Secretary of Gabelli Asset Management, Inc. since 1999 and GAMCO Investors, Inc. since 1993; Secretary of all mutual funds advised by Gabelli Advisers, Inc. and Gabelli Funds, LLC.	

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

- 2 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 2003 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
  - \*\* - Term expires at the Fund's 2004 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
  - \*\*\* - Term expires at the Fund's 2005 Annual Meeting of Shareholders and until their successors are duly elected and qualified.
- 3 "Interested person" of the Fund as defined in the Investment Company Act of 1940. Messrs. Gabelli and Pohl are each considered an "interested person" because of their affiliation with Gabelli Funds, LLC which acts as the Fund's investment adviser.
- 4 Represents holders of the Fund's 7.25% Series A and 7.20% Series B Cumulative Preferred Stock.

The Board of Directors of the Fund is divided into three classes, with a class having a term of three years. Each year the term of office of one class of Directors of the Fund will expire. The terms of Messrs. Conn, Pohl and Pustorino as Directors of the Fund expire in 2003; the terms of Messrs. Bratter, Ferrara and Gabelli as Directors of the Fund expire in 2004; and the terms of Messrs. Colavita, Fahrenkopf and Zizza as Directors of the Fund expire in 2005. See "Anti-Takeover Provisions of the Charter and By-Laws" in the Prospectus.

The following table reflects the beneficial ownership of Directors of the Fund in securities of the Fund and in securities of other Gabelli Fund complex registered investment companies overseen by such Director.

Name of Director	Dollar Range of Equity Securities in the Fund <sup>(1)</sup>	Aggregate Dollar Range of Equity Securities in all Registered Investment Companies Overseen by Directors in Family of Investment Companies*
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**INTERESTED DIRECTOR**

Mario J. Gabelli	E	E
Karl Otto Pohl	A	A

**DISINTERESTED DIRECTORS**

Dr. Thomas E. Bratter	E	E
Anthony J. Colavita	C	E
James P. Conn	E	E
Frank J. Fahrenkopf, Jr.	A	A
Arthur V. Ferrara	A	E

Anthony R. Pustorino	E	E
Salvatore J. Zizza	E	E

\* Key to Dollar Ranges

- A. None
- B. \$1-\$10,000
- C. \$10,001-\$50,000
- D. \$50,001-\$100,000
- E. Over \$100,000

(1) This information has been furnished by each Director as of December 31, 2001. "Beneficial Ownership" is determined in accordance with Section 16a-1(a)(2) of the Securities Exchange Act of 1934, as amended.

The Directors serving on the Fund's Nominating Committee are Messrs. Colavita (Chairman) and Zizza. The Nominating Committee is responsible for recommending qualified candidates to the Board in the event that a position is vacated or created. The Nominating Committee would consider recommendations by shareholders if a vacancy were to exist. Such recommendations should be forwarded to the Secretary of the Fund. The Nominating Committee met once during the year ended December 31, 2001. The Fund does not have a standing compensation committee.

Messrs. Pustorino (Chairman), Colavita and Zizza serve on the Fund's Audit Committee and these Directors are not "interested persons" of the Fund as defined in the 1940 Act. The Audit Committee is responsible for reviewing and evaluating issues related to the accounting and financial reporting policies and internal controls of the Fund and the internal controls of certain service providers, overseeing the quality and objectivity of the Fund's financial statements and the audit thereof and to act as a liaison between the Board of Directors and the Fund's independent accountants. During the year ended December 31, 2001, the Audit Committee met twice.

The economic terms of the Advisory Agreement between the Fund and its Investment Adviser were unanimously approved by the Fund's Board of Directors at its May 16, 2001 meeting. The Board's approval included a majority of the Directors who are not parties to the Advisory Agreement or interested persons of any such party (as such term is defined in the 1940 Act). In approving the Advisory Agreement, the Board of Directors considered, among other things, the nature and quality of services to be provided by the Investment Adviser, the profitability to the Investment Adviser of its relationship with the Fund, economies of scale and comparative fees and expense ratios.

The Fund and the Investment Adviser have adopted a code of ethics (the "Code of Ethics") under Rule 17j-1 of the 1940 Act. The Code of Ethics permits personnel, subject to the Code of Ethics and its restrictive provisions, to invest in securities, including securities that may be purchased or held by the Fund. The Code of Ethics can be reviewed and copied at the United States Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operations of the Reference Room may be obtained by calling the Securities

and Exchange Commission at (202) 942-8090. The Code of Ethics is also available on the EDGAR database on the Securities and Exchange Commission's Internet Site at <http://www.sec.gov>. Copies of the Code of Ethics may also be obtained, after paying a duplicating fee, by electronic request at the following e-mail address: [publicinfo@sec.gov](mailto:publicinfo@sec.gov), or by writing the Securities and Exchange Commission's Public Reference Room Section, Washington, D.C. 20549- 0102.

## REMUNERATION OF DIRECTORS AND OFFICERS

The Fund pays each Director who is not affiliated with the Investment Adviser a fee of \$12,000 per year plus \$1,500 per Directors' meeting attended and \$500 per meeting by telephone, together with each Director's actual out-of-pocket expenses relating to attendance at such meetings. The aggregate remuneration accrued by the Fund during the year ended December 31, 2001 amounted to \$147,765.

The following table shows certain compensation information for the Directors of the Fund for the year ended December 31, 2001. Officers and Directors of the Fund who are employed by the Investment Adviser received no compensation or expense reimbursement from the Fund.

<u>Name of Director/Officers</u>	<u>Aggregate Compensation from Fund</u>	<u>Total Compensation From Fund and Fund Complex Paid to Directors/Officers*</u>
Mario J. Gabelli	\$ 0	\$ 0 (21)
Dr. Thomas E. Bratter	\$ 18,500	\$ 31,500 (3)
Anthony J. Colavita	\$ 22,500	\$ 145,016 (32)
James P. Conn	\$ 20,000	\$ 53,750 (11)
Frank J. Fahrenkopf, Jr.	\$ 18,500	\$ 31,500 (3)
Arthur V. Ferrara	\$ 7,532	\$ 15,099 (9)
Karl Otto Pöhl	\$ 0	\$ 0 (30)
Anthony R. Pustorino	\$ 24,000	\$ 125,250 (16)
Salvatore J. Zizza	\$ 20,500	\$ 64,266 (8)
Carter W. Austin	\$ 125,000	\$ 125,000 (1)

\* Represents the total compensation paid to such persons during the calendar year ended December 31, 2001 by investment companies (including the Fund) or portfolios thereof from which such person receives compensation that are considered part of the same fund complex as the Fund because they have common or affiliated investment advisers. The parenthetical number represents the number of such investment companies and portfolios from which such person received compensation.

## LIMITATION OF OFFICERS' AND DIRECTOR, LIABILITY

The By-Laws of the Fund provide that the Fund will indemnify its Directors and officers and may indemnify its employees or agents against liabilities and expenses incurred in connection with litigation in which they may be involved because of their offices with the Fund, to the fullest extent permitted by law. In addition, the Charter of the Fund provides that the Fund's Directors and officers will not be liable to shareholders for money damages, except in limited instances. However, nothing in the Charter or the By-Laws protects or indemnifies a Director, officer, employee or agent of the Fund against any liability to which such person would otherwise be subject in the event of such person's active or deliberate dishonesty which is material to the cause of action or to the extent that the person received an improper benefit or profit in money, property or services to the extent of such money, property or services. In addition, indemnification is not permitted for any act or omission committed in bad faith which is material to the cause of action or, with respect to any criminal proceeding, if the person had reasonable cause to believe that the act or omission was unlawful. In addition, indemnification may not be provided in respect of any proceeding in which the person had been adjudged to be liable to the Fund.

## THE INVESTMENT ADVISER

The Investment Adviser is a New York limited liability company that also serves as Investment Adviser to other closed-end investment companies and open-end investment companies with aggregate assets in excess of \$26 billion as of March 31, 2002. The Investment Adviser is a registered investment adviser under the 1940 Act. Mr. Mario J. Gabelli may be deemed a "controlling person" of the Investment Adviser on the basis of his controlling interest in the parent company of the Investment Adviser. The Investment Adviser has several affiliates that provide investment advisory services: GAMCO Investors, Inc. ("GAMCO") a wholly-owned subsidiary of the Investment Adviser acts as investment adviser for individuals, pension trusts, profit-sharing trusts and endowments, and had assets under management of approximately \$13.0 billion under its management as of March 31, 2002; Gabelli Advisers, Inc. acts as to the Gabelli Westwood Funds with assets under management of approximately \$548 million as of March 31, 2002; Gabelli Securities, Inc. acts as general partner or investment manager to certain alternative investments products, consisting primarily of risk arbitrage and merchant banking limited partnerships and offshore companies, with assets under management of approximately \$605 million as of March 31, 2002; and Gabelli Fixed Income, LLC acts as investment adviser for the three portfolios of The Treasurer's Fund and separate accounts having assets under management of approximately \$1.5 billion as of March 31, 2002.

Affiliates of the Investment Adviser may, in the ordinary course of their business, acquire for their own account or for the accounts of their advisory clients, significant (and possibly controlling) positions in the securities of companies that may also be suitable for investment by the Fund. The securities in which the Fund might invest may thereby be limited to some extent. For instance, many companies in the past several years have adopted so-called



"poison pill" or other defensive measures designed to discourage or prevent the completion of non-negotiated offers for control of the company. Such defensive measures may have the effect of limiting the shares of the company which might otherwise be acquired by the Fund if the affiliates of the Investment Adviser or their advisory accounts have or acquire a significant position in the same securities. However, the Investment Adviser does not believe that the investment activities of its affiliates will have a material adverse effect upon the Fund in seeking to achieve its investment objectives. Securities purchased or sold pursuant to contemporaneous orders entered on behalf of the investment company accounts of the Investment Adviser or the advisory accounts managed by its affiliates for their unaffiliated clients are allocated pursuant to principles believed to be fair over time and not disadvantageous to any such accounts. The Investment Adviser may on occasion give advice or take action with respect to other clients that differ from the actions taken with respect to the Fund. The Fund may invest in the securities of companies which are investment management clients of GAMCO. In addition, portfolio companies or their officers or directors may be minority shareholders of the Investment Adviser or its affiliates.

Pursuant to an advisory agreement (the "Advisory Agreement"), the Investment Adviser manages the portfolio of the Fund in accordance with its stated investment objectives and policies, makes investment decisions for the Fund, places orders to purchase and sell securities on behalf of the Fund and manages its other business and affairs, all subject to the supervision and direction of the Fund's Board of Directors. In addition, under the Advisory Agreement, the Investment Adviser oversees the administration of all aspects of the Fund's business and affairs and provides, or arranges for others to provide, at the Investment Adviser's expense, certain enumerated services, including maintaining the Fund's books and records, preparing reports to the Fund's shareholders and supervising the calculation of the net asset value of its shares. All expenses of computing the net asset value of the Fund, including any equipment or services obtained solely for the purpose of pricing shares or valuing its investment portfolio, are considered to be an expense of the Fund under its Advisory Agreement.

The Advisory Agreement combines investment advisory and administrative responsibilities in one agreement. The Investment Adviser has in turn retained PFPC, Inc. to act as sub-administrator to the Fund. See "Management of the Fund – Sub-Administrator" in the Prospectus.

For services rendered by the Investment Adviser on behalf of the Fund under the Advisory Agreement, the Fund pays the Investment Adviser a fee computed daily and paid monthly at the annual rate of 1.00% of the average weekly net assets of the Fund. The fees payable under the Advisory Agreement are higher than the fees payable by most registered investment companies. Notwithstanding the foregoing, the Investment Adviser will waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of the applicable series of its Preferred Stock for any calendar year in which the net asset value total return of the Fund allocable to the common stock, including distributions and the advisory fee subject to potential waiver, is less than (i) in the case of the

Series A Preferred or Series B Preferred, the stated annual dividend rate of such series and (ii) in the case of the Series C Preferred, the dividend rate for the Series C Preferred at the beginning of such year (including the anticipated cost of a swap or cap if the Fund hedges its Series C Preferred dividend obligations), in every case prorated during the year such series is issued and the final year such series is outstanding.

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

The Advisory Agreement was initially approved by the Board of Directors at a meeting held on July 17, 1986 and was approved most recently by the Board of Directors on May 16, 2001. The Advisory Agreement is terminable without penalty by the Fund on not more than sixty days written notice when authorized by the Board of Directors of the Fund, by the holders of a majority of the outstanding voting securities of the Fund, as defined in the 1940 Act, or by the Investment Adviser. The Advisory Agreement will automatically terminate in the event of its assignment, as defined in the 1940 Act. The Advisory Agreement provides that, unless terminated, it will remain in effect so long as continuance of the Advisory Agreement is approved annually by the Board of Directors of the Fund, or the shareholders of the Fund and in either case, by a majority vote of the Directors who are not parties to the Advisory Contract or "interested persons" as defined in the 1940 Act of any such person cast in person at a meeting called specifically for the purpose of voting on the continuance of the Advisory Agreement.

For each of the years ended December 31, 1999, December 31, 2000 and December 31, 2001, the Investment Adviser was paid \$14,000,719, \$13,085,773 and \$12,063,874, respectively, for advisory and administrative services rendered to the Fund.

## PORTFOLIO TRANSACTIONS

Subject to policies established by the Board of Directors of the Fund, the Investment Adviser is responsible for placing purchase and sale orders and the allocation of brokerage on behalf of the Fund. Transactions in equity securities are in most cases effected on U.S. stock exchanges and involve the payment of negotiated brokerage commissions. In general, there may be no stated commission in the case of certain debt securities and securities traded in over-the-counter markets, but the prices of those securities may include undisclosed commissions or mark-ups. Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, Inc. ("Gabelli & Company") may execute transactions in the over-the-counter markets on an agency basis and receive a stated commission therefrom. To the extent

consistent with applicable provisions of the 1940 Act and the rules and exemptions adopted by the Securities and Exchange Commission thereunder, as well as other regulatory requirements, the Fund's Board of Directors has determined that portfolio transactions may be executed through Gabelli & Company and its broker-dealer affiliates if, in the judgment of the Investment Adviser, the use of those broker-dealers is likely to result in price and execution at least as favorable as those of other qualified broker-dealers, and if, in particular transactions, those broker-dealers charge the Fund a rate consistent with that charged to comparable unaffiliated customers in similar transactions. The Fund has no obligation to deal with any broker or group of brokers in executing transactions in portfolio securities. In executing transactions, the Investment Adviser seeks to obtain the best price and execution for the Fund, taking into account such factors as the price, size of order, difficulty of execution and operational facilities of the firm involved and the firm's risk in positioning a block of securities. While the Investment Adviser generally seeks reasonably competitive commission rates, the Fund does not necessarily pay the lowest commission available.

For the fiscal years ended December 1999, December 31, 2000 and December 31, 2001, the Fund paid a total of \$1,137,510, \$847,808 and \$987,659, respectively, in brokerage commissions, of which Gabelli & Company, Inc. and its affiliates received \$554,925, \$586,533 and \$664,606, respectively. The amount received by Gabelli & Company, Inc. and its affiliates from the Fund in respect of brokerage commissions for the fiscal year ended December 31, 2001 represented approximately 68% of the aggregate dollar amount of brokerage commissions paid by the Fund for such period and approximately 63% of the aggregate dollar amount of transactions by the Fund for such period.

Subject to obtaining the best price and execution, brokers who provide supplemental research, market and statistical information to the Investment Adviser or its affiliates may receive orders for transactions by the Fund. The term "research, market and statistical information" includes advice as to the value of securities, and advisability of investing in, purchasing or selling securities, and the availability of securities or purchasers or sellers of securities, and furnishing analyses and reports concerning issues, industries, securities, economic factors and trends, portfolio strategy and the performance of accounts. Information so received will be in addition to and not in lieu of the services required to be performed by the Investment Adviser under the Advisory Agreement and the expenses of the Investment Adviser will not necessarily be reduced as a result of the receipt of such supplemental information. Such information may be useful to the Investment Adviser and its affiliates in providing services to clients other than the Fund, and not all such information is used by the Investment Adviser in connection with the Fund. Conversely, such information provided to the Investment Adviser and its affiliates by brokers and dealers through whom other clients of the Investment Adviser and its affiliates effect securities transactions may be useful to the Investment Adviser in providing services to the Fund.

Although investment decisions for the Fund are made independently from those of the other accounts managed by the Investment Adviser and its affiliates, investments of the kind made by the Fund may also be made by those other accounts. When the same securities are

purchased for or sold by the Fund and any of such other accounts, it is the policy of the Investment Adviser and its affiliates to allocate such purchases and sales in the manner deemed fair and equitable to all of the accounts, including the Fund.

#### AUTOMATIC DIVIDEND REINVESTMENT AND VOLUNTARY CASH PURCHASE PLAN

Under the Fund's Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan (the "Plan"), a stockholder whose shares of the Fund's common stock is registered in his own name will have all distributions reinvested automatically by Equiserve, which is agent under the Plan, unless the stockholder elects to receive cash. Distributions with respect to shares registered in the name of a broker-dealer or other nominee (that is, in "street name") will be reinvested by the broker or nominee in additional shares under the Plan, unless the service is not provided by the broker or nominee or the stockholder elects to receive distributions in cash. Investors who own common stock registered in street name should consult their broker-dealers for details regarding reinvestment. All distributions to investors who do not participate in the Plan will be paid by check mailed directly to the record holder by Equiserve as dividend disbursing agent.

Under the Plan, whenever the market price of the common stock is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividend or capital gains distribution, participants in the Plan are issued shares of common stock, valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the common stock. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange trading day, the next preceding trading day. If the net asset value of the common stock at the time of valuation exceeds the market price of the common stock, participants will receive shares from the Fund, valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Equiserve will buy the common stock for such Plan in the open market, on the New York Stock Exchange or elsewhere, for the participants' accounts, except that Equiserve will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common stock exceeds net asset value.

Participants in the Plan have the option of making additional cash payments to Equiserve, monthly, for investment in the shares as applicable. Such payments may be made in any amount from \$250 to \$10,000. Equiserve will use all funds received from participants to purchase shares of the Fund in the open market on or about the 15<sup>th</sup> of each month. Equiserve will charge each stockholder who participates \$0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that participants send voluntary cash payments to Equiserve in a manner that ensures that Equiserve will receive these payments approximately 10 days before the 15<sup>th</sup> of the month. A participant may without charge withdraw

a voluntary cash payment by written notice, if the notice is received by Equiserve at least 48 hours before such payment is to be invested.

Equiserve maintains all stockholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information needed by stockholders for personal and tax records. Shares in the account of each Plan participant will be held by Equiserve in noncertificated form in the name of the participant. A Plan participant may send its share certificates to Equiserve so that the shares represented by such certificates will be held by Equiserve in the participant's stockholder account under the Plan.

In the case of stockholders such as banks, brokers or nominees, which hold shares for others who are the beneficial owners, Equiserve will administer the Plan on the basis of the number of shares certified from time to time by the stockholder as representing the total amount registered in the stockholder's name and held for the account of beneficial owners who participate in the Plan.

Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the Plan members at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Equiserve on at least 90 days written notice to the Plan participants.

## TAXATION

The following discussion is a brief summary of certain additional United States Federal income tax considerations affecting the Fund and its stockholders. No attempt is made to present a detailed explanation of all Federal, state, local and foreign tax concerns, and the discussions set forth here and in the Prospectus do not constitute tax advice. Investors are urged to consult their own tax advisers with any specific questions relating to Federal, state, local and foreign taxes. The discussion reflects applicable tax laws of the United States as of the date of this SAI, which tax laws may be changed or subject to new interpretations by the courts or the Internal Revenue Service (the "IRS") retroactively or prospectively.

## GENERAL

The Fund has qualified as and intends to continue to qualify as a regulated investment company (a "RIC") under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"). If it so qualifies, the Fund will not be subject to U.S. Federal income tax on the portion of its net investment income (i.e., its investment company taxable income as defined in the Code without regard to the deduction for dividends paid) and on its net capital gain (i.e., the excess of its net realized long-term capital gain over its net realized short-term capital loss), if any, which it distributes to its stockholders in each taxable year, provided that an amount equal to at least 90%

of the sum of its net investment income and any net tax-exempt income for the taxable year is distributed to its stockholders.

Qualification as a RIC requires, among other things, that the Fund: (a) derive at least 90% of its gross income in each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies or other income (including gains from options, futures or forward contracts) derived with respect to its business of investing in stock, securities or currencies and (b) diversify its holdings so that, at the end of each quarter of each taxable year, subject to certain exceptions, (i) at least 50% of the market value of the Fund's assets is represented by cash, cash items, U.S. government securities, securities of other RICs and other securities with such other securities limited, in respect of any one issuer, to an amount not greater than 5% of the value of the Fund's assets and 10% of the outstanding voting securities of such issuer, and (ii) not more than 25% of the value of its assets is invested in the securities (other than U.S. government securities or the securities of other RICs) of any one issuer or any two or more issuers that the Fund controls and which are determined to be engaged in the same or similar trades or businesses or related trades or businesses.

#### TAXATION OF THE FUND

If the Fund were unable to satisfy the 90% distribution requirement or otherwise were to fail to qualify as a RIC in any year, it would be taxed in the same manner as an ordinary corporation and distributions to the Fund's stockholders would not be deductible by the Fund in computing its taxable income. To qualify again to be taxed as a RIC in a subsequent year, the Fund would be required to distribute to Preferred Stockholders and common stockholders its earnings and profits attributable to non-RIC years reduced by an interest charge on 50% of such earnings and profits payable by the Fund to the IRS. In addition, if the Fund failed to qualify as a RIC for a period greater than one taxable year, then the Fund would be required to recognize and pay tax on any net built-in gains (the excess of aggregate gains, including items of income, over aggregate losses that would have been realized if the Fund had been liquidated) or, alternatively, to elect to be subject to taxation on such built-in gains recognized for a period of ten years, in order to qualify as a RIC in a subsequent year.

Under the Code, amounts not distributed by a RIC on a timely basis in accordance with a calendar year distribution requirement are subject to a 4% excise tax. To avoid the tax, the Fund must distribute during each calendar year, an amount at least equal to the sum of (1) 98% of its ordinary income for the calendar year, (2) 98% of its capital gain net income (both long-term and short-term) for the one year period ending on October 31 of such year, (unless, as in the case of the Fund, an election is made by a fund with a November or December year-end to use the fund's fiscal year), and (3) all ordinary income and capital gain net income for previous years that were not previously distributed or subject to tax under Subchapter M. A distribution will be treated as paid during the calendar year if it is paid during the calendar year or declared by the Fund in October, November or December of the year, payable to stockholders of record on a date

during such a month and paid by the Fund during January of the following year. Any such distributions paid during January of the following year will be deemed to be received on December 31 of the year the distributions are declared, rather than when the distributions are received. While the Fund intends to distribute its ordinary income and capital gain net income in the manner necessary to minimize imposition of the 4% excise tax, there can be no assurance that sufficient amounts of the Fund's ordinary income and capital gain net income will be distributed to avoid entirely the imposition of the tax. In such event, the Fund will be liable for the tax only on the amount by which it does not meet the foregoing distribution requirements.

Gain or loss on the sales of securities by the Fund will be long-term capital gain or loss if the securities have been held by the Fund for more than one year. Gain or loss on the sale of securities held for one year or less will be short-term capital gain or loss.

Foreign currency gain or loss on non-U.S. dollar denominated bonds and other similar debt instruments and on any non-U.S. dollar denominated futures contracts, options and forward contracts that are not section 1256 contracts (as defined below) generally will be treated as net investment income and loss.

If the Fund invests in stock of a passive foreign investment company (a "PFIC"), the Fund may be subject to Federal income tax on a portion of any "excess distribution" with respect to, or gain from the disposition of, such stock even if such income is distributed as a taxable dividend by the Fund to its stockholders. The tax would be determined by allocating such distribution or gain ratably to each day of the Fund's holding period for the stock. The amount so allocated to any taxable year of the Fund prior to the taxable year in which the excess distribution or disposition occurs would be taxed to the Fund at the highest marginal Federal corporate income tax rate in effect for the year to which it was allocated, and the tax would be further increased by an interest charge. The amount allocated to the taxable year of the distribution or disposition would be included in the Fund's net investment income and, accordingly, would not be taxable to the Fund to the extent distributed by the Fund as a taxable dividend to stockholders.

If the Fund invests in stock of a PFIC, the Fund may be able to elect to treat the PFIC as a "qualified electing fund," in lieu of being taxable in the manner described in the above paragraph and to include annually in income its pro rata share of the ordinary earnings and net capital gain (whether or not distributed) of the PFIC. In order to make this election, the Fund would be required to obtain annual information from the PFICs in which it invests, which may be difficult to obtain. Alternatively, the Fund may elect to mark-to-market at the end of each taxable year all shares that it hold in PFICs. If it makes this election, the Fund would recognize as ordinary income any increase in the value of such shares over their adjusted basis and as ordinary loss any decrease in such value to the extent it does not exceed prior increases.

The Fund may invest in debt obligations purchased at a discount with the result that the Fund may be required to accrue income for Federal income tax purposes before amounts due under the obligations are paid. The Fund may also invest in securities rated in the medium to

lower rating categories of nationally recognized rating organizations, and in unrated securities ("high yield securities"). A portion of the interest payments on such high yield securities may be treated as dividends for Federal income tax purposes.

As a result of investing in stock of PFICs or securities purchased at a discount or any other investment that produces income that is not matched by a corresponding cash distribution to the Fund, the Fund could be required to include in current income, income it has not yet received. Any such income would be treated as income earned by the Fund and therefore would be subject to the distribution requirements of the Code. This might prevent the Fund from distributing 90% of its net investment income as is required in order to avoid Fund-level Federal income taxation, or might prevent the Fund from distributing enough ordinary income and capital gain net income to avoid completely the imposition of the excise tax. To avoid this result, the Fund may be required to borrow money or dispose of other securities to be able to make distributions to its stockholders.

If the Fund does not meet the asset coverage requirements of the 1940 Act and the Articles Supplementary, the Fund will be required to suspend distributions to the holders of the common stock until the asset coverage is restored. Such a suspension of distributions might prevent the Fund from distributing 90% of its net investment income as is required in order to avoid Fund-level Federal income taxation, or might prevent the Fund from distributing enough income and capital gain net income to avoid completely imposition of the excise tax. Upon any failure to meet the asset coverage requirements of the 1940 Act or the Articles Supplementary, the Fund may, and in certain circumstances will, be required to partially redeem the shares of Preferred Stock in order to restore the requisite asset coverage and avoid the adverse consequences to the Fund and its stockholders of failing to qualify as a RIC. If asset coverage were restored, the Fund would again be able to pay dividends and would generally be able to avoid Fund-level Federal income taxation on the income that it distributes.

## HEDGING TRANSACTIONS

Certain options, futures contracts and options on futures contracts are "section 1256 contracts." Any gains or losses on section 1256 contracts are generally considered 60% long-term and 40% short-term capital gains or losses ("60/40"). Also, section 1256 contracts held by the Fund at the end of each taxable year are "marked-to-market" with the result that unrealized gains or losses are treated as though they were realized and the resulting gain or loss is treated as 60/40 gain or loss.

Hedging transactions undertaken by the Fund may result in "straddles" for Federal income tax purposes. The straddle rules may affect the character of gains (or losses) realized by the Fund. In addition, losses realized by the Fund on positions that are part of a straddle may be deferred under the straddle rules, rather than being taken into account in calculating the taxable income for the taxable year in which such losses are realized. Further, the Fund may be required



to capitalize, rather than deduct currently, any interest expense on indebtedness incurred or continued to purchase or carry any positions that are part of a straddle.

The Fund may make one or more of the elections available under the Code which are applicable to straddles. If the Fund makes any of the elections, the amount, character and timing of the recognition of gains or losses from the affected straddle positions may be determined under rules that vary according to the election(s) made. The rules applicable under certain of the elections accelerate the recognition of gain or loss from the affected straddle positions.

Because application of the straddle rules may affect the character and timing of the Fund's gains, losses and deductions, the amount which must be distributed to stockholders, and which will be taxed to stockholders as ordinary income or long-term capital gain, may be increased or decreased substantially as compared to a fund that did not engage in such hedging transactions.

## FOREIGN TAXES

Since the Fund may invest in foreign securities, its income from such securities may be subject to non-U.S. taxes. It is anticipated that the Fund will not invest more than 35% of its total assets in foreign securities. Accordingly, the Fund will not be eligible to elect to "pass-through" to stockholders of the Fund the ability to use the foreign tax deduction or foreign tax credit for foreign taxes paid with respect to qualifying taxes. In order to make such an election, at least 50% of the Fund's total assets would be required to be invested in foreign securities.

## TAXATION OF STOCKHOLDERS

The Fund will determine either to distribute or to retain for reinvestment all or part of its net capital gain. If any such gains are retained, the Fund will be subject to a tax of 35% of such amount. In that event, the Fund expects to designate the retained amount as undistributed capital gains in a notice to its stockholders, each of whom (i) will be required to include in income for tax purposes as long-term capital gains its share of such undistributed amounts, (ii) will be entitled to credit its proportionate share of the tax paid by the Fund against its Federal income tax liability and to claim refunds to the extent that the credit exceeds such liability, and (iii) will increase its basis in its shares of the Fund by an amount equal to 65% of the amount of undistributed capital gains included in such stockholder's gross income.

Distributions of ordinary income are taxable to a U.S. stockholder as ordinary income, whether paid in cash or shares. Ordinary income dividends paid by the Fund may qualify for the dividends received deduction available to corporations, but only to the extent that the Fund's income consists of qualified dividends received from U.S. corporations. The Fund expects to distribute a relatively small amount of income that would be eligible for the dividends received deduction. The amount of any dividend distribution eligible for the dividends received deduction will be designated by the Fund in a written notice to stockholders within 60 days of the close of

the taxable year. Distributions of net capital gain designated as capital gain dividends ("Capital Gain Dividends"), if any, are taxable to shareholders at rates applicable to long-term capital gains, whether paid in cash or in shares, regardless of how long the stockholder has held the Fund's shares, and are not eligible for the dividends received deduction. Both long-term and short-term capital gains of corporations are currently taxed at the rates applicable to ordinary income. For non-corporate taxpayers, however, short-term capital gains and ordinary income will currently be taxed at a maximum rate of 38.5% while long-term capital gains generally will be taxed at a maximum rate of 20%.

Stockholders receiving distributions in the form of newly issued shares will have a basis in such shares of the Fund equal to the fair market value of such shares on the distribution date. If the net asset value of shares is reduced below a stockholder's cost as a result of a distribution by the Fund, such distribution will be taxable even though it represents a return of invested capital. The price of shares purchased at any time may reflect the amount of a forthcoming distribution. Those purchasing shares just prior to a distribution will receive a distribution which will be taxable to them even though it represents in part a return of invested capital.

Upon a sale or exchange of shares, a stockholder will realize a taxable gain or loss depending upon his or her basis in the shares. Such gain or loss will be treated as long-term capital gain or loss if the shares have been held for more than one year. Any loss realized on a sale or exchange will be disallowed to the extent the shares disposed of are replaced within a 61-day period beginning 30 days before and ending 30 days after the date that the shares are disposed of. In such a case, the basis of the shares acquired will be adjusted to reflect the disallowed loss.

Any loss realized by a stockholder on the sale of Fund shares held by the stockholder for six months or less will be treated for tax purposes as a long-term capital loss to the extent of any Capital Gain Dividends received by the stockholder (or credited to the stockholder as an undistributed capital gain) with respect to such shares.

Ordinary income dividends and Capital Gain Dividends also may be subject to state and local taxes. Stockholders are urged to consult their own tax advisers regarding specific questions about the U.S. Federal (including the application of the alternative minimum tax rules), state, local or foreign tax consequences to them of investing in the Fund.

## BACKUP WITHHOLDING

The Fund may be required to withhold Federal income tax on all taxable distributions and redemption proceeds payable to non-corporate stockholders who fail to provide the Fund with their correct taxpayer identification number or to make required certifications, or who have been notified by the IRS that they are subject to backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against such stockholder's Federal income tax liability.

**The foregoing is a general and abbreviated summary of the applicable provisions of the Code and Treasury regulations presently in effect. For the complete provisions, reference should be made to the pertinent Code sections and the Treasury regulations promulgated thereunder. The Code and the Treasury regulations are subject to change by legislative, judicial or administrative action, either prospectively or retroactively. Persons considering an investment in Series C Preferred shares should consult their own tax advisers regarding the purchase, ownership and disposition of Series C Preferred.**

## ADDITIONAL INFORMATION CONCERNING THE AUCTIONS FOR SERIES C PREFERRED

### GENERAL

The Articles Supplementary provide that the Applicable Rate for each Dividend Period of the Series C Preferred will be equal to the rate per annum that the Auction Agent advises has resulted on the Business Day preceding the first day of a Dividend Period (an "Auction Date") from implementation of the Auction Procedures set forth in the Articles Supplementary, and summarized below, in which persons determine to hold or offer to sell or, based on dividend rates bid by them, offer to purchase or sell shares of such Series. Each periodic implementation of the Auction Procedures is referred to herein as an "Auction." The following summary is qualified by reference to the Auction Procedures set forth in the Articles Supplementary.

Auction Agency Agreement. The Fund has entered into an Auction Agency Agreement (the "Auction Agency Agreement") with the Auction Agent (currently, The Bank of New York), which provides, among other things, that the Auction Agent will follow the Auction Procedures for purposes of determining the Applicable Rate for Series C Preferred so long as the Applicable Rate is to be based on the results of the Auction.

Broker-Dealer Agreements. Each Auction requires the participation of one or more Broker-Dealers. The Auction Agent has entered into agreements (collectively, the "Broker-Dealer Agreements") with several Broker-Dealers selected by the Fund, which provide for the participation of those Broker-Dealers in Auctions for Series C Preferred. See "Broker-Dealers" below.

Securities Depository. The Depository Trust Company ("DTC") will act as the Securities Depository for the Agent Members with respect to the Series C Preferred. One certificate for all of the Series C Preferred shares will be registered in the name of Cede & Co., as nominee of the Securities Depository.

Such certificate will bear a legend to the effect that such certificate is issued subject to the provisions restricting transfers of Series C Preferred contained in the Articles Supplementary. The Fund will also issue stop-transfer instructions to the transfer agent for the Series C Preferred.

Prior to the commencement of the right of Holders of the Preferred Stock to elect a majority of the Fund's directors, as described under "Description of the Series C Preferred – Voting Rights" in the Prospectus, Cede & Co. will be the Holder of all the Series C Preferred and owners of such shares will not be entitled to receive certificates representing their ownership interest in such shares.

DTC, a New York chartered limited purpose trust company, performs services for its participants (including Agent Members), some of whom (and/or their representatives) own DTC. DTC maintains lists of its participants and will maintain the positions (ownership interests) held by each such Agent Member in Series C Preferred, whether for its own account or as a nominee for another person.

#### ORDERS BY EXISTING HOLDERS AND POTENTIAL HOLDERS

On or prior to the Submission Deadline on each Auction Date for the Series C Preferred:

- (i) each Beneficial Owner of Series C Preferred may submit to its Broker-Dealer by telephone or otherwise a:
  - (a) "Hold Order" – indicating the number of Outstanding Series C Preferred shares, if any, that such Beneficial Owner desires to continue to hold without regard to the Applicable Rate for such shares for the next succeeding Dividend Period of such shares;
  - (b) "Bid" – indicating the number of Outstanding Series C Preferred shares, if any, that such Beneficial Owner offers to sell if the Applicable Rate for such Series C Preferred for the next succeeding Dividend Period is less than the rate per annum specified by such Beneficial Owner in such Bid; and/or
  - (c) "Sell Order" – indicating the number of Outstanding Series C Preferred shares, if any, that such Beneficial Owner offers to sell without regard to the Applicable Rate for such Series C Preferred for the next succeeding Dividend Period; and
- (ii) Broker-Dealers will contact customers who are Potential Beneficial Owners by telephone or otherwise to determine whether such customers desire to submit Bids, in which case they will indicate the number of Series C Preferred shares that they offer to purchase if the Applicable Rate for Series C Preferred for the next succeeding Dividend Period is not less than the rate per annum specified in such Bids.

The communication to a Broker-Dealer of the foregoing information is herein referred to as an "Order" and collectively as "Orders." A Beneficial Owner or a Potential Beneficial Owner

placing an Order with its Broker-Dealer is herein referred to as a "Bidder" and collectively as "Bidders." The submission by a Broker-Dealer of an Order to the Auction Agent is referred to herein as an "Order" and collectively as "Orders," and an Existing Holder or Potential Holder who places an Order with the Auction Agent or on whose behalf an Order is placed with the Auction Agent is referred to herein as a "Bidder" and collectively as "Bidders."

A Bid placed by a Beneficial Owner specifying a rate higher than the Applicable Rate determined in the Auction will constitute an irrevocable offer to sell the shares subject thereto. A Beneficial Owner that submits a Bid to its Broker- Dealer having a rate higher than the Maximum Rate on the Auction Date thereof will be treated as having submitted a Sell Order to its Broker-Dealer. A Sell Order will constitute an irrevocable offer to sell Series C Preferred subject thereto at a price per share equal to \$25,000.

A Beneficial Owner that fails to submit to its Broker-Dealer prior to the Submission Deadline for the Series C Preferred an Order or Orders covering all the Outstanding Series C Preferred held by such Beneficial Owner will be deemed to have submitted a Hold Order to its Broker-Dealer covering the number of Outstanding Series C Preferred shares held by such Beneficial Owner and not subject to Orders submitted to its Broker-Dealer; provided, however, that if a Beneficial Owner fails to submit to its Broker-Dealer prior to the Submission Deadline for the Series C Preferred an Order or Orders covering all of the Outstanding Series C Preferred held by such Beneficial Owner for an Auction relating to a Special Dividend Period consisting of more than 28 Dividend Period days, such Beneficial Owner will be deemed to have submitted a Sell Order to its Broker-Dealer covering the number of Outstanding Series C Preferred shares held by such Beneficial Owner and not subject to Orders submitted to its Broker-Dealer.

A Potential Beneficial Owner of Series C Preferred may submit to its Broker-Dealer Bids in which it offers to purchase Series C Preferred if the Applicable Rate for the next Dividend Period is not less than the rate specified in such Bid. A Bid placed by a Potential Beneficial Owner specifying a rate not higher than the Maximum Rate will constitute an irrevocable offer to purchase the number of Series C Preferred shares specified in such Bid if the rate determined in the Auction is equal to or greater than the rate specified in such Bid. A Beneficial Owner of Series C Preferred that offers to become the Beneficial Owner of additional Series C Preferred is, for purposes of such offer, a Potential Beneficial Owner.

As described more fully below under " – Submission of Orders by Broker-Dealers to Auction Agent," the Broker-Dealers will submit the Orders of their respective customers who are Beneficial Owners and Potential Beneficial Owners to the Auction Agent, designating themselves (unless otherwise permitted by the Fund) as Existing Holders in respect of Series C Preferred subject to Orders submitted or deemed submitted to them by Beneficial Owners and as Potential Holders in respect of Series C Preferred subject to Orders submitted to them by Potential Beneficial Owners. However, neither the Fund nor the Auction Agent will be responsible for a Broker-Dealer's failure to comply with the foregoing. Any Order placed with the Auction Agent by a Broker-Dealer as or on behalf of an Existing Holder or a Potential Holder

will be treated in the same manner as an Order placed with a Broker-Dealer by a Beneficial Owner or a Potential Beneficial Owner, as described above. Similarly, any failure by a Broker-Dealer to submit to the Auction Agent an Order in respect of any Series C Preferred held by it or its customers who are Beneficial Owners will be treated in the same manner as a Beneficial Owner's failure to submit to its Broker-Dealer an Order in respect of Series C Preferred held by it, as described in the second preceding paragraph. For information concerning the priority given to different types of Orders placed by Existing Holders, see " – Submission of Orders by Broker-Dealers to Auction Agent" below.

Neither the Fund nor an affiliate may submit an Order in any Auction, except that any Broker-Dealer that is an affiliate of the Fund may submit Orders in an Auction, but only if such Orders are not for its own account.

The Auction Procedures include a pro rata allocation of shares for purchase and sale, which may result in an Existing Holder continuing to hold or selling, or a Potential Holder purchasing, a number of Series C Preferred shares that is fewer than the number of Series C Preferred shares specified in its Order. See " – Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares" below. To the extent the allocation procedures have that result, Broker-Dealers that have designated themselves as Existing Holders or Potential Holders in respect of customer Orders will be required to make appropriate pro rata allocations among their respective customers. Each purchase or sale shall be made for settlement on the Business Day next succeeding the Auction Date at a price per share equal to \$25,000. See " – Notification of Results; Settlement" below.

As described above, any Bid specifying a rate higher than the Maximum Rate will (i) be treated as a Sell Order if submitted by a Beneficial Owner or an Existing Holder and (ii) not be accepted if submitted by a Potential Beneficial Owner or a Potential Holder. Accordingly, the Auction Procedures establish a maximum rate per annum that can result from an Auction up to the Maximum Rate. See " – Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate" and " – Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares" below.

#### CONCERNING THE AUCTION AGENT

The Auction Agent is acting as agent for the Fund in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent will not be liable for any action taken, suffered, or omitted or for any error of judgment made by it in the performance of its duties under the Auction Agency Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining the pertinent facts.

The Auction Agent may rely upon, as evidence of the identities of the Existing Holders of Series C Preferred, the Auction Agent's registry of Existing Holders, the results of Auctions and

notices from any Broker-Dealer (or other person, if permitted by the Fund) with respect to transfers described under "The Auction – Secondary Market Trading and Transfer of Series C Preferred" in the Prospectus and notices from the Fund. The Auction Agent is not required to accept any such notice for an Auction unless it is received by the Auction Agent by 3:00 p.m., Eastern time, on the Business Day preceding such Auction.

The Auction Agent may terminate the Auction Agency Agreement upon notice to the Fund on a date no earlier than 60 days after such notice. If the Auction Agent should resign, the Fund will use its best efforts to enter into an agreement with a successor Auction Agent containing substantially the same terms and conditions as the Auction Agency Agreement. The Fund may remove the Auction Agent, provided that prior to such removal, the Fund shall have entered into such an agreement with a successor Auction Agent.

## BROKER-DEALERS

The Auction Agent after each Auction for Series C Preferred will pay to each Broker-Dealer, from funds provided by the Fund, a service charge at the annual rate of equal to, in the case of any Auction immediately preceding a Dividend Period of less than one year, the product of (a) a fraction, the numerator of which is the number of days in such Dividend Period and the denominator of which is 365, times (b)  $\frac{1}{4}$  of 1%, times (c) \$25,000, times (d) the aggregate number of Series C Preferred shares placed by such Broker-Dealer at such Auction, or a percentage agreed to by the Fund and the Broker-Dealers in the case of any Auction immediately preceding a Dividend Period of one year or longer, of the purchase price of Series C Preferred placed by such Broker-Dealer at such Auction. For the purposes of the preceding sentence, Series C Preferred will be placed by a Broker-Dealer if such shares were (a) the subject of Hold Orders deemed to have been submitted to the Auction Agent by the Broker-Dealer and were acquired by such Broker-Dealer for its customers who are Beneficial Owners or (b) the subject of an Order submitted by such Broker-Dealer that is (i) a Submitted Bid of an Existing Holder that resulted in such Existing Holder continuing to hold such shares as a result of the Auction, (ii) a Submitted Bid of a Potential Holder that resulted in such Potential Holder purchasing such shares as a result of the Auction or (iii) a valid Hold Order.

The Fund may request the Auction Agent to terminate one or more Broker-Dealer Agreements at any time, provided that at least one Broker-Dealer Agreement is in effect after such termination.

The Broker-Dealer Agreement provides that a Broker-Dealer (other than an affiliate of the Fund) may submit Orders in Auctions for its own account, unless the Fund notifies all Broker-Dealers that they may no longer do so, in which case Broker-Dealers may continue to submit Hold Orders and Sell Orders for their own accounts. Any Broker-Dealer that is an affiliate of the Fund may submit Orders in Auctions, but only if such Orders are not for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders because it would have knowledge of all Orders submitted by it

in that Auction. Such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers in that Auction.

#### SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT

Prior to 1:00 p.m., New York City time, on each Auction Date, or such other time on the Auction Date specified by the Auction Agent (i.e., the Submission Deadline), each Broker-Dealer will submit to the Auction Agent in writing all Orders obtained by it for the Auction to be conducted on such Auction Date, designating itself (unless otherwise permitted by the Fund) as the Existing Holder or Potential Holder, as the case may be, in respect of Series C Preferred subject to such Orders. Any Order submitted by a Beneficial Owner or a Potential Beneficial Owner to its Broker-Dealer, or by a Broker-Dealer to the Auction Agent, prior to the Submission Deadline on any Auction Date, shall be irrevocable.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate to the next highest one-thousandth (0.001) of 1%.

If one or more Orders of an Existing Holder is submitted to the Auction Agent covering in the aggregate more than the number of Outstanding Series C Preferred shares subject to an Auction held by such Existing Holder, such Orders will be considered valid in the following order of priority:

- (i) all Hold Orders for Series C Preferred will be considered valid, but only up to and including in the aggregate the number of Outstanding Series C Preferred shares held by such Existing Holder, and, if the number of Series C Preferred shares subject to such Hold Orders exceeds the number of Outstanding Series C Preferred shares held by such Existing Holder, the number of shares subject to each such Hold Order will be reduced pro rata to cover the number of Outstanding shares held by such Existing Holder;
- (ii)
  - (a) any Bid for Series C Preferred will be considered valid up to and including the excess of the number of shares of Outstanding Series C Preferred shares held by such Existing Holder over the number of Series C Preferred shares subject to any Hold Orders referred to in clause (i) above;
  - (b) subject to subclause (a), if more than one Bid of an Existing Holder for Series C Preferred is submitted to the Auction Agent with the same rate and the number of Outstanding shares subject to such Bids is greater than such excess, such Bids will be considered valid up to and including the amount of such excess, and the number of Series C Preferred shares subject to each Bid with the same rate will be reduced pro rata to cover the number of Series C Preferred shares equal to such excess;



- (c) subject to subclauses (a) and (b), if more than one Bid of an Existing Holder for Series C Preferred is submitted to the Auction Agent with different rates, such Bids shall be considered valid in the ascending order of their respective rates up to and including the amount of such excess; and
  - (d) in any such event, the number, if any, of such Outstanding Series C Preferred shares subject to any portion of Bids considered not valid in whole or in part under this clause (ii) will be treated as the subject of a Bid for Series C Preferred by or on behalf of a Potential Holder at the rate specified therein; and
- (iii) all Sell Orders for Series C Preferred will be considered valid up to and including the excess of the number of Outstanding Series C Preferred shares held by such Existing Holder over the sum of shares subject to valid Hold Orders referred to in clause (i) above and valid Bids referred to in clause (ii) above.

If more than one Bid of a Potential Holder for Series C Preferred is submitted to the Auction Agent by or on behalf of any Potential Holder, each such Bid submitted will be a separate Bid with the rate and number of Series C Preferred shares therein specified.

#### DETERMINATION OF SUFFICIENT CLEARING BIDS, WINNING BID RATE AND APPLICABLE RATE

Not earlier than the Submission Deadline on each Auction Date for Series C Preferred, the Auction Agent will assemble all valid Orders submitted or deemed submitted to it by the Broker-Dealers (each such Hold Order, Bid or Sell Order as submitted or deemed submitted by a Broker-Dealer being herein referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, or as a "Submitted Order" and collectively as "Submitted Hold Orders," "Submitted Bids" or "Submitted Sell Orders," as the case may be, or as "Submitted Orders") and will determine the excess of the number of Outstanding Series C Preferred shares over the number of Outstanding Series C Preferred shares subject to Submitted Hold Orders (such excess being herein referred to as the "Available Series C Preferred") and whether Sufficient Clearing Bids have been made in the Auction. "Sufficient Clearing Bids" will have been made if the number of Outstanding Series C Preferred shares that are the subject of Submitted Bids of Potential Holders specifying rates not higher than the Maximum Rate equals or exceeds the number of Outstanding Series C Preferred shares that are the subject of Submitted Sell Orders (including the number of Series C Preferred shares subject to Bids of Existing Holders specifying rates higher than the Maximum Rate).

If Sufficient Clearing Bids for Series C Preferred have been made, the Auction Agent will determine the lowest rate specified in such Submitted Bids (the Winning Bid Rate) which, taking into account the rates in the Submitted Bids of Existing Holders, would result in Existing Holders continuing to hold an aggregate number of Outstanding Series C Preferred shares which,

when added to the number of Outstanding Series C Preferred shares to be purchased by Potential Holders, based on the rates in their Submitted Bids, would equal not less than the Available Series C Preferred. In such event, the Winning Bid Rate will be the Applicable Rate for the next Dividend Period for all shares of such Series.

If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Series C Preferred is subject to Submitted Hold Orders), the Applicable Rate for the next Dividend Period for all Series C Preferred will be equal to the Maximum Rate. In such a case, Beneficial Owners that have submitted or that are deemed to have submitted Sell Orders may not be able to sell in the Auction all Series C Preferred subject to such Sell Orders but will continue to own Series C Preferred for the next Dividend Period. See " – Acceptance and Rejection of Submitted Bids and Submitted Sell Orders and Allocation of Shares" below.

If all of the Outstanding Series C Preferred is subject to Submitted Hold Orders, the Applicable Rate for all Series C Preferred for the next succeeding Dividend Period will be the All Hold Rate.

#### ACCEPTANCE AND REJECTION OF SUBMITTED BIDS AND SUBMITTED SELL ORDERS AND ALLOCATION OF SHARES

Based on the determinations made under " – Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate" above and, subject to the discretion of the Auction Agent to round and allocate certain shares as described below, Submitted Bids and Submitted Sell Orders will be accepted or rejected in the order of priority set forth in the Auction Procedures, with the result that Existing Holders and Potential Holders of Series C Preferred will sell, continue to hold and/or purchase such shares as set forth below. Existing Holders that submitted or were deemed to have submitted Hold Orders (or on whose behalf Hold Orders were submitted or deemed to have been submitted) will continue to hold the Series C Preferred subject to such Hold Orders.

If Sufficient Clearing Bids for Series C Preferred shares have been made:

- (i) Each Existing Holder that placed or on whose behalf was placed a Submitted Sell Order or Submitted Bid specifying any rate higher than the Winning Bid Rate will sell the Outstanding Series C Preferred subject to such Submitted Sell Order or Submitted Bid;
- (ii) Each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate will continue to hold the Outstanding Series C Preferred subject to such Submitted Bid;

- (iii) Each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate lower than the Winning Bid Rate will purchase the number of Outstanding Series C Preferred shares subject to such Submitted Bid;
- (iv) Each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate will continue to hold Series C Preferred subject to such Submitted Bid, unless the number of Outstanding Series C Preferred shares subject to all such Submitted Bids is greater than the number of Series C Preferred shares ("remaining shares") in excess of the Available Series C Preferred over the number of Series C Preferred shares accounted for in clauses (ii) and (iii) above, in which event each Existing Holder with such a Submitted Bid will continue to hold Series C Preferred subject to such Submitted Bid determined on a pro rata basis based on the number of Outstanding Series C Preferred shares subject to all such Submitted Bids of such Existing Holders; and
- (v) Each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to the Winning Bid Rate for Series C Preferred will purchase any Available Series C Preferred not accounted for in clauses (ii) through (iv) above on a pro rata basis based on the Outstanding Series C Preferred shares subject to all such Submitted Bids.

If Sufficient Clearing Bids for Series C Preferred shares have not been made (unless this results because all Outstanding Series C Preferred shares are subject to Submitted Hold Orders):

- (i) Each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the Maximum Rate will continue to hold the Series C Preferred subject to such Submitted Bid;
- (ii) Each Potential Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate equal to or lower than the Maximum Rate will purchase the number of Series C Preferred shares subject to such Submitted Bid; and
- (iii) Each Existing Holder that placed or on whose behalf was placed a Submitted Bid specifying a rate higher than the Maximum Rate or a Submitted Sell Order will sell a number of Series C Preferred shares subject to such Submitted Bid or Submitted Sell Order determined on a pro rata basis based on the number of Outstanding Series C Preferred shares subject to all such Submitted Bids and Submitted Sell Orders.

If, as a result of the pro rata allocation described in clauses (iv) or (v) of the second preceding paragraph or clause (iii) of the next preceding paragraph, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a fraction of a Series C Preferred share, the Auction Agent will, in such manner as, in its sole

discretion, it determines, round up or down to the nearest whole share the number of Series C Preferred shares being sold or purchased on such Auction Date so that the number of Series C Preferred shares sold or purchased by each Existing Holder or Potential Holder will be whole shares of such Series. If as a result of the pro rata allocation described in clause (v) of the second preceding paragraph, any Potential Holder would be entitled or required to purchase less than a whole Series C Preferred share, the Auction Agent will, in such manner as, in its sole discretion, it will determine, allocate Series C Preferred for purchase among Potential Holders so that only whole Series C Preferred shares are purchased by any such Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing shares of such Series.

#### NOTIFICATION OF RESULTS; SETTLEMENT

The Auction Agent will be required to advise each Broker-Dealer that submitted an Order of the Applicable Rate for the next Dividend Period and, if the Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone by approximately 3:00 p.m., New York City time, on each Auction Date. Each Broker-Dealer that submitted an Order for the account of a customer will then be required to advise such customer of the Applicable Rate for the next Dividend Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, will be required to confirm purchases and sales with each customer purchasing or selling Series C Preferred as a result of the Auction and will be required to advise each customer purchasing or selling Series C Preferred as a result of the Auction to give instructions to its Agent Member of the Securities Depository to pay the purchase price against delivery of such shares or to deliver such shares against payment therefor, as appropriate. The Auction Agent will be required to record each transfer of Series C Preferred shares on the registry of Existing Holders to be maintained by the Auction Agent.

In accordance with the Securities Depository's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through the Securities Depository and the accounts of the respective Agent Members at the Securities Depository will be debited and credited and shares delivered as necessary to effect the purchases and sales of Series C Preferred as determined in the Auction. Purchasers will make payment through their Agent Members in same-day funds to the Securities Depository against delivery through their Agent Members; the Securities Depository will make payment in accordance with its normal procedures, which now provide for payment against delivery by their Agent Members in same-day funds.

If any Existing Holder selling Series C Preferred in an Auction fails to deliver such shares, the Broker-Dealer of any person that was to have purchased such shares in such Auction may deliver to such person a number of whole Series C Preferred shares that is less than the number of Series C Preferred shares that otherwise was to be purchased by such person. In such event, the number of Series C Preferred shares to be so delivered shall be determined by the

Broker-Dealer. Delivery of such lesser number of Series C Preferred shares shall constitute good delivery.

## DESCRIPTION OF THE SERIES C PREFERRED

The description of the Series C Preferred contained in this SAI does not purport to be complete and is subject to and qualified in its entirety by reference to the Fund's Charter, including the provisions of the Articles Supplementary establishing the Series C Preferred. A copy of the Articles Supplementary is filed as an exhibit to the registration statement of which the Prospectus and this SAI are a part and may be inspected, and a copy thereof may be obtained, as described under "Additional Information" in the Prospectus.

## GENERAL

The Series C Preferred will rank on a parity with each other and with shares of any other series of Preferred Stock of the Fund as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of the affairs of the Fund.

## DIVIDENDS AND DIVIDEND PERIODS

Holders of Series C Preferred will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, cumulative cash dividends on their shares, at the Applicable Rate determined as described under " – Determination of Dividend Rate," payable as and when set forth below. Dividends so declared and payable will be paid to the extent permitted under the Code, and to the extent available and in preference to and priority over any dividend declared and payable on shares of the Fund's Common Shares.

By 12:00 noon, New York City time, on the Business Day next preceding each Dividend Payment Date, the Fund is required to deposit with the Paying Agent sufficient same-day funds for the payment of declared dividends. The Fund does not intend to establish any reserves for the payment of dividends.

Each dividend will be paid by the Paying Agent to the Holder, which Holder is expected to be the nominee of the Securities Depository. The Securities Depository will credit the accounts of the Agent Members of the beneficial owners in accordance with the Securities Depository's normal procedures. The Securities Depository's current procedures provide for it to distribute dividends in same-day funds to Agent Members who are in turn expected to distribute such dividends to the persons for whom they are acting as agents. The Agent Member of a beneficial owner will be responsible for holding or disbursing such payments on the applicable Dividend Payment Date to such beneficial owner in accordance with the instructions of such beneficial owner.

Holders of Series C Preferred will not be entitled to any dividends, whether payable in cash, property or shares, in excess of full cumulative dividends. No interest will be payable in respect of any dividend payment or payments that may be in arrears. See " – Default Period."

The amount of dividends per Outstanding Series C Preferred share payable (if declared) on each Dividend Payment Date of each Dividend Period of less than one year (or in respect of dividends on another date in connection with a redemption during such Dividend Period) shall be computed by multiplying the Applicable Rate (or the Default Rate) for such Dividend Period (or a portion thereof) by a fraction, the numerator of which will be the number of days in such Dividend Period (or portion thereof) such share was Outstanding and for which the Applicable Rate or the Default Rate was applicable (but in no event shall the numerator exceed 360) and the denominator of which will be 360, multiplying the amount so obtained by the \$25,000, and rounding the amount so obtained to the nearest cent. During any Dividend Period of one year or more, the amount of dividends per Series C Preferred share payable on any Dividend Payment Date (or in respect of dividends on another date in connection with a redemption during such Dividend Period) will be computed as described in the preceding sentence except that the numerator, with respect to any full twelve month period, will be determined on the basis of twelve 30-day months.

Determination of Dividend Rate. The dividend rate for the initial Dividend Period (i.e., the period from and including the Date of Original Issue to and including the initial Auction Date) and the initial Auction Date for the Series C Preferred is set forth in the Prospectus. See "The Auction – Summary of Auction Procedures" in the Prospectus. For each subsequent Dividend Period, subject to certain exceptions, the dividend rate will be the Applicable Rate that the Auction Agent advises the Fund has resulted from an Auction.

Dividend Periods after the initial Dividend Period will either be Standard Dividend Periods (generally seven days) or, subject to certain conditions and with notice to Holders, Special Dividend Periods.

A Special Dividend Period will not be effective unless Sufficient Clearing Bids exist at the Auction in respect of such Special Dividend Period (that is, in general, the number of shares subject to Bids by Potential Beneficial Owners is at least equal to the number of shares subject to Sell Orders by Existing Holders). If Sufficient Clearing Bids do not exist at any Auction in respect of a Special Dividend Period, the Dividend Period commencing on the Business Day succeeding such Auction will be the Standard Dividend Period, and the Holders of the Series C Preferred will be required to continue to hold such shares for such Standard Dividend Period. The designation of a Special Dividend Period is also subject to additional conditions. See " – Notification of Dividend Period" below.

Dividends will accumulate at the Applicable Rate from the Date of Original Issue and will be payable on each Dividend Payment Date thereafter. Dividends will be paid through the Securities Depository on each Dividend Payment Date. The Applicable Rate resulting from an

Auction will not be greater than the Maximum Rate. The Maximum Rate is subject to upward, but not downward, adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers, provided that immediately following any such increase the Fund would be in compliance with the Series C Preferred Basic Maintenance Amount.

The Maximum Rate will apply automatically following an Auction for Series C Preferred in which Sufficient Clearing Bids have not been made (other than because all Series C Preferred were subject to Submitted Hold Orders) or following the failure to hold an Auction for any reason on the Auction Date scheduled to occur (except for circumstances in which the Dividend Rate is the Default Rate, as described below). The All Hold Rate will apply automatically following an Auction in which all of the Outstanding Series C Preferred shares are subject (or are deemed to be subject) to Hold Orders.

Prior to each Auction, Broker-Dealers will notify Holders of the term of the next succeeding Dividend Period as soon as practicable after the Broker-Dealers have been so advised by the Fund. After each Auction, on the Auction Date, Broker-Dealers will notify Holders of the Applicable Rate for the next succeeding Dividend Period and of the Auction Date of the next succeeding Auction.

Notification of Dividend Period. The Fund shall designate the duration of Dividend Periods of the Series C Preferred; provided, however, that no such designation shall be necessary for a Standard Dividend Period and that any designation of a Special Dividend Period will be effective only if (i) notice thereof has been given as provided herein, (ii) any failure to pay in the timely manner to the Auction Agent the full amount of any dividend on, or the redemption price of, the Series C Preferred has been cured as set forth under " – Default Period," (iii) Sufficient Clearing Bids existed in an Auction held on the Auction Date immediately preceding the first day of such proposed Special Dividend Period, (iv) if the Fund mailed a notice of redemption with respect to any shares, as described under " – Redemption," the Redemption Price with respect to such shares has been deposited with the Paying Agent, and (v) the Fund has confirmed that, as of the Auction Date next preceding the first day of such Special Dividend Period, it has Eligible Assets with an aggregate Discounted Value at least equal to the Series C Preferred Basic Maintenance Amount and has consulted with the Broker-Dealers and has provided notice and a Series C Preferred Basic Maintenance Report to each Rating Agency which is then rating the Series C Preferred and so requires.

If the Fund proposes to designate any Special Dividend Period, not fewer than seven Business Days (or two Business Days in the event the duration of the Special Dividend Period is fewer than eight days) nor more than 30 Business Days prior to the first day of such Special Dividend Period, notice will be made by press release and communicated by the Fund by telephonic or other means to the Auction Agent and confirmed in writing promptly thereafter. Each such notice will state (x) that the Fund proposes to exercise its option to designate a succeeding Special Dividend Period, specifying the first and last days thereof and (y) that the Fund will, by 3:00 p.m., New York City time, on the second Business Day next preceding the

first day of such Special Dividend Period, notify the Auction Agent, who will promptly notify the Broker-Dealers, of either its determination, subject to certain conditions, to proceed with such Special Dividend Period, in which case the Fund may specify the terms of any Specific Redemption Provisions, or its determination not to proceed with such Special Dividend Period, in which case the succeeding Dividend Period will be a Standard Dividend Period.

No later than 3:00 p.m., New York City time, on the second Business Day next preceding the first day of any proposed Special Dividend Period, the Fund will deliver to the Auction Agent, who will promptly deliver to the Broker-Dealers and Existing Holders, either:

- (a) a notice stating (1) that the Fund has determined to designate the next succeeding Dividend Period as a Special Dividend Period, specifying the first and last days thereof and (2) the terms of the Specific Redemption Provisions, if any; or
- (b) a notice stating that the Fund has determined not to exercise its option to designate a Special Dividend Period.

If the Fund fails to deliver either such notice with respect to any designation of any proposed Special Dividend Period to the Auction Agent or is unable to make the confirmation described above by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such proposed Special Dividend Period, the Fund will be deemed to have delivered a notice to the Auction Agent with respect to such Dividend Period to the effect set forth in clause (b) above, thereby resulting in a Standard Dividend Period.

Default Period. A "Default Period" with respect to Series C Preferred will commence on any date upon which the Fund fails to deposit irrevocably in trust in same-day funds with the Paying Agent by 12:00 noon, New York City time, on the Business Day next preceding relevant Dividend Payment Date or date fixed for such redemption (the "Redemption Date"), as the case may be, (i) the full amount of any declared dividend on the Series C Preferred payable on such Dividend Payment Date (a "Dividend Default") or (ii) the full amount of any redemption price (the "Redemption Price") payable on the Series C Preferred being redeemed on such Redemption Date (such default a "Redemption Default" and, together with a Dividend Default, a "Default").

A Default Period with respect to a Dividend Default or a Redemption Default will end by 12:00 noon, New York City time, on the Business Day on which all unpaid dividends and any unpaid Redemption Price will have been deposited irrevocably in trust in same-day funds with the Paying Agent.

In the case of a Dividend Default, no Auction will be held during a Default Period applicable to the Series C Preferred, and the Applicable Rate for each Dividend Period commencing during a Default Period will be equal to the Default Rate.



Each subsequent Dividend Period commencing after the beginning of a Default Period will be a Standard Dividend Period; provided, however, that the commencement of a Default Period will not by itself cause the commencement of a new Dividend Period. No Auction will be held during a Default Period.

No Default Period with respect to a Dividend Default or Redemption Default will be deemed to commence if the amount of any dividend or any Redemption Price due (if such Default is not solely due to the willful failure of the Fund) is deposited irrevocably in trust, in same-day funds with the Paying Agent by 12:00 noon, New York City time, within three Business Days after the applicable Dividend Payment Date or Redemption Date, together with an amount equal to the Default Rate applied to the amount of such non-payment based on the actual number of days comprising such period divided by 360. The Default Rate will be equal to the Reference Rate multiplied by three.

#### RESTRICTIONS ON DIVIDENDS, REDEMPTION AND OTHER PAYMENTS

Under the 1940 Act, the Fund may not (i) declare any dividend with respect to the Series C Preferred if, at the time of such declaration (and after giving effect thereto), asset coverage with respect to the Fund's senior securities representing indebtedness, including all outstanding senior indebtedness of the Fund, would be less than 200% (or such other percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing stock of a closed-end investment company as a condition of declaring dividends on its Preferred Stock) or (ii) declare any other distribution on the Series C Preferred or purchase or redeem Series C Preferred if, at the time of the declaration (and after giving effect thereto), asset coverage with respect to the Fund's senior securities representing indebtedness would be less than 300% (or such higher percentage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities representing indebtedness of a closed-end investment company as a condition of declaring distributions, purchases or redemptions of its capital stock). A declaration of a dividend or other distribution on or purchase or redemption of Series C Preferred is prohibited, unless there is no event of default under indebtedness senior to the Series C Preferred and, immediately after such transaction, the Fund would have Eligible Assets with an aggregated Discounted Value at least equal to the asset coverage requirements under indebtedness senior to its Preferred Stock (including the Series C Preferred).

For so long as the Series C Preferred is Outstanding, except as otherwise provided in the Articles Supplementary, the Fund shall not declare, pay or set apart for payment any dividend or other distribution (other than a dividend or distribution paid in shares of, or options, warrants or rights to subscribe for or purchase, shares of Common Shares or other shares, if any, ranking junior to the Series C Preferred as to dividends or upon liquidation) with respect to shares of Common Shares or any other shares of the Fund ranking junior to the Series C Preferred as to dividends or upon liquidation, or call for redemption, redeem, purchase or otherwise acquire for consideration any shares of Common Shares or other shares ranking junior to the Series C Preferred (except by conversion into or exchange for shares of the Fund ranking junior to the

Series C Preferred as to dividends and upon liquidation), unless, in each case, (x) immediately after such transaction, the Fund would have Eligible Assets with an aggregate Discounted Value at least equal to the Series C Preferred Basic Maintenance Amount and the 1940 Act Series C Preferred Asset Coverage would be achieved, (y) all cumulative and unpaid dividends due on or prior to the date of the transaction have been declared and paid in full with respect to the Preferred Stock, including the Series C Preferred (or shall have been declared and sufficient funds for the full payment thereof shall have been deposited with the Paying Agent, in the case of the Series C Preferred, and the applicable dividend-disbursement agent, with respect to other series of Preferred Stock), and (z) the Fund has redeemed the full number of shares of Preferred Stock required to be redeemed by any mandatory provision for redemption including Series C Preferred required or determined to be redeemed by any provision for mandatory redemption contained in the Articles Supplementary.

No full dividend shall be declared or paid or set apart for payment on the Series C Preferred for any Dividend Period or part thereof, unless full cumulative dividends due through the most recent Dividend Payment Date in the case of the Series C Preferred and due through the most recent dividend payment dates therefor in the case of all other series of Preferred Stock have been or contemporaneously are declared and paid on all Outstanding shares of Preferred Stock. If full cumulative dividends due have not been paid on all shares of Preferred Stock, any dividends being paid on the shares of Preferred Stock (including the Series C Preferred) shall be paid as nearly pro rata as possible on all Outstanding shares of Preferred Stock on the dividend payment dates therefor (the Dividend Payment Date in the case of the Series C Preferred) in proportion to the respective amounts of dividends accumulated but unpaid on each series of Preferred Stock.

## REDEMPTION

Optional Redemption. After the initial Dividend Period, subject to any Non-Call Period and the provisions of the Articles Supplementary, and to the extent permitted under the 1940 Act and Maryland law, the Fund may, at its option, redeem in whole or in part out of funds legally available therefor, the Series C Preferred by delivering a notice of redemption not less than 15 calendar days and not more than 40 calendar days prior to the Redemption Date, in the case of Series C Preferred designated as (a) having a Dividend Period of one year or less, on the next Business Day after the last day of such Dividend Period, at a redemption price per share equal to \$25,000, plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to the Redemption Date ("Redemption Price") or (b) having a Dividend Period of more than one year, on any Business Day prior to the end of the relevant Dividend Period, at the Redemption Price subject to any applicable Specific Redemption Provisions. Notwithstanding the foregoing, the Fund will not effect any optional redemption unless on the date on which the Fund gives notice of such redemption and on the applicable Redemption Date (x) the Fund has available Deposit Securities with maturity or tender dates not later than the day preceding the applicable Redemption Date and having a value not less than the amount (including any applicable premium) due to Holders of the Series C Preferred on such Redemption Date

and (y) the Fund would have Eligible Assets with an aggregate Discounted Value at least equal to the Series C Preferred Basic Maintenance Amount and the 1940 Act Series C Preferred Asset Coverage immediately subsequent to such redemption, if such redemption were to have occurred on each such date.

Mandatory Redemption. The redemption price per Series C Preferred share in the event of any mandatory redemption will be \$25,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared) to the date fixed for redemption, plus (in the case of a Dividend Period of more than one year) any redemption premium, if any, determined by the Board of Directors after consultation with the Broker-Dealers and set forth in any applicable Specific Redemption Provisions (the "Mandatory Redemption Price"). In the event of a mandatory redemption, the series and number of shares of Preferred Stock to be redeemed will be determined by the Fund from among all series of Preferred Stock then Outstanding. The amount of Preferred Stock to be mandatorily redeemed under such circumstances shall, in the aggregate, equal the lesser of (a) the minimum amount of Preferred Stock (including the Series C Preferred if so determined by the Fund) the redemption of which, if deemed to have occurred immediately prior to the opening of business on the relevant cure date (any such cure date, together with any Series C Preferred Basic Maintenance Amount Cure Date or 1940 Act Asset Coverage Cure Date, a "Cure Date"), would result in the Fund meeting, as the case may be, the Series C Preferred Basic Maintenance Amount Test, the 1940 Act Asset Coverage and any other then applicable maintenance amount test, in each case as of the relevant Cure Date (provided that, if there is no such minimum amount of Preferred Stock the redemption of which would have such result, all the Series C Preferred then Outstanding will be redeemed) and (b) the maximum amount of Preferred Stock that can be redeemed out of funds expected to be available therefor on such redemption date at the Mandatory Redemption Price; provided, that in the event that Preferred Stock is redeemed mandatorily, the Fund may, but is not required to, redeem a sufficient additional amount of Preferred Stock in order that immediately following such redemption the Fund has (x) Eligible Assets with an adjusted value with respect to the Preferred Stock remaining Outstanding of as great as 110% of the Series C Preferred Basic Maintenance Amount and (y) 1940 Act Asset Coverage with respect to the Preferred Stock remaining Outstanding of as great as 220%.

Redemption Procedure. A notice of redemption will be given to the holders of record of Preferred Stock selected for redemption not less than 15 or more than 40 days prior to the date fixed for the redemption. Each notice of redemption will state (i) the redemption date, (ii) the number of shares of Preferred Stock to be redeemed, (iii) the CUSIP number(s) of such shares, (iv) the redemption price (specifying the amount of accumulated dividends to be included therein), (v) the place or places where such shares are to be redeemed, (vi) that dividends on the shares to be redeemed will cease to accrue on such redemption date and (vii) the provision of the Articles Supplementary under which the redemption is being made. No defect in the notice of redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law. If fewer than all the shares of Preferred Stock held by any

holder are to be redeemed, the notice of redemption shall specify the number of such shares to be redeemed from such holder.

## ASSET MAINTENANCE

The Fund is required to satisfy two separate asset maintenance requirements in respect of the Series C Preferred: (i) the Fund must maintain assets in its portfolio that have a value, discounted in accordance with the Rating Agency Guidelines, at least equal to the aggregate liquidation preference of the Series C Preferred plus specified liabilities, payment obligations and other amounts; and (ii) the Fund must maintain asset coverage for the Series C Preferred of at least 200%.

Series C Preferred Basic Maintenance Amount. The Fund is required to maintain, as of each Valuation Date, Eligible Assets having in the aggregate a Discounted Value at least equal to the Series C Preferred Basic Maintenance Amount, calculated separately for Moody's (if Moody's is then rating the Series C Preferred at the request of the Fund) and S&P (if S&P is then rating the Series C Preferred at the request of the Fund). For this purpose, the value of the Fund's portfolio securities will be the Market Value. If the Fund fails to meet such requirement on any Valuation Date and such failure is not cured by the related Cure Date, the Fund will be required under certain circumstances to redeem certain Series C Preferred shares.

The "Series C Preferred Basic Maintenance Amount" means, as of any Valuation Date, the dollar amount equal to (a) the sum of (i) the product of the number of shares of each class or series of Preferred Stock Outstanding on such Valuation Date multiplied, in the case of each series or class, by the per-share Liquidation Preference applicable to each series or class; (ii) to the extent not included in (i) the aggregate amount of cash dividends (whether or not earned or declared) that will have accumulated for each Outstanding share of Preferred Stock from the most recent Dividend Payment Date to which dividends have been paid or duly provided for (or, in the event the Series C Preferred Basic Maintenance Amount is calculated on a date prior to the initial Dividend Payment Date with respect to a class or series of the Preferred Stock, then from the date of original issue) through the Valuation Date plus all dividends to accumulate on the Preferred Stock then Outstanding during the 70 days following such Valuation Date or, if less, during the number of days following such Valuation Date that shares of Preferred Stock called for redemption are scheduled to remain Outstanding; (iii) the Fund's other liabilities due and payable as of such Valuation Date (except that dividends and other distributions payable by the Fund on Common Stock shall not be included as a liability) and such liabilities projected to become due and payable by the Fund during the 90 days following such Valuation Date (excluding liabilities for investments to be purchased and for dividends and other distributions not declared as of such Valuation Date); and (iv) any current liabilities of the Fund as of such Valuation Date to the extent not reflected in any of (a)(i) through (a)(iii) (including, without limitation, and immediately upon determination, any amounts due and payable by the Fund pursuant to reverse repurchase agreements and any payables for assets purchased as of such Valuation Date) less (b) (i) the adjusted value of any of the Fund's assets or (ii) the face value of any of the Fund's assets

if, in the case of both (b)(i) and (b)(ii), such assets are either cash or evidences of indebtedness which mature prior to or on the date of redemption or repurchase of shares of Preferred Stock or payment of another liability and are either U.S. Government Obligations or evidences of indebtedness which have a rating assigned by Moody's of at least Aaa, P-1, VMIG-1 or MIG-1 or by S&P of at least AAA, SP-1+ or A-1+, and are irrevocably held by the Fund's custodian bank in a segregated account or deposited by the Fund with the dividend-disbursing agent or Paying Agent, as the case may be, for the payment of the amounts needed to redeem or repurchase Preferred Stock subject to redemption or repurchase or any of (a)(ii) through (a)(iv); and provided that in the event the Fund has repurchased Preferred Stock and irrevocably segregated or deposited assets as described above with its custodian bank or the dividend-disbursing agent or Paying Agent for the payment of the repurchase price the Fund may deduct 100% of the Liquidation Preference of such Preferred Stock to be repurchased from (a) above.

The Discount Factors, the criteria used to determine whether the assets held in the Fund's portfolio are Eligible Assets, and guidelines for determining the market value of the Fund's portfolio holdings for purposes of determining compliance with the Series C Preferred Basic Maintenance Amount are based on the criteria established in connection with rating the Series C Preferred. These factors include, but are not limited to, the sensitivity of the market value of the relevant asset to changes in interest rates, the liquidity and depth of the market for the relevant asset, the credit quality of the relevant asset (for example, the lower the rating of a debt obligation, the higher the related discount factor) and the frequency with which the relevant asset is marked to market. In no event will the Discounted Value of any asset of the Fund exceed its unpaid principal balance or face amount as of the date of calculation.

The Discount Factor relating to any asset of the Fund, the Series C Preferred Basic Maintenance Amount, the assets eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio and certain definitions and methods of calculation relating thereto may be changed from time to time by the Fund, without stockholder approval, but only in the event that the Fund receives written confirmation from each Rating Agency which is then rating the Series C Preferred and which so requires that any such changes would not impair the Aaa credit rating from Moody's or the AAA rating from S&P.

A Rating Agency's Guidelines will apply to the Series C Preferred only so long as such Rating Agency is rating such shares at the request of the Fund. The Fund will pay certain fees to Moody's and S&P for rating the Series C Preferred. The ratings assigned to the Series C Preferred are not recommendations to buy, sell or hold Series C Preferred. Such ratings may be subject to revision or withdrawal by the assigning Rating Agency at any time. Any rating of the Series C Preferred should be evaluated independently of any other rating.

Upon any failure to maintain the required Discounted Value of the Fund's Eligible Assets, the Fund will seek to alter the composition of its portfolio to re-attain the Series C Preferred Basic Maintenance Amount on or prior to the Series C Preferred Basic Maintenance Cure Date,

thereby incurring additional transaction costs and possible losses and/or gains on dispositions of portfolio securities.

Under certain circumstances, as described in the Articles Supplementary, the Board of Directors without further action by the stockholders may modify the calculation of Adjusted Value (as defined in the Articles Supplementary), Series C Preferred Basic Maintenance Amount and the elements of each of them and the definitions of such terms and elements if the Board of Directors determines that such modification is necessary to prevent a reduction in rating of the shares of Preferred Stock by a rating agency rating such shares at the request of the Fund or is in the best interests of the holders of common shares and is not adverse to the holders of Preferred Stock in view of advice to the Fund by the relevant rating agency that such modification would not adversely affect the then-current rating of the affected Preferred Shares. In addition, subject to compliance with applicable law, the Board of Directors may amend the definition of Maximum Rate to increase the percentage amount by which the Reference Rate is multiplied to determine the Maximum Rate shown therein without the vote or consent of the Holders of shares of Preferred Stock, including the Series C Preferred Shares, or any other stockholder of the Fund, after consultation with the Broker-Dealers, and with confirmation from each Rating Agency that immediately following any such increase the Fund would meet the Series C Preferred Basic Maintenance Amount Test.

1940 Act Series C Preferred Asset Coverage. As of each Valuation Date, the Fund shall determine whether the 1940 Act Asset Coverage is met as of that date. The Fund shall deliver to the Auction Agent and each Rating Agency a 1940 Act Asset Coverage Certificate which sets forth the determination of the preceding sentence (i) as of the Date of Original Issue and, thereafter, (ii) as of (x) the last Business Day of each March, June, September and December and (y) a Business Day on or before any 1940 Act Asset Coverage Cure Date following a failure to meet 1940 Act Asset Coverage. Such 1940 Act Asset Coverage Certificate shall be delivered in the case of clause (i) on the Date of Original Issue and in the case of clause (ii) on or before the seventh Business Day after the last Business Day of such March, June, September and December, as the case may be, or the relevant Cure Date.

Notices. The Fund must periodically deliver to the Auction Agent and each Rating Agency a Series C Preferred Basic Maintenance Report which sets forth, as of the related Valuation Date, the Fund's Eligible Assets, the Market Value and Discounted Value thereof (seriatim and in the aggregate), the Series C Preferred Basic Maintenance Amount, and the remainder obtained by subtracting the Series C Preferred Basic Maintenance Amount from the Discounted Value of such Eligible Assets. Such Series C Preferred Basic Maintenance Report also shall be delivered as of the Date of Original Issue and thereafter upon the occurrence of specified events on or before the fifth Business Day after the relevant Valuation Date or Cure Date.

## VOTING RIGHTS

None of the voting rights (as described in the Prospectus under "Description of the Series C Preferred – Voting Rights") will apply to the Series C Preferred if, at or prior to the time when a vote is required, such shares have been (i) redeemed or (ii) called for redemption and sufficient funds have been deposited in trust to effect such redemption.

## LIQUIDATION

In the event of a liquidation, dissolution or winding up of the Fund, whether voluntary or involuntary, the holders of shares of Preferred Stock, including the Series C Preferred, in preference to the holders of Common Shares, will be entitled to payment, out of the assets of the Fund or the proceeds thereof available for distribution to stockholders after satisfaction of claims of creditors of the Fund, of a liquidation distribution in an amount equal to the per share liquidation preference for such Preferred Stock, plus an amount equal to accumulated dividends (whether or not earned or declared by the Fund, but without interest thereon) to the date payment of such distribution is made in full or a sum sufficient for the payment thereof is set apart with the Paying Agent or dividend disbursing agent, as the case may be. However, Holders of Series C Preferred will not be entitled to any premium to which such Holders would be entitled upon redemption of the Series C Preferred. After payment of the full amount of such liquidation distribution, the owners of Preferred Stock, including the Series C Preferred, will not be entitled to any further participation in any distribution of assets of the Fund.

If, upon the liquidation, dissolution or winding up of the Fund, whether voluntary or involuntary, the assets of the Fund or proceeds thereof available for distribution to stockholders after satisfaction of claims of creditors of the Fund is insufficient to pay in full the liquidation distribution to which owners of Preferred Stock are entitled, such assets or the proceeds thereof will be distributed among the owners of such shares of Preferred Stock, including the Series C Preferred, ratably.

In the event of any such liquidation, dissolution or winding up of the Fund, whether voluntary or involuntary, until payment in full is made to the owners of Series C Preferred of the liquidation distribution to which they are entitled, no dividend or other distribution will be made to the holders of Common Shares and no purchase, redemption or other acquisition for any consideration by the Fund will be made in respect of the Common Shares.

## DEPOSIT SECURITIES REQUIREMENTS

The Fund is obligated to deposit in a segregated custodial account a specified amount of Deposit Securities constituting same-day funds not later than 12:00 noon, New York City time, on the Business Day next preceding the relevant Dividend Payment Date or Redemption Date relating to the Series C Preferred. These Deposit Securities, in all cases, will have an initial

combined value greater than or equal to the cash amounts payable on the applicable Dividend Payment Date or Redemption Date, and will mature prior to such date.

## RESTRICTIONS ON TRANSFER

Series C Preferred may be transferred only (i) pursuant to an Order placed in an Auction, (ii) to or through a Broker-Dealer, or (iii) to the Fund or any affiliate. Notwithstanding the foregoing, a transfer other than pursuant to an Auction will not be effective unless the selling Existing Holder or the Agent Member of such Existing Holder, in the case of an Existing Holder whose shares are listed in its own name on the books of the Auction Agent, or the Broker-Dealer or Agent Member of such Broker-Dealer, in the case of a transfer between persons holding Series C Preferred through different Broker-Dealers, advises the Auction Agent of such transfer. The certificates representing the Series C Preferred shares issued to the Securities Depository will bear legends with respect to the restrictions described above and stop-transfer instructions will be issued to the Transfer Agent and/or Registrar.

## MOODY'S AND S&P GUIDELINES

The descriptions of the Moody's and S&P Guidelines contained in this SAI do not purport to be complete and are subject to and qualified in their entirety by reference to the Articles Supplementary. A copy of the Articles Supplementary is filed as an exhibit to the registration statement of which the Prospectus and this SAI are a part and may be inspected, and copies thereof may be obtained, as described under "Additional Information" in the Prospectus.

The composition of the Fund's portfolio reflects guidelines (referred to herein as the "Rating Agency Guidelines") established by Moody's and S&P in connection with the Fund's receipt of a rating of Aaa and AAA from Moody's and S&P, respectively, for the Series C Preferred. These Rating Agency Guidelines relate, among other things, to industry and credit quality characteristics of issuers and diversification requirements and specify various Discount Factors for different types of securities (with the level of discount greater as the rating of a security becomes lower). Under the Rating Agency Guidelines, certain types of securities in which the Fund may otherwise invest consistent with its investment strategy are not eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio. Such instruments include, for example, private placements (other than Rule 144A Securities) and other securities not within the investment guidelines. Accordingly, although the Fund reserves the right to invest in such securities to the extent set forth herein, they have not and it is anticipated that they will not constitute a significant portion of the Fund's portfolio.

The Rating Agency Guidelines require that the Fund maintain assets having an aggregate Discounted Value, determined on the basis of the Guidelines, greater than the aggregate liquidation preference of the Series C Preferred plus specified liabilities, payment obligations and other amounts, as of periodic Valuation Dates. The Rating Agency Guidelines also require the



Fund to maintain asset coverage for the Series C Preferred on a non-discounted basis of at least 200% as of the end of each month, and the 1940 Act requires this asset coverage as a condition to paying dividends or other distributions on Common Shares. See "Description of the Series C Preferred – Asset Maintenance." The effect of compliance with the Rating Agency Guidelines may be to cause the Fund to invest in higher quality assets and/or to maintain relatively substantial balances of highly liquid assets or to restrict the Fund's ability to make certain investments that would otherwise be deemed potentially desirable by the Investment Adviser, including private placements of other than Rule 144A Securities (as defined herein). The Rating Agency Guidelines are subject to change from time to time with the consent of the relevant rating agency and would not apply if the Fund in the future elected not to use investment leverage consisting of senior securities rated by one or more rating agencies, although other similar arrangements might apply with respect to other senior securities that the Fund may issue.

The Fund intends to maintain, at specified times, a Discounted Value for its portfolio at least equal to the amount specified by each rating agency (the "Series C Preferred Basic Maintenance Amount"), the determination of which is as set forth under "Description of the Series C Preferred – Asset Maintenance." Moody's and S&P have each established separate guidelines for determining Discounted Value. To the extent any particular portfolio holding does not satisfy the applicable Rating Agency's Guidelines, all or a portion of such holding's value will not be included in the calculation of Discounted Value (as defined by such rating agency).

The Rating Agency Guidelines do not impose any limitations on the percentage of Fund assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio. The amount of such assets included in the portfolio at any time may vary depending upon the rating, diversification and other characteristics of the assets included in the portfolio which are eligible for inclusion in the Discounted Value of the portfolio under the Rating Agency Guidelines.

A rating of preferred stock as Aaa (as described by Moody's) or AAA (as described by S&P) indicates strong asset protection, conservative balance sheet ratios and positive indications of continued protection of preferred dividend requirements. A Moody's or S&P credit rating of preferred stock does not address the likelihood that a resale mechanism (such as the Auction) will be successful. As described respectively by Moody's and S&P, an issue of preferred stock which is rated Aaa or AAA is considered to be top-quality preferred stock with good asset protection and the least risk of dividend impairment within the universe of preferred stocks.

Ratings are not recommendations to purchase, hold or sell Series C Preferred, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The rating is based on current information furnished to Moody's and S&P by the Fund and obtained by Moody's and S&P from other sources. The rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information.

## MOODY'S GUIDELINES

Under the Moody's guidelines, the Fund is required to maintain specified discounted asset values for its portfolio representing the Series C Preferred Basic Maintenance Amount. To the extent any particular portfolio holding does not meet the applicable guidelines, it is not included for purposes of calculating the Discounted Value of the Fund's portfolio, and, among the requirements, the amount of such assets included in the portfolio at any time, if any, may vary depending upon the credit quality (and related Discounted Value) of the Fund's eligible assets at such time.

Upon any failure to maintain the required Discounted Value, the Fund may seek to alter the composition of its portfolio to reestablish required asset coverage within the specified ten Business Day cure period, thereby incurring additional transaction costs and possible losses and/or gains on dispositions of portfolio securities. To the extent any such failure is not cured in a timely manner, the holders of the Series C Preferred will acquire certain rights. See "Description of the Series C Preferred – Asset Maintenance."

The following Discount Factors apply to portfolio holdings as described below, subject to diversification, issuer size and other requirements, in order to constitute Moody's Eligible Assets includable within the calculation of Discounted Value:

<u>Type of Moody's Eligible Asset:</u>	<u>Moody's Discount Factor:</u>
Short Term Money Market Instruments (other than U.S. Government Obligations set forth below) and other commercial paper:	
U.S. Treasury Securities with final maturities that are less than or equal to 60 days . . . .	1.00
Demand or time deposits, certificates of deposit and bankers' acceptances includible in Moody's Short Term Money Market Instruments . . . . .	1.00
Commercial paper rated P-1 by Moody's maturing in 30 days or less . . . . .	1.00
Commercial paper rated P-1 by Moody's maturing in more than 30 days but in 270 days or less . . . . .	1.15
Commercial paper rated A-1+ by S&P maturing in 270 days or less . . . . .	1.25
Repurchase obligations includible in Moody's Short Term Money Market Instruments if term is less than 30 days and counterparty is rated at least A2 . . . . .	1.00
Other repurchase obligations . . . . .	1
U.S. Common Stock and Common Stock of foreign issuers for which ADRs are Traded . . . .	3.00
Common Stock of foreign issuers (in existence for at least five years) for which no ADRs are traded . . . . .	4.00
Convertible preferred stocks . . . . .	3.00
Preferred stocks:	
Auction rate preferred stocks . . . . .	3.50
Other preferred stocks issued by issuers in the financial and industrial industries . . . . .	1.62

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1 Discount factor applicable to the underlying assets.

<u>Type of Moody's Eligible Asset:</u>	<u>Moody's Discount Factor:</u>
Other preferred stocks issued by issuers in the utilities industry .....	1.40
U.S. Government Obligations (other than U.S. Treasury Securities set forth above or U.S. Treasury Securities Strips set forth below)	1.04-1.26
U.S. Treasury Securities Strips	1.04-1.66
Corporate evidences of indebtedness:	
Corporate evidences of indebtedness rated Aaa3	1.10-1.33
Corporate evidences of indebtedness rated at least Aa3	1.15-1.39
Corporate evidences of indebtedness rated at least A3	1.20-1.45
Corporate evidences of indebtedness rated at least Baa3	1.25-1.52
Corporate evidences of indebtedness rated at least Ba3	1.36-1.64
Corporate evidences of indebtedness rated at least B and B2	1.46-1.77
Convertible corporate evidences of indebtedness with senior debt securities rated at least Aa3 issued by the following type of issuers:	
Utility .....	1.28
Industrial .....	1.75
Financial .....	1.53
Transportation .....	2.13
Convertible corporate evidences of indebtedness with senior debt securities rated at least A3 issued by the following type of issuers:	
Utility .....	1.33
Industrial .....	1.80
Financial .....	1.58
Transportation .....	2.18
Convertible corporate evidences of indebtedness with senior debt securities rated at least Baa3 issued by the following type of issuers:	
Utility .....	1.48
Industrial .....	1.95
Financial .....	1.73
Transportation .....	2.33
Convertible corporate evidences of indebtedness with senior debt securities rated at least Ba3 issued by the following type of issuers:	
Utility .....	1.49
Industrial .....	1.96
Financial .....	1.74
Transportation .....	2.34
Convertible corporate evidences of indebtedness with senior debt securities rated at least B2 issued by the following type of issuers:	
Utility .....	1.59
Industrial .....	2.06
Financial .....	1.84

Type of Moody's Eligible Asset:

Moody's  
Discount Factor:

Transportation .....	2.44
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"Moody's Eligible Assets" means:

(a) cash (including, for this purpose, receivables for investments sold to a counterparty whose senior debt securities are rated at least Baa3 by Moody's or a counterparty approved by Moody's and payable within five Business Days following such Valuation Date and dividends and interest receivable within 70 days on investments);

(b) Short-Term Money Market Instruments;

(c) commercial paper that is not includible as a Short-Term Money Market Instrument having on the Valuation Date a rating from Moody's of at least P-1 and maturing within 270 days;

(d) preferred stocks (i) which either (A) are issued by issuers whose senior debt securities are rated at least Baa1 by Moody's or (B) are rated at least Baa3 by Moody's or (C) in the event an issuer's senior debt securities or preferred stock is not rated by Moody's, which either (1) are issued by an issuer whose senior debt securities are rated at least A- by S&P or (2) are rated at least A- by S&P and for this purpose have been assigned a Moody's equivalent rating of at least Baa3, (ii) of issuers which have (or, in the case of issuers which are special purpose corporations, whose parent companies have) common stock listed on the New York Stock Exchange, the American Stock Exchange or the Nasdaq National Market System, (iii) which have a minimum issue size (when taken together with other of the issuer's issues of similar tenor) of \$50,000,000, (iv) which have paid cash dividends consistently during the preceding three-year period (or, in the case of new issues without a dividend history, are rated at least A1 by Moody's or, if not rated by Moody's, are rated at least AA- by S&P), (v) which pay cumulative cash dividends in U.S. dollars, (vi) which are not convertible into any other class of stock and do not have warrants attached, (vii) which are not issued by issuers in the transportation industry and (viii) in the case of auction rate preferred stocks, which are rated at least Aa3 by Moody's, or if not rated by Moody's, AAA by S&P or are otherwise approved in writing by Moody's and have never had a failed auction; *provided, however*, that for this purpose the aggregate Market Value of the Fund's holdings of any single issue of auction rate preferred stock shall not be more than 1% of the Fund's total assets.

(e) common stocks (i) (A) which are traded on a nationally recognized stock exchange or in the over-the-counter market, (B) if cash dividend paying, pay cash dividends in U.S. dollars and (C) which may be sold without restriction by the Fund; *provided, however*, that (y) common stock which, while a Moody's Eligible Asset owned by the Fund, ceases paying any regular cash dividend will no longer be considered a Moody's Eligible Asset until 71 days after the date of the announcement of such cessation, unless the issuer of the common stock has senior

debt securities rated at least A3 by Moody's and (z) the aggregate Market Value of the Fund's holdings of the common stock of any issuer in excess of 4% in the case of utility common stock and 6% in the case of non-utility common stock of the aggregate Market Value of the Fund's holdings shall not be Moody's Eligible Assets, (ii) which are securities denominated in any currency other than the U.S. dollar or securities of issuers formed under the laws of jurisdictions other than the United States, its states and the District of Columbia for which there are dollar-denominated American Depository Receipts ("ADRs") or their equivalents which are traded in the United States on exchanges or over-the-counter and are issued by banks formed under the laws of the United States, its states or the District of Columbia or (iii) which are securities of issuers formed under the laws of jurisdictions other than the United States (and in existence for at least five years) for which no ADRs are traded; *provided, however*, that the aggregate Market Value of the Fund's holdings of securities denominated in currencies other than the U.S. dollar and ADRs in excess of (A) 6% of the aggregate Market Value of the outstanding shares of common stock of such issuer thereof or (B) in excess of 10% of the Market Value of the Fund's Moody's Eligible Assets with respect to issuers formed under the laws of any single such non-U.S. jurisdiction other than Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Spain, Sweden, Switzerland and the United Kingdom, shall not be a Moody's Eligible Asset;

(f) ADR securities, based on the following guidelines: (i) Sponsored ADR program or (ii) Level II or Level III ADRs. Private placement Rule 144A ADRs are not eligible for collateral consideration. Global GDR programs will be evaluated on a case by case basis;

(g) U.S. Government Obligations;

(h) corporate evidences of indebtedness (i) which may be sold without restriction by the Fund which are rated at least B3 (Caa subordinate) by Moody's (or, in the event the security is not rated by Moody's, the security is rated at least BB- by S&P and which for this purpose is assigned a Moody's equivalent rating of one full rating category lower), with such rating confirmed on each Valuation Date, (ii) which have a minimum issue size of at least (A) \$100,000,000 if rated at least Baa3 or (B) \$50,000,000 if rated B or Ba3, (iii) which are not convertible or exchangeable into equity of the issuing corporation and have a maturity of not more than 30 years and (iv) for which, if rated below Baa3 or not rated, the aggregate Market Value of the Fund's holdings do not exceed 10% of the aggregate Market Value of any individual issue of corporate evidences of indebtedness calculated at the time of original issuance; and

(i) convertible corporate evidences of indebtedness (i) which are issued by issuers whose senior debt securities are rated at least B2 by Moody's (or, in the event an issuer's senior debt securities are not rated by Moody's, which are issued by issuers whose senior debt securities are rated at least BB by S&P and which for this purpose is assigned a Moody's equivalent rating of one full rating category lower), (ii) which are convertible into common stocks which are traded on the New York Stock Exchange or the American Stock Exchange or are quoted on the Nasdaq National Market System and (iii) which, if cash dividend paying, pay cash dividends in

U.S. dollars; *provided, however*, that once convertible corporate evidences of indebtedness have been converted into common stock, the common stock issued upon conversion must satisfy the criteria set forth in clause (e) above and other relevant criteria set forth in this definition in order to be a Moody's Eligible Asset; *provided, however*, that the Fund's investments in auction rate preferred stocks described in clause (d) above shall be included in Moody's Eligible Assets only to the extent that the aggregate Market Value of such stocks does not exceed 10% of the aggregate Market Value of all of the Fund's investments meeting the criteria set forth in clauses (a) through (g) above less the aggregate Market Value of those investments excluded from Moody's Eligible Assets pursuant to the proviso appearing after clause (i) below; and

(j) no assets which are subject to any lien or irrevocably deposited by the Fund for the payment of amounts needed to meet the following obligations may be includible in Moody's Eligible Assets:

- (i) the sum of (A) the product of the number of shares of each class or series of Preferred Stock Outstanding on such Valuation Date multiplied by the liquidation preference per share; (B) to the extent not included in (A) the aggregate amount of cash dividends (whether or not earned or declared) that will have accumulated for each Outstanding share of Preferred Stock from the most recent dividend payment date to which dividends have been paid or duly provided for (or, in the event the asset coverage in respect of such shares is calculated on a date prior to the initial dividend payment date with respect to a class or series of the Preferred Stock, then from the date of original issue) through the Valuation Date plus all dividends to accumulate on the Preferred Stock then Outstanding during the 70 days following such Valuation Date or, if less, during the number of days following such Valuation Date that shares of Preferred Stock called for redemption are scheduled to remain Outstanding; (C) the Fund's other liabilities due and payable as of such Valuation Date (except that dividends and other distributions payable by the Fund on Common Shares shall not be included as a liability) and such liabilities projected to become due and payable by the Fund during the 90 days following such Valuation Date (excluding liabilities for investments to be purchased and for dividends and other distributions not declared as of such Valuation Date); and (D) any current liabilities of the Fund as of such Valuation Date to the extent not reflected in any of (i)(i)(A) through (i)(i)(C) (including, without limitation, and immediately upon determination, any amounts due and payable by the Fund pursuant to reverse repurchase agreements and any payables for assets purchased as of such Valuation Date) less
- (ii) (A) the adjusted value of any of the Fund's assets or (B) the face value of any of the Fund's assets if, in the case of both (ii)(A) and (ii)(B), such assets are either cash or evidences of indebtedness which mature prior to or on the date of redemption or repurchase of shares of preferred stock or payment of another liability and are either U.S. Government Obligations or evidences of indebtedness which have

a rating assigned by Moody's of at least Aaa, P-1, VMIG-1 or MIG-1 or by S&P of at least AAA, SP-1+ or A-1+, and are irrevocably held by the Fund's custodian bank in a segregated account or deposited by the Fund with the dividend-disbursing agent or Paying Agent for the payment of the amounts needed to redeem or repurchase preferred stock subject to redemption or repurchase or any of (i)(B) through (i)(D); and provided that in the event the Fund has repurchased preferred stock and irrevocably segregated or deposited assets as described above with its custodian bank, the dividend-disbursing agent or Paying Agent for the payment of the repurchase price the Fund may deduct 100% of the liquidation preference of such preferred stock to be repurchased from (i) above.

Notwithstanding anything to the contrary in the preceding clauses (a)-(i), the Fund's investment in preferred stock, common stock, corporate evidences of indebtedness and convertible corporate evidences of indebtedness shall not be treated as Moody's Eligible Assets except to the extent they satisfy the following diversification requirements (utilizing Moody's Industry and Sub-industry Categories) with respect to the Market Value of the Fund's holdings:

Issuer:

<u>Moody's Rating(1)(2)</u>	<u>Non-Utility Maximum Single Issuer(3)(4)</u>	<u>Utility Maximum Single Issuer(3)(4)</u>
Aaa	100%	100%
Aa	20%	20%
A	10%	10%
CS/CB, "Baa", Baa(5)	6%	4%
Ba	4%	4%
B1/B2	3%	3%
B3 (Caa subordinate)	2%	2%

Industry and State:

<u>Moody's Rating(1)</u>	<u>Non-Utility Maximum Single Industry(3)</u>	<u>Utility Maximum Single Sub- Industry(3)(6)</u>	<u>Utility Maximum Single State(3)</u>
Aaa	100%	100%	100%
Aa	60%	60%	20%
A	40%	50%	10%(7)
CS/CB, "Baa", Baa(5)	20%	50%	7%(7)
Ba	12%	12%	0%
B1/B2	8%	8%	0%
B3 (Caa subordinate)	5%	5%	0%

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- (1) The equivalent Moody's rating must be lowered one full rating category for preferred stocks, corporate evidences of indebtedness and convertible corporate evidences of indebtedness rated by S&P but not by Moody's.
  - (2) Corporate evidences of indebtedness from issues ranging \$50,000,000 to \$100,000,000 are limited to 20% of Moody's Eligible Assets.
  - (3) The referenced percentages represent maximum cumulative totals only for the related Moody's rating category and each lower Moody's rating category.
  - (4) Issuers subject to common ownership of 25% or more are considered as one name.
  - (5) CS/CB refers to common stock and convertible corporate evidences of indebtedness, which are diversified independently from the rating level.
  - (6) In the case of utility common stock, utility preferred stock, utility evidences of indebtedness and utility convertible evidences of indebtedness, the definition of industry refers to sub-industries (electric, water, hydro power, gas, diversified). Investments in other sub-industries are eligible only to the extent that the combined sum represents a percentage position of the Moody's Eligible Assets less than or equal to the percentage limits in the diversification tables above.
  - (7) Such percentage shall be 15% in the case of utilities regulated by California, New York and Texas.

## S&P GUIDELINES

Under the S&P guidelines, the Fund is required to maintain specified discounted asset values for its portfolio representing the Series C Preferred Basic Maintenance Amount (as defined below). To the extent any particular portfolio holding does not meet the applicable guidelines, it is not included for purposes of calculating the Discounted Value of the Fund's portfolio, and, among the requirements, the amount of such assets included in the portfolio at any time, if any, may vary depending upon the credit quality (and related Discounted Value) of the Fund's eligible assets at such time.

The Series C Preferred Basic Maintenance Amount includes the sum of (i) \$25,000 times the number of Series C Preferred shares then Outstanding, (ii) the liquidation preference of each additional series of Preferred Stock of the Fund times the number of shares of such series then outstanding and (iii) certain accrued and projected payment obligations of the Fund. Upon any failure to maintain the required Discounted Value, the Fund may seek to alter the composition of its portfolio to reestablish required asset coverage within the specified ten Business Day cure period, thereby incurring additional transaction costs and possible losses and/or gains on dispositions of portfolio securities. To the extent any such failure is not cured in a timely manner, the holders of the Series C Preferred will acquire certain rights. See "Description of the Series C Preferred."



The following Discount Factors apply to portfolio holdings as described below in order to constitute S&P Eligible Assets includable within the calculation of Discounted Value:

<b>Asset Class Obligor (Collateral)</b>	<b>Advance Rates (1)</b>	<b>Overcollateralization Factors (1)</b>
Public Equity Small-Cap	46.0%	217.4%
Public Equity Mid-Cap	53.6%	186.6%
Public Equity Large-Cap	59.7%	167.6%
Cash and Other Deposit Securities with Maturities of 30 days or less	100.0%	100.0%

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(1) For an S&P rating of AAA.

"S&P Seasoned Eligible Assets" means:

- (a) Deposit Securities; and
- (b) common stocks that satisfy all of the following conditions:
  - (i) such common stock (including the common stock of any predecessor or constituent issuer) has been traded on a recognized national securities exchange or quoted on the National Market System (or any equivalent or successor thereto) of Nasdaq for at least 450 days,
  - (ii) the Market Capitalization of such issuer of common stock exceeds \$100 million,
  - (iii) the issuer of such common stock is not an entity that is treated as a partnership for federal income tax purposes,
  - (iv) if such issuer is organized under the laws of any jurisdiction other than the United States, any state thereof, any possession or territory thereof or the District of Columbia, the common stock of such issuer held by the Fund is traded on a recognized national securities exchange or quoted on the National Market System of Nasdaq either directly or in the form of depository receipts, and
  - (v) if such issuer is registered as an investment company under the 1940 Act, such issuer does not invest more than 25% of the value

of its gross assets in securities that are not S&P Eligible Assets by reason of clause (iv) above;

provided, however, that the Fund's holdings of the common stock of any single issuer that satisfies the conditions set forth in clauses (i) through (v) above shall be included in S&P Eligible Assets only to the extent that:

- (1) such holdings may be sold publicly by the Fund at any time without registration,
- (2) to the extent remaining eligible after the operation of item (1) above, such holdings do not exceed a number of shares representing the average weekly trading volume of such common stock during the preceding 30 day period,
- (3) to the extent remaining eligible after the operation of items (1) and (2) above, the aggregate Market Value of such holdings, when added to the aggregate Market Value of the Fund's holdings of all other similarly eligible shares of common stock of issuers in the same Industry Classification, does not exceed 10% of the aggregate Market Value of the Fund's S&P Eligible Assets, and
- (4) to the extent remaining eligible after the operation of items (1) through (3) above, the aggregate Market Value of each of the three largest issuers is not in excess of 5% of the aggregate Market Value of the Fund's S&P Eligible Assets, and of the remaining issuers, is not in excess of 2% of the aggregate Market Value of the Fund's S&P Eligible Assets.

(c) Preferred stocks on such basis as S&P may determine in response to a request from the Fund.

Notwithstanding the foregoing, an asset will not be considered an S&P Eligible Asset if it is held in a margin account, is subject to any material lien, mortgage, pledge, security interest or security agreement of any kind or has been deposited irrevocably for the payment of dividends, redemption payments or any other payment or obligation under the Fund's Articles Supplementary.

In addition, so long as any Series C Preferred is Outstanding and S&P is rating such Series C Preferred at the Fund's request, the Fund will not, unless it has received written confirmation that any such transaction would not impair the rating then assigned by S&P to the Series C Preferred, engage in any one or more of the following transactions:

(a) purchase or sell futures contracts; write, purchase or sell options on futures contracts; or write put options (except covered put options) or call options (except covered call options) on securities owned by the Fund (collectively, "S&P Hedging Transactions"), except subject to the following limitations:

(i) for each net long or short position in S&P Hedging Transactions, the Fund will maintain in a segregated account with the Fund's custodian an amount of cash or readily marketable securities having a value, when added to any amounts on deposit with the Fund's futures commission merchants or brokers as margin or premium for such position, at least equal to the market value of the Fund's potential obligations on such position, marked-to-market on a daily basis, in each case as and to the extent required by the applicable rules or orders of the Commission or by interpretations of the Commission's staff;

(ii) the Fund will not engage in any S&P Hedging Transaction which would cause the Fund at the time of such transaction to own or have sold the lesser of (A) outstanding futures contracts, in aggregate, based on the Standard & Poor's 500 Index, the Dow Jones Industrial Average, the Russell 2000 Index, the Wilshire 5000 Index, the Nasdaq Composite Index and the New York Stock Exchange Composite Index (or any component of any of the forgoing) exceeding in number 50% of the market value of the Fund's total assets or (B) outstanding futures contracts based on any of the aforementioned indices exceeding in number 10% of the average number of daily traded futures contracts based on such index in the 30 days preceding the time of effecting such transaction as reported by The Wall Street Journal;

(iii) the Fund will engage in closing transactions to close out any outstanding futures contract which the Fund owns or has sold or any outstanding option thereon owned by the Fund in the event (A) the Fund does not have S&P Eligible Assets with an aggregate Discounted Value equal to or greater than the Series C Preferred Basic Maintenance Amount on two consecutive Valuation Dates and (B) the Fund is required to pay variation margin on the second such Valuation Date;

(iv) the Fund will engage in a closing transaction to close out any outstanding futures contract or option thereon at least one week prior to the delivery date under the terms of the futures contract or option thereon unless the corporation holds the securities deliverable under such terms; and

(v) when the Fund writes a futures contract or option thereon, either the amount of margin posted by the Fund (in the case of a futures contract) or the marked-to-market value of the Fund's obligation (in the case of a put option written by the Fund) shall be treated as a liability of the Fund for purposes of calculating the Series C Preferred Basic Maintenance Amount, or, in the event the Fund writes a futures contract or option thereon which requires delivery of an underlying security and the Fund does not wish to treat its obligations with respect thereto as a liability for purposes of calculating the Series C Preferred Basic

Maintenance Amount, it shall hold such underlying security in its portfolio and shall not include such security to the extent of such contract or option as an S&P Eligible Asset.

(b) borrow money, except for the purpose of clearing securities transactions if (i) the Series C Preferred Basic Maintenance Amount would continue to be satisfied after giving effect to such borrowing and (ii) such borrowing (A) is privately arranged with a bank or other person and is not intended to be publicly distributed or (B) is for "temporary purposes," and is in an amount not exceeding 5 percent of the market value of the total assets of the Fund at the time of the borrowing; for purposes of the foregoing, "temporary purposes" means that the borrowing is to be repaid within sixty days and is not to be extended or renewed;

(c) engage in any short sales of equity securities (other than short sales against the box) unless the Fund maintains in a segregated account with the Fund's custodian an amount of cash or other readily marketable securities having a market value, when added to any amounts on deposit with the Fund's broker as collateral for its obligation to replace the securities borrowed and sold short, at least equal to the current market value of securities sold short, marked-to-market on a daily basis;

(d) utilize any pricing service other than FT Interactive Data, Reuters, Telekurs, Bloomberg Financial Markets, J.J. Kenney Pricing Service, Merrill Lynch Securities Pricing Service or Bridge Data Corp, and any pricing service then permitted by S&P; or

(e) enter into any reverse repurchase agreement, other than with a counterparty that is rated at least A-1+ by S&P.

#### NET ASSET VALUE

The net asset value of the Fund's shares will be computed, based on the market value of the securities it holds and determined daily as of the close of regular trading on the New York Stock Exchange.

Portfolio instruments of the Fund which are traded in a market subject to government regulation on which trades are reported contemporaneously generally will be valued at the last sale price on the principal market for such instruments as of the close of regular trading on the day the instruments are being valued, or lacking any sales, at the average of the bid and asked price on the principal market for such instruments on the most recent date on which bid and asked prices are available. Initial public offering securities are initially valued at cost, and thereafter as any other equity security. Other readily marketable assets will be valued at the average of quotations provided by dealers maintaining an active market in such instruments. Short-term debt instruments that are credit impaired or mature in more than 60 days for which market quotations are available are valued at the latest average of the bid and asked prices obtained from a dealer maintaining an active market in that security. Short-term investments that

are not credit impaired or mature in 60 days or fewer are valued at amortized cost from purchase price or value on the 61<sup>st</sup> day prior to maturity. Securities and other assets for which market quotations are not readily available will be valued at fair value as determined in good faith by or under the direction of the Investment Adviser in accordance with guidelines adopted by the Fund. The Fund may employ recognized pricing services from time to time for the purpose of pricing portfolio instruments (including non-U.S. denominated assets and futures and options).

Trading takes place in various foreign markets on days which are not Business Days and therefore the Fund's respective net asset value per share is not calculated. The calculation of the Fund's net asset value may not take place contemporaneously with the determination of the prices of portfolio securities held by the Fund. Events affecting the values of portfolio securities that occur between the time their prices are determined and the close of the NYSE will not be reflected in the Fund's calculation of net asset value unless the Board of Trustees deems that the particular event would materially affect the net asset value, in which case the fair value of those securities will be determined by consideration of other factors by or under the direction of the Board of Directors.

Net asset value per share is calculated by dividing the value of the securities held plus any cash or other assets minus all liabilities, including accrued expenses, by the total number of shares outstanding at such time.

#### BENEFICIAL OWNERS

<b><u>Name and Address of Beneficial/Record Owner as of May 31, 2002</u></b>	<b><u>Title of Class</u></b>	<b><u>Amount of Shares and Nature of Ownership</u></b>	<b><u>Percent of Class</u></b>
Cede & Co.* P.O. Box 20 Bowling Green Station New York, NY 10274	Common	111,174,879 (record)	84.98%
	Series A Preferred	5,318,600 (record)	99.08%
	Series B Preferred	6,585,130 (record)	99.77%
Salomon Smith Barney Inc.** 333 W. 34 <sup>th</sup> Street New York, NY 10001	Common	17,197,364 (record)	13.14%
	Series A Preferred	1,378,413 (record)	25.68%
	Series B Preferred	2,060,264 (record)	31.22%

Charles Schwab & Co., Inc.** c/o ADP Proxy Services 51 Mercedes Way Edgewood, NY 11717	Common	8,055,385 (record)	6.16%
	Series A Preferred	272,247 (record)	5.07%
A.G. Edwards & Sons, Inc.** 125 Broad Street, 40 <sup>th</sup> Fl. New York, NY 10004	Common	14,538,560 (record)	11.11%
	Series B Preferred	425,147 (record)	6.44%
First Clearing Corp. Riverfront Plaza 901 East Byrd Street Richmond, VA 23219	Series B Preferred	878,627 (record)	13.31%
Prudential Securities Inc.** c/o ADP Proxy Services 51 Mercedes Way Edgewood, NY 11717	Series A Preferred	333,001 (record)	6.20%
	Series B Preferred	346,066 (record)	5.24%
Merrill Lynch** 4 Corporate Place Corporate Park 287 Piscataway, NJ 08855	Common	6,761,709 (record)	5.17%
	Series A Preferred	650,709 (record)	12.12%
	Series B Preferred	1,828,067 (record)	27.70%
Paine Webber Inc.** 1000 Harbor Blvd. Weehawken, NJ 07087	Series A Preferred	743,237 (record)	13.85%
National Financial Services Corp.** 200 Liberty Street New York, NY 10281	Series A Preferred	562,845 (record)	10.49%

\* A nominee partnership of The Depository Trust Company.

\*\* Shares held at The Depository Trust Company.

As of May 31, 2002, the Directors and Officers of the Fund as a group beneficially owned approximately 1.22% of the outstanding shares of the Fund's common stock.

## GENERAL INFORMATION

### BOOK-ENTRY-ONLY ISSUANCE

DTC will act as securities depository for the shares of Series C Preferred offered pursuant to the Prospectus. The information in this section concerning DTC and DTC's book-entry system is based upon information obtained from DTC. The securities offered hereby initially will be issued only as fully-registered securities registered in the name of Cede & Co. (as nominee for DTC). One or more fully-registered global security certificates initially will be issued, representing in the aggregate the total number of securities, and deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct DTC participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly through other entities.

Purchases of securities within the DTC system must be made by or through direct participants, which will receive a credit for the securities on DTC's records. The ownership interest of each actual purchaser of a security, a beneficial owner, is in turn to be recorded on the direct or indirect participants' records. Beneficial owners will not receive written confirmation from DTC of their purchases, but beneficial owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the direct or indirect participants through which the beneficial owners purchased securities. Transfers of ownership interests in securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners will not receive certificates representing their ownership interests in securities, except as provided herein.

DTC has no knowledge of the actual beneficial owners of the securities being offered pursuant to this Prospectus; DTC's records reflect only the identity of the direct participants to whose accounts such securities are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Payments on the securities will be made to DTC. DTC's practice is to credit direct participants' accounts on the relevant payment date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payments on such payment date. Payments by participants to beneficial owners will be governed by standing instructions and customary practices and will be the responsibility of such participant and not of DTC or the Fund, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of dividends to DTC is the responsibility of the Fund, disbursement of such payments to direct participants is the responsibility of DTC, and disbursement of such payments to the beneficial owners is the responsibility of direct and indirect participants. Furthermore each beneficial owner must rely on the procedures of DTC to exercise any rights under the Securities.

DTC may discontinue providing its services as securities depository with respect to the securities at any time by giving reasonable notice to the Fund. Under such circumstances, in the event that a successor securities depository is not obtained, certificates representing the Securities will be printed and delivered.

#### INDEPENDENT ACCOUNTANTS

PricewaterhouseCoopers LLP, 1177 Avenue of the Americas, New York, New York 10036, has been selected as independent accountants for the Fund. As the Fund's independent accountants PricewaterhouseCoopers LLP is responsible for auditing the Fund's financial statements in accordance with Generally Accepted Accounting Principles. PricewaterhouseCoopers LLP also prepares a report of its findings thereon and presents its findings to the Fund's Board of Directors. PricewaterhouseCoopers LLP also reviews the Fund's state and Federal income tax returns prepared by the Fund's Administrator. For its services, PricewaterhouseCoopers LLP charges fees which are paid by the Fund.

#### FINANCIAL STATEMENTS

The audited financial statements included in the Annual Report to the Fund's Shareholders for the fiscal year ended December 31, 2001, are also incorporated herein by reference from the Fund's Annual Report to Shareholders filed with the Securities and Exchange Commission on March 8, 2002. The report of PricewaterhouseCoopers LLP in respect of those financial statements is incorporated by reference. All other portions of the Annual Report to Shareholders are not incorporated herein by reference and are not part of the registration statement. A copy of the Annual Report to Shareholders may be obtained without charge by writing to the Fund at its



address at One Corporate Center, Rye, New York 10580-1422 or by calling the Fund toll-free at 800-GABELLI (422-3554).

## APPENDIX A: GLOSSARY

**"AA Financial Composite Commercial Paper Rate"** on any date means (i) the interest equivalent of the 7-day rate, in the case of a Dividend Period of 7 days or shorter; for Dividend Periods greater than 7 days but fewer than or equal to 31 days, the 30-day rate; for Dividend Periods greater than 31 days but fewer than or equal to 61 days, the 60-day rate; for Dividend Periods greater than 61 days but fewer than or equal to 91 days, the 90 day rate; for Dividend Periods greater than 91 days but fewer than or equal to 270 days, the rate described in (ii) below; for Dividend Periods greater than 270 days, the Treasury Index Rate; on commercial paper on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by another nationally recognized rating agency, as announced by the Federal Reserve Bank of New York for the close of business on the Business Day immediately preceding such date; or (ii) if the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the interest equivalent of such rates on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date (rounded to the next highest .001 of 1%). If any Commercial Paper Dealer does not quote a rate required to determine the "AA" Financial Composite Commercial Paper Rate, such rate shall be determined on the basis of the quotations (or quotation) furnished by the remaining Commercial Paper Dealers (or Dealer), if any, or, if there are no such Commercial Paper Dealers, by the Auction Agent pursuant to instructions from the Fund. For purposes of this definition, (A) "Commercial Paper Dealers" shall mean (1) Salomon Smith Barney Inc., Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman Sachs & Co.; (2) in lieu of any thereof, its respective affiliate or successor; and (3) in the event that any of the foregoing shall cease to quote rates for commercial paper of issuers of the sort described above, in substitution therefor, a nationally recognized dealer in commercial paper of such issuers then making such quotations selected by the Fund, and (B) "interest equivalent" of a rate stated on a discount basis for commercial paper of a given number of days maturity shall mean a number equal to the quotient (rounded upward to the next higher one-thousandth of 1%) of (1) such rate expressed as a decimal, divided by (2) the difference between (x) 1.00 and (y) a fraction, the numerator of which shall be the product of such rate expressed as a decimal, multiplied by the number of days in which such commercial paper shall mature and the denominator of which shall be 360.

**"Advance Rate"** means (a) so long as S&P is rating the Series C Preferred shares at the Fund's request, the Advance Rates set forth in "Moody's and S&P Guidelines – S&P Guidelines" or (b) any applicable advance rate established by any Other Rating Agency, whichever is applicable.

**"Affiliate"** means, with respect to the Auction Agent, any person known to the Auction Agent to be controlled by, in control of or under common control with the Fund; provided, however, that no Broker-Dealer controlled by, in control of or under common control with the Fund shall be deemed to be an Affiliate nor shall any corporation or any Person controlled by, in control of or under common control with such corporation one of the directors or executive officers of which

is director of the Fund be deemed to be an Affiliate solely because such director or executive officer is also a director of the Fund.

**"Agent Member"** means a member of or a participant in the Securities Depository that will act on behalf of a Bidder.

**"All Hold Rate"** means 80% of the "AA" Financial Composite Commercial Paper Rate.

**"Applicable Rate"** means with respect to the Series C Preferred shares for each Dividend Period (i) if Sufficient Clearing Bids exist for the Auction in respect thereof, the Winning Bid Rate, (ii) if Sufficient Clearing Orders do not exist for the Auction in respect thereof, the Maximum Rate, and (iii) if all Series C Preferred shares are the subject of Submitted Hold Orders for the Auction in respect thereof, the All Hold Rate.

**"Auction"** means each periodic operation of the Auction Procedures.

**"Auction Agent"** means The Bank of New York unless and until another commercial bank, trust company, or other financial institution appointed by a resolution of the Board of Directors enters into an agreement with the Fund to follow the Auction Procedures for the purpose of determining the Applicable Rate.

**"Auction Date"** means the last day of the initial Dividend Period and each seventh day after the immediately preceding Auction Date; provided, however, that if any such seventh day is not a Business Day, such Auction Date shall be the first preceding day that is a Business Day and the next Auction Date, if for a Standard Dividend Period, shall (subject to the same advancement procedure) be the seventh day after the date such preceding Auction Date would have been if it had been a Business Day; provided further, however, that the Auction Date for the Auction at the conclusion of any Special Dividend Period shall be the last Business Day in such Special Dividend Period and that no more than one Auction shall be held during any Dividend Period.

**"Auction Procedures"** means the procedures for conducting Auctions described in "Additional Information Concerning the Auction for Series C Preferred."

**"Available Series C Preferred"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bid Rate and Applicable Rate."

**"Beneficial Owner"** with respect to Series C Preferred, means a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as a holder of such shares of such series.

**"Bid"** has the meaning set forth in "Additional Information Concerning the Auction for the Series C Preferred – Submission of Orders by Broker-Dealers to Auction Agent."

**"Bidder"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Submission of Orders by Broker-Dealers to Auction Agent."

**"Board of Directors"** or **"Board"** means the Board of Directors of the Fund or any duly authorized committee thereof as permitted by applicable law.

**"Broker-Dealer"** means any broker-dealer or broker-dealers, or other entity permitted by law to perform the functions required of a Broker-Dealer by the Auction Procedures, that has been selected by the Fund and has entered into a Broker-Dealer Agreement that remains effective.

**"Broker-Dealer Agreement"** means an agreement between the Auction Agent and a Broker-Dealer, pursuant to which such Broker-Dealer agrees to follow the Auction Procedures.

**"Business Day"** means a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in The City of New York, New York are authorized or obligated by law to close.

**"Charter"** means the Fund's Articles of Incorporation, as amended, restated and supplemented, including the Articles Supplementary.

**"Code"** means the Internal Revenue Code of 1986, as amended.

**"Commission"** means the Securities and Exchange Commission.

**"Common Shares"** means the shares of the Fund's Common Shares, par value \$.001 per share.

**"Cure Date"** has the meaning set forth in "Description of the Series C Preferred – Redemption."

**"Date of Original Issue"** means the date on which the Series C Preferred is originally issued by the Fund.

**"Default Period"** has the meaning set forth in "Description of the Series C Preferred – Dividends and Dividend Period."

**"Default Rate"** means the Reference Rate multiplied by three (3).

**"Deposit Securities"** means cash and any obligations or securities, including Short Term Money Market Instruments that are Eligible Assets, rated at least AAA or A-1+ by S&P, except that, for purposes of optional redemption, such obligations or securities will be considered "Deposit Securities" only if they also are rated at least P-1 by Moody's.

**"Discount Factor"** means (a) so long as Moody's is rating the Series C Preferred shares at the Fund's request, the Moody's Discount Factor or (b) any applicable discount factor established by any Other Rating Agency, whichever is applicable.

**"Discounted Value"** means, as applicable, (a) the quotient of the Market Value of an Eligible Asset divided by the applicable Discount Factor or (b) the product of the Market Value of an Eligible Asset multiplied by the applicable Advance Rate, provided, in either case that with respect to an Eligible Asset that is currently callable, Discounted Value will be equal to the applicable quotient or product as calculated above or the call price, whichever is lower, and that with respect to an Eligible Asset that is prepayable, Discounted Value will be equal to the applicable quotient or product as calculated above or the par value, whichever is lower.

**"Dividend Default"** has the meaning set forth in "Description of the Series C Preferred – Dividends and Dividend Period."

**"Dividend Payment Date"** means (i) with respect to any Dividend Period of one year or less, the Business Day next succeeding the last day thereof and, if any, the 91st, 181st and 271st days thereof, and (ii) with respect to any Dividend Period of more than one year, on a quarterly basis on each March 26<sup>th</sup>, June 26<sup>th</sup>, September 26<sup>th</sup>, and December 26<sup>th</sup> and on the Business Day following the last day of such Dividend Period.

**"Dividend Period"** means, with respect to Series C Preferred, the initial period as specified in the Prospectus, and thereafter the period commencing on the Business Day following each Auction Date and ending on the next Auction Date or, if such next Auction Date is not immediately followed by a Business Day, on the latest calendar day prior to the next succeeding Business Day.

**"Eligible Assets"** means Moody's Eligible Assets (if Moody's is then rating the Series C Preferred at the request of the Fund), S&P Eligible Assets (if S&P is then rating the Series C Preferred at the request of the Fund), and/or Other Rating Agency Eligible Assets if any Other Rating Agency is then rating the Series C Preferred, whichever is applicable.

**"Existing Holder"** means (i) a person who beneficially owns those Series C Preferred shares listed in that person's name in the records of the Fund or the Auction Agent or (ii) the beneficial owner of those Series C Preferred shares which are listed under such person's Broker-Dealer's name in the records of the Auction Agent, which Broker-Dealer shall have signed a master purchaser's letter.

**"Hedging Transactions"** means transactions in which the Fund will purchase or sell futures contracts; write, purchase or sell options on futures contracts; or write put options (except covered put options) or call options (except covered call options) on securities owned by the Fund.

**"Hold Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Orders By Existing Holders and Potential Holders."

**"Holder"** means, with respect to the Series C Preferred, the registered holder of Series C Preferred shares as the same appears on the stock ledger or stock records of the Fund or records of the Auction Agent, as the case may be.

**"Industry Classification"** means a six-digit industry classification in the Standard Industry Classification system published by the United States.

**"Liquidation Preference"** means \$25,000 per Series C Preferred share and shall have a correlative meaning with respect to shares of any other class or series of Preferred Stock.

**"Market Capitalization"** means, with respect to any issue of common stock, as of any date, the product of (a) the number of shares of such common stock issued and outstanding as of the close of business on the date of determination thereof and (b) the Market Value per share of such common stock as of the close of business on the date of determination thereof.

**"Market Value"** means the amount determined by the Fund with respect to specific Eligible Assets in accordance with valuation policies adopted from time to time by the Board of Directors as being in compliance with the requirements of the 1940 Act.

Notwithstanding the foregoing, "Market Value" may, at the option of the Fund with respect to any of its assets, mean the amount determined with respect to specific Eligible Assets of the Fund in the manner set forth below:

(a) as to any common or preferred stock which is an Eligible Asset, (i) if the stock is traded on a national securities exchange or quoted on the Nasdaq System, the last sales price reported on the Valuation Date or (ii) if there was no reported sales price on the Valuation Date, the lower of two bid prices for such stock provided by two recognized securities dealers with a minimum capitalization of \$25,000,000 (or otherwise approved for such purpose by Moody's and S&P) or by one such securities dealer and any other source (provided that the utilization of such source would not adversely affect Moody's and S&P then-current rating of the Series C Preferred) to the administrator of the Fund's assets, at least one of which shall be provided in writing or by telecopy, telex, other electronic transcription, computer obtained quotation reducible to written form or similar means, and in turn provided to the Fund by any such means by such administrator, or, if two bid prices cannot be obtained, such Eligible Asset shall have a Market Value of zero;

(b) as to any U.S. Government Obligation, Short-Term Money Market Instrument (other than demand deposits, federal funds, bankers' acceptances and next Business Day's repurchase agreements) and commercial paper, with maturities greater than 60 days, the product of (i) the principal amount (accrued principal to the extent such instrument accrues interest) of

such instrument, and (ii) the lower of the bid prices for the same kind of instruments having, as nearly as practicable, comparable interest rates and maturities provided by two recognized dealers having minimum capitalization of \$25,000,000 (or otherwise approved for such purpose by Moody's and S&P) or by one such dealer and any other source (provided that the utilization of such source would not adversely affect Moody's and S&P then-current rating of the Series C Preferred) to the administrator, at least one of which shall be provided in writing or by telecopy, telex, other electronic transcription, computer obtained quotation reducible to written form or similar means, and in turn provided to the Fund by any such means by such administrator, or, if two bid prices cannot be obtained, such Eligible Asset will have a Market Value of zero;

(c) as to cash, demand deposits, federal funds, bankers' acceptances and next Business Day's repurchase agreements included in Short-Term Money Market Instruments, the face value thereof;

(d) as to any U.S. Government Obligation, Short-Term Money Market Instrument or commercial paper with a maturity of 60 days or fewer, amortized cost unless the board of directors determines that such value does not constitute fair value;

(e) as to any other evidence of indebtedness which is an Eligible Asset, (i) the product of (A) the unpaid principal balance of such indebtedness as of the Valuation Date and (B)(1) if such indebtedness is traded on a national securities exchange or quoted on the Nasdaq System, the last sales price reported on the Valuation Date or (2) if there was no reported sales price on the Valuation Date or if such indebtedness is not traded on a national securities exchange or quoted on the Nasdaq System, the lower of two bid prices for such indebtedness provided by two recognized dealers with a minimum capitalization of \$25,000,000 (or otherwise approved for such purpose by Moody's and S&P) or by one such dealer and any other source (provided that the utilization of such source would not adversely affect Moody's and S&P then-current rating of the Series C Preferred) to the administrator of the Fund's assets, at least one of which shall be provided in writing or by telecopy, telex, other electronic transcription, computer obtained quotation reducible to written form or similar means, and in turn provided to the Fund by any such means by such administrator, plus (ii) accrued interest on such indebtedness.

**"Maximum Rate"** means, on any date on which the Applicable Rate is determined, the applicable percentage of (i) in the case of dividend period of 184 days or less, the "AA" Financial Composite Commercial Paper Rate on the date of such Auction determined as set forth below based on the lower of the credit ratings assigned to the Series C Preferred by Moody's and S&P subject to upward but not downward adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers; provided that immediately following any such increase the Fund would be in compliance with the Series C Preferred Basic Maintenance Amount or (ii) in the case of a dividend period of longer than 184 days, the Treasury Index Rate.

MOODY'S CREDIT RATING	S&P CREDIT RATING	APPLICABLE PERCENTAGE
Aa3 or higher	AA- or higher	150%
A3 to A1	A- to A+	175%
Baa3 to Baa1	BBB- to BBB+	250%
Below Baa3	Below BBB-	275%

**"Moody's"** means Moody's Investors Service, Inc. and its successors at law.

**"Moody's Discount Factor"** has the meaning set forth in "Moody's and S&P Guidelines – Moody's Guidelines."

**"Moody's Eligible Assets"** has the meaning set forth in "Moody's and S&P Guidelines – Moody's Guidelines."

**"Moody's Industry and Sub-Industry Categories"** means:

**Aerospace and Defense:** Major Contractor, Subsystems, Research, Aircraft Manufacturing, Arms, Ammunition

**Automobile:** Automotive Equipment, Auto-Manufacturing, Auto Parts Manufacturing, Personal Use Trailers, Motor Homes, Dealers

**Banking:** Bank Holding, Savings and Loans, Consumer Credit, Small Loan, Agency, Factoring, Receivables

**Beverage, Food and Tobacco:** Beer and Ale, Distillers, Wines and Liquors, Distributors, Soft Drink Syrup, Bottlers, Bakery, Mill Sugar, Canned Foods, Corn Refiners, Dairy Products, Meat Products, Poultry Products, Snacks, Packaged Foods, Distributors, Candy, Gum, Seafood, Frozen Food, Cigarettes, Cigars, Leaf/ Snuff, Vegetable Oil

**Broadcasting:** Radio, T.V.

**Buildings and Real Estate:** Brick, Cement, Climate Controls, Contracting, Engineering, Construction, Hardware, Forest Products (building-related only), Plumbing, Roofing, Wallboard, Real Estate, Real Estate Development, REITs, Land Development

**Cable:** Distribution, Equipment, Programming

**Chemicals, Plastics and Rubber:** Chemicals (non-agriculture), Industrial Gases, Sulphur, Plastics, Plastic Products, Abrasives, Coatings, Paints, Varnish, Fabricating

**Communications** (excluding companies primarily engaged in offering Telephone services): Satellite, Wireless, Equipment



**Containers, Packaging and Glass:** Glass, Fiberglass, Containers made of: Glass, Metal, Paper, Plastic, Wood, or Fiberglass

**Personal and Non Durable Consumer Products (Manufacturing Only):** Soaps, Perfumes, Cosmetics, Toiletries, Cleaning Supplies, School Supplies

**Diversified/Conglomerate Manufacturing**

**Diversified/Conglomerate Service**

**Diversified Natural Resources, Precious Metals and Minerals:** Fabricating, Distribution, Mining and Sales

**Ecological:** Pollution Control, Waste Removal, Waste Treatment, Waste Disposal

**Electronics:** Computer Hardware, Electric Equipment, Components, Controllers, Motors, Household Appliances, Information Service Communication Systems, Radios, TVs, Tape Machines, Speakers, Printers, Drivers, Technology

**Entertainment:** Recording Industry, Motion Exhibition Theaters, Motion Picture Production and Distribution

**Finance:** Investment Brokerage, Leasing, Syndication, Securities

**Farming and Agriculture:** Livestock, Grains, Produce; Agricultural Chemicals, Agricultural Equipment, Fertilizers

**Grocery:** Grocery Stores, Convenience Food Stores

**Healthcare, Education and Childcare:** Ethical Drugs, Proprietary Drugs, Research, Health Care Centers, Nursing Homes, HMOs, Hospitals, Hospital Supplies, Medical Equipment

**Home and Office Furnishings, Housewares, and Durable Consumer Products:** Carpets, Floor Coverings, Furniture, Cooking, Ranges

**Hotels, Motels, Inns and Gaming**

**Insurance:** Life, Property and Casualty, Broker, Agent, Surety

**Leisure, Amusement, Entertainment:** Boating, Bowling, Billiards, Musical Instruments, Fishing, Photo Equipment, Records, Tapes, Sports, Outdoor Equipment (Camping), Tourism, Resorts, Games, Toy Manufacturing

**Machinery (Non-Agriculture, Non-Construction, Non-Electronic):** Industrial, Machine Tools, Steam Generators

**Mining, Steel, Iron and Non Precious Metals:** Coal, Copper, Lead, Uranium, Zinc, Aluminum, Stainless Steel, Integrated Steel, Ore Production, Refractories, Steel Mill Machinery, Mini-Mills, Fabricating, Distribution and Sales

**Oil and Gas:** Crude Producer, Retailer, Well Supply, Service and Drilling

**Personal, Food and Miscellaneous Services**

**Printing and Publishing:** Graphic Arts, Paper, Paper Products, Business Forms, Magazines, Books, Periodicals, Newspapers, Textbooks

**Cargo Transport:** Rail, Shipping, Railroads, Rail-Car Builders, Ship Builders, Containers, Container Builders, Parts, Overnight Mail, Trucking, Truck Manufacturing, Trailer Manufacturing, Air Cargo, Transport

**Retail Stores:** Apparel, Toy, Variety, Drugs, Department, Mail Order Catalog, Showroom

**Telecommunications:** Local, Long Distance, Independent, Telephone, Telegraph, Equipment, Research

**Textiles and Leather:** Producer, Synthetic Fiber, Apparel Manufacturer, Leather Shoes

**Personal Transportation:** Air, Bus, Rail, Car, Rental

**Utilities:** Electric, Water, Hydro Power, Gas, Diversified

**Sovereigns:** Semi-sovereigns, Canadian Provinces, Supra-national agencies

**"1940 Act"** means the Investment Company Act of 1940, as amended.

**"1940 Act Series C Preferred Asset Coverage"** means asset coverage, as determined in accordance with Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Fund which are stock, including all Outstanding Series C Preferred shares (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are stock of a closed-end investment company as a condition of declaring dividends on its common shares), determined on the basis of values calculated as of a time within 48 hours (not including Saturdays, Sundays or holidays) next preceding the time of such determination.

**"Non-Call Period"** means a period determined by the Board of Directors after consultation with the Broker-Dealers, during which the Series C Preferred subject to such Special Dividend Period are not subject to redemption at the option of the Fund but only to mandatory redemption.

**"Notice of Redemption"** has the meaning set forth in "Description of the Series C Preferred – Redemption."

**"Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Orders By Existing Holders and Potential Holders."

**"Other Rating Agency"** means any rating agency other than Moody's or S&P then providing a rating for the Series C Preferred pursuant to the request of the Fund.

**"Other Rating Agency Eligible Assets"** means assets of the Fund designated by any Other Rating Agency as eligible for inclusion in calculating the discounted value of the Fund's assets in connection with such Other Rating Agency's rating of the Series C Preferred.

**"Outstanding"** means, as of any date, Preferred Stock theretofore issued by the Fund except:

- (a) any such share of Preferred Stock theretofore cancelled by the Fund or delivered to the Fund for cancellation;
- (b) any such share of Preferred Stock other than the Series C Preferred shares as to which a notice of redemption shall have been given and for whose payment at the redemption thereof deposit assets in the necessary amount are held by the Fund on in trust for or were paid by the Fund to the holder of such share pursuant to the Articles Supplementary with respect thereto;
- (c) in the case of the Series C Preferred shares, any such shares theretofore delivered to the Auction Agent for cancellation or with respect to which the Fund has given notice of redemption and irrevocably deposited with the Paying Agent sufficient funds to redeem such shares; and
- (d) any such share in exchange for or in lieu of which other shares have been issued and delivered.

Notwithstanding the foregoing, (i) for purposes of voting rights (including the determination of the number of shares required to constitute a quorum), any Preferred Stock as to which the Fund or any Affiliate is the Existing Holder will be disregarded and deemed not Outstanding; (ii) in connection with any Auction, any Series C Preferred shares as to which the Fund or any Person known to the Auction Agent to be an Affiliate is the Existing Holder will be disregarded and not deemed Outstanding; and (iii) for purposes of determining the Series C Preferred Basic Maintenance Amount, Series C Preferred shares held by the Fund will be disregarded and deemed not Outstanding, but shares held by any Affiliate (other than any controlled Affiliates) will be deemed Outstanding.

**"Paying Agent"** means The Bank of New York unless and until another entity appointed by a resolution of the Board of Directors enters into an agreement with the Fund to serve as paying agent, which paying agent may be the same as the Auction Agent.

**"Potential Beneficial Owner or Holder"** means (i) any Existing Holder who may be interested in acquiring additional Series C Preferred shares or (ii) any other person who may be interested in acquiring Series C Preferred shares and who has signed a master purchaser's letter or whose shares will be listed under such person's Broker-Dealer's name on the records of the Auction Agent which Broker-Dealer shall have executed a master purchaser's letter.

**"Preferred Stock"** means the preferred stock, par value \$.001 per share, of the Fund, and includes the Series C Preferred shares.

**"Premium Call Period"** means a period consisting of a number of whole years as determined by the Board of Directors after consultation with the Broker-Dealers, during each year of which the shares subject to such Special Dividend Period will be redeemable at the Fund's option at a price per share equal to the Liquidation Preference plus accumulated but unpaid dividends (whether or not earned or declared) plus a premium expressed as a percentage or percentages of the Liquidation Preference or expressed as a formula using specified variables as determined by the Board of Directors after consultation with the Broker-Dealers.

**"Pricing Service"** means any of the following: Bloomberg, Bridge Information Services, Data Resources Inc., FT Interactive, International Securities Market Association, Merrill Lynch Securities Pricing Service, Muller Data Corp., Reuters, S&P/J.J. Kenny, Telerate, Trepp Pricing and Wood Gundy.

**"Public Equity Large-Cap"** means any equity issuer with a market capitalization in excess of \$10 billion.

**"Public Equity Mid-Cap"** means any equity issuer with a market capitalization in excess of \$1 billion but less than or equal to \$10 billion.

**"Public Equity Small-Cap"** means any equity issuer with a market capitalization of less than or equal to \$1 billion.

**"Rating Agency"** means Moody's and S&P as long as such rating agency is then rating the Series C Preferred at the request of the Fund.

**"Rating Agency Guidelines"** has the meaning set forth in set forth in "Moody's and S&P Guidelines."

**"Redemption Date"** has the meaning set forth in "Description of the Series C Preferred – Dividends and Dividend Period – Default Period."

**"Redemption Default"** has the meaning set forth in "Description of the Series C Preferred – Dividends and Dividend Period."

**"Redemption Price"** has the meaning set forth in "Description of the Series C Preferred – Dividends and Dividend Period."

**"Reference Rate"** means, with respect to the determination of the Default Rate, the applicable "AA" Financial Composite Commercial Paper Rate (for a Dividend Period of fewer than 184

days) or the applicable Treasury Index Rate (for a Dividend Period of 184 days or more) and, with respect to the determination of the Maximum Rate, the "AA" Financial Composite Commercial Paper Rate or the Treasury Index Rate, as appropriate.

**"S&P"** means Standard & Poors Rating Services or its successors at law.

**"S&P Eligible Assets"** has the meaning set forth in "Moody's and S&P Guidelines – S&P Guidelines."

**"S&P Hedging Transactions"** has the meaning set forth in "Moody's and S&P Guidelines – S&P Guidelines."

**"S&P Rating Factor"** has the meaning set forth in "Moody's and S&P Guidelines – S&P Guidelines."

**"Securities Depository"** means The Depository Trust Company and its successors and assigns or any successor securities depository selected by the Fund that agrees to follow the procedures required to be followed by such securities depository in connection with the shares of Series C Preferred.

**"Sell Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Submission of Orders by Broker-Dealers to Auction Agent."

**"Series C Preferred"** means the Fund's Series C Auction Rate Cumulative Preferred Stock, \$.001 par value per share and liquidation preference \$25,000 per share.

**"Series C Preferred Basic Maintenance Report"** has the meaning set forth in "Description of the Series C Preferred – Asset Maintenance."

**"Series C Preferred Basic Maintenance Amount"** has the meaning set forth under "Description of the Series C Preferred – Asset Maintenance."

**"Series C Preferred Basic Maintenance Amount Test"** means a test which is met if the lower of the aggregate Discounted Values of the Moody's Eligible Assets or the S&P Eligible Assets if both Moody's and S&P are then rating the Series C Preferred at the request of the Fund, or the Eligible Assets of whichever of Moody's or S&P is then doing so if only one of Moody's or S&P is then rating the Series C Preferred at the request of the Fund, meets or exceeds the Series C Preferred Basic Maintenance Amount.

**"Short-Term Money Market Instrument"** means the following types of instruments if, on the date of purchase or other acquisition thereof by the Fund, the remaining term to maturity thereof is not in excess of 180 days:

- A. commercial paper rated A-1 if such commercial paper matures in 30 days or A-1+ if such commercial paper matures in over 30 days;
- B. demand or time deposits in, and banker's acceptances and certificates of deposit of (i) a depository institution or trust company incorporated under the laws of the United States of America or any state thereof or the District of Columbia or (ii) a United States branch office or agency of a foreign depository institution (provided that such branch office or agency is subject to banking regulation under the laws of the United States, any state thereof or the District of Columbia);
- C. overnight funds; and
- D. U.S. Government Obligations.

**"Special Dividend Period"** means a Dividend Period that is not a Standard Dividend Period.

**"Specific Redemption Provisions"** means, with respect to any Special Dividend Period of more than one year, either, or any combination of (i) a Non-Call Period and (ii) a Premium Call Period.

**"Standard Dividend Period"** means a Dividend Period of seven days, subject to increase or decrease to the extent necessary for the next Auction Date and Dividend Payment Date to each be Business Days.

**"Submission Deadline"** means 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

**"Submitted Bid"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Submitted Bid Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Submitted Hold Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Submitted Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Submitted Sell Order"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Sufficient Clearing Bids"** has the meaning set forth in "Additional Information Concerning the Auction for Series C Preferred – Determination of Sufficient Clearing Bids, Winning Bids, Winning Bid Rate and Applicable Rate."

**"Treasury Index Rate"** means the average yield to maturity for actively traded marketable U.S. Treasury fixed interest rate securities having the same number of 30-day periods to maturity as the length of the applicable Dividend Period, determined, to the extent necessary, by linear interpolation based upon the yield for such securities having the next shorter and next longer number of 30-day periods to maturity treating all Dividend Periods with a length greater than the longest maturity for such securities as having a length equal to such longest maturity, in all cases based upon data set forth in the most recent weekly statistical release published by the Board of Governors of the Federal Reserve System (currently in H.15 (519)); provided, however, if the most recent such statistical release shall not have been published during the 15 days preceding the date of computation, the foregoing computations shall be based upon the average of comparable data as quoted to the Fund by at least three recognized dealers in U.S. Government Obligations selected by the Fund.

**"U.S. Government Obligations"** means direct obligations of the United States or by its agencies or instrumentalities that are entitled to the full faith and credit of the United States and that, other than United States Treasury Bills, provide for the periodic payment of interest and the full payment of principal at maturity or call for redemption.

**"Valuation Date"** means the last Business Day of each week, or such other date as the Fund and Rating Agencies may agree to for purposes of determining the Series C Preferred Basic Maintenance Amount.

**"Winning Bid Rate"** means the lowest rate specified in the Submitted Bids which if:

- (a) (i) each such Submitted Bid of Existing Holders specifying such lowest rate and
- (ii) all other such Submitted Bids of Existing Holders specifying lower rates were rejected, thus entitling such Existing Holders to continue to hold the shares of such series that are subject to such Submitted Bids; and
- (b) (i) each such Submitted Bid of Potential Holders specifying such lowest rate and

- (ii) all other such Submitted Bids of Potential Holders specifying lower rates were accepted;

would result in such Existing Holders described in subclause (a) above continuing to hold an aggregate number of Outstanding Series C Preferred shares which, when added to the number of Outstanding Series C Preferred shares to be purchased by such Potential Holders described in subclause (b) above, would equal not less than the Available Series C Preferred shares.