

BANCROFT FUND LTD
Form DEF 14A
September 14, 2015

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

SCHEDULE 14A INFORMATION
PROXY STATEMENT PURSUANT TO
SECTION 14(a) OF THE SECURITIES EXCHANGE ACT OF 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

BANCROFT FUND LTD.
ELLSWORTH GROWTH AND INCOME FUND LTD.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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| 3) | Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): |
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|----|---|
| 1) | Amount previously paid: |
| 2) | Form, Schedule or Registration Statement No.: |
| 3) | Filing Party: |
| 4) | Date Filed: |

PROXY MATERIALS

BANCROFT FUND LTD.
ELLSWORTH GROWTH AND INCOME FUND LTD.

To the Shareholders of Bancroft Fund Ltd. and Ellsworth Growth and Income Fund Ltd.:

I am writing to let you know that due to a proposed transaction between Gabelli Funds, LLC (“Gabelli Funds”) and Dinsmore Capital Management Co. (“Dinsmore Capital”) a joint special meeting (the “Meeting”) of shareholders of Bancroft Fund Ltd. (“Bancroft”) and Ellsworth Growth and Income Fund Ltd. (“Ellsworth” and, together with Bancroft, the “Funds”) will be held at The Madison Hotel located at 1 Convent Road, Morristown, New Jersey 07960 on October 19, 2015 at 10:00 a.m. Eastern time. The purpose of the Meeting is to vote on important proposals that affect the Funds and your investment in one or both of them. As a shareholder, you have the opportunity to voice your opinion on the matters that affect your Fund(s).

The Funds’ Boards of Trustees (the “Boards”) are asking you to approve significant changes for the Funds. If approved by the shareholders, these changes will result in a new investment adviser, Gabelli Funds, providing advisory services to the Funds. At the Meeting, Fund shareholders will be asked to approve the new advisory agreements. The Board of Bancroft is also asking shareholders of Bancroft to elect six individuals as new Trustees of Bancroft, and to re-elect as Trustees five of the individuals currently serving as Bancroft Trustees. The Board of Ellsworth is also asking shareholders of Ellsworth to elect seven individuals as new Trustees of Ellsworth, and to re-elect as Trustees four of the individuals currently serving as Ellsworth Trustees. If the Funds’ shareholders do not approve the proposed new investment advisory agreements between the Funds and Gabelli Funds, or if either such proposed new investment advisory agreement does not become effective, any election of Trustees by shareholders at the Meeting will not be effective, and only the current Trustees will continue to serve on the Boards of the Funds, unaffected by any vote taken for election of Trustees.

Please read the enclosed materials and cast your vote on the proxy card(s) or by telephone or over the Internet. **Please vote your shares promptly. Your vote is extremely important, no matter how large or small your holdings may be.**

The proposals have been carefully reviewed by the Boards of Trustees of the Funds. The Trustees, including all of the Trustees who are not affiliated with Dinsmore Capital, believe these proposals are in the best interests of the Funds and the shareholders.

The Trustees recommend that you vote FOR each proposal.

Each of the proposals is described in greater detail in the enclosed Proxy Statement.

Voting is quick and easy. Everything you need is enclosed. To cast your vote, simply complete the proxy card(s) enclosed in this package. Be sure to sign the card(s) before mailing it (them) in the postage-paid envelope. You may also vote your shares by telephone or over the Internet. Simply call the toll-free number or visit the website indicated on your proxy card(s) and follow the recorded or online instructions.

If you have any questions before you vote, please call AST Fund Solutions LLC (“AST”), the Funds’ proxy solicitor, at (800) 499-8410. AST will help you get your vote in quickly. Thank you for your participation in this important initiative.

Sincerely,

/s/ Thomas H. Dinsmore
Thomas H. Dinsmore
Chairman of the Boards of Trustees of the Funds

September 11, 2015

BANCROFT FUND LTD.
ELLSWORTH GROWTH AND INCOME FUND LTD.

65 Madison Avenue
Morristown, New Jersey 07960

NOTICE OF JOINT SPECIAL MEETING OF SHAREHOLDERS
to be held on October 19, 2015
10:00 a.m. Eastern Time
at
The Madison Hotel located at 1 Convent Road, Morristown, New Jersey 07960

Important Notice Regarding the Availability of Proxy Materials for the Shareholder Meeting
To Be Held on October 19, 2015: proxy materials are available at
<http://www.astproxyportal.com/ast/12198/10806>

To the Shareholders of Bancroft Fund Ltd. and Ellsworth Growth and Income Fund Ltd.:

NOTICE IS HEREBY GIVEN that a joint special meeting (the “Meeting”) of shareholders of Bancroft Fund Ltd. (“Bancroft”) and Ellsworth Growth and Income Fund Ltd. (“Ellsworth” and, together with Bancroft, the “Funds”), each of which is issuing proxy solicitation materials, will be held at The Madison Hotel located at 1 Convent Road, Morristown, New Jersey 07960 on October 19, 2015 at 10:00 a.m. Eastern time. The Meeting is being called to vote on:

1. The approval of a proposed new investment advisory agreement for each of the Funds (“Proposal 1”), with each proposed new investment advisory agreement to become effective only if the other Fund’s proposed new investment advisory agreement also receives shareholder approval; and

The election of Trustees to the Boards of the Funds, contingent on Proposal 1’s being approved by shareholders of 2.the Funds, and on the effectiveness of both of the new investment advisory agreements referred to in Proposal 1.
The nominees for election to each Board of Trustees are:

Bancroft

Ellsworth

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Kinchen C. Bizzell (current Trustee)	Kinchen C. Bizzell (current Trustee)
Elizabeth C. Bogan, Ph.D. (current Trustee)	Elizabeth C. Bogan, Ph.D. (current Trustee)
James P. Conn	James P. Conn
Frank J. Fahrenkopf, Jr.	James A. Dinsmore
Mario J. Gabelli	Frank J. Fahrenkopf, Jr.
Daniel D. Harding (current Trustee)	Mario J. Gabelli
Michael J. Melarkey	Daniel D. Harding (current Trustee)
Kuni Nakamura	Michael J. Melarkey
Jane D. O’Keeffe (current Trustee)	Kuni Nakamura
Nicolas W. Platt (current Trustee)	Nicolas W. Platt (current Trustee)
Anthonie C. van Ekris	Anthonie C. van Ekris

Shareholders of record of the Funds as of the close of business on September 4, 2015 are entitled to notice of, and to vote at, the Meeting or any adjournment or postponement thereof. **Whether or not you plan to attend the Meeting, please vote your shares by returning the proxy card(s) by mail in the enclosed postage-paid envelope provided, or by voting by telephone or over the Internet. Your vote is important.**

By order of the Boards of Trustees,

/s/ Thomas H. Dinsmore
Thomas H. Dinsmore
Chairman of the Boards of Trustees of the Funds

September 11, 2015

To secure the largest possible representation and to save the expense of further mailings, please mark your proxy card(s), sign, and return it (them) in the enclosed envelope, which requires no postage if mailed from the United States. If you prefer, you may instead vote by telephone or over the Internet. You may revoke your proxy at any time before or at the Meeting or vote in person if you attend the Meeting, as provided in the attached Proxy Statement.

SOME SHAREHOLDERS HOLD SHARES IN MORE THAN ONE FUND AND MAY RECEIVE PROXY CARDS AND/OR PROXY MATERIALS FOR EACH FUND OWNED. PLEASE SIGN AND PROMPTLY RETURN EACH PROXY CARD IN THE SELF-ADDRESSED ENVELOPE REGARDLESS OF THE NUMBER OF SHARES OWNED.

JOINT PROXY STATEMENT

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BANCROFT FUND LTD.
ELLSWORTH GROWTH AND INCOME FUND LTD.

JOINT PROXY STATEMENT

Dated September 11, 2015

Important Notice Regarding the Availability of Proxy Materials
for the Shareholder Meeting
To Be Held on October 19, 2015

This joint Proxy Statement (this “Proxy Statement”) solicits proxies to be voted at a joint special meeting of shareholders (the “Meeting”) of Bancroft Fund Ltd. (“Bancroft”) and Ellsworth Growth and Income Fund Ltd. (“Ellsworth”), both registered closed-end management investment companies (each, a “Fund” and, collectively, the “Funds”).

The Boards of Trustees of the Funds (each, a “Board” and collectively, the “Boards”) determined to call the Meeting as a result of an agreement between GAMCO Investors, Inc. (“GAMCO”), Dinsmore Capital Management Co. (“Dinsmore Capital”), the Funds’ current investment adviser, and certain principals of Dinsmore Capital. This agreement contemplates, among other things, Gabelli Funds, LLC (“Gabelli Funds”) (a GAMCO affiliate) becoming the Funds’ new investment adviser, subject to shareholder approval.

The Boards, therefore, have called the Meeting to hold shareholder votes on the following proposals (the “Proposals”), each of which is described more fully below:

Proposal

1. To approve a proposed new investment advisory agreement for each Fund (“Proposal 1”), with each proposed new investment advisory agreement to become effective only if the other Fund’s proposed new investment advisory agreement also receives shareholder approval.
- 2.

Who votes on the Proposal?

Shareholders of each Fund, voting separately from shareholders of the other Fund.

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To consider and vote on the election of individuals to serve on the Boards of Trustees of the Funds (“Proposal 2”), with the result of such vote to take effect only if Proposal 1 is approved by shareholders of the Funds and the new investment advisory agreements referred to in Proposal 1 become effective. If Proposal 1 is not so approved or if either of the new investment advisory agreements referred to in Proposal 1 does not become effective, the Boards will continue unaffected by any vote on Proposal 2.

Shareholders of each Fund, voting separately from shareholders of each other Fund.

The principal offices of the Funds are located at 65 Madison Avenue, Suite 550, Morristown, NJ 07960. You can reach the offices of the Funds by telephone by calling (800) 914-1177. Each Fund is a Delaware statutory trust registered as a closed-end management investment company under the Investment Company Act of 1940, as amended (the “1940 Act”).

The Meeting will be held at The Madison Hotel located at 1 Convent Road, Morristown, New Jersey 07960 on October 19, 2015 at 10:00 a.m. Eastern time. Only Fund shareholders entitled to vote at the meeting will be admitted to the Meeting. The Boards, on behalf of each Fund, are soliciting these proxies. This Proxy Statement is first being sent to shareholders on or about September 11, 2015.

This Proxy Statement gives you information about the new investment advisory agreements, the Trustee nominees, and other matters that you should know before voting. The Boards of the Funds have determined that the joint use of this Proxy Statement for the Meeting is in the best interests of each Fund and its respective shareholders in light of the similar matters being considered and voted on by the shareholders of the Funds.

For a free copy of the Funds' latest annual and semi-annual report, please contact Gary I. Levine at 65 Madison Avenue, Suite 550, Morristown, NJ 07960 or call (800) 914-1177. Each Fund will furnish its annual and semi-annual report to shareholders free of charge. The reports are also available online at www.bancroftfund.com and www.ellsworthfund.com.

PROPOSAL 1: APPROVAL OF A NEW INVESTMENT ADVISORY AGREEMENT

Introduction to Proposal 1

Shareholders of each Fund are being asked to approve a new investment advisory agreement (each, a “New Investment Advisory Agreement”) between such Fund and Gabelli Funds, to become effective within thirty (30) days of the approval of such agreement by the shareholders of such Fund. Dinsmore Capital currently serves as the Funds’ investment adviser. The Funds’ respective shareholders approved the current advisory agreements (each, a “Current Investment Advisory Agreement”) on February 13, 2006 for Bancroft, and on January 13, 2006 for Ellsworth.

The Boards are proposing the approval of the New Investment Advisory Agreements because the Current Investment Advisory Agreements will terminate if the Transaction (as defined below) is completed. As required by the 1940 Act, each Current Investment Advisory Agreement terminates automatically upon its “assignment.” The consummation of the Transaction will result in the assignment and, consequently, the automatic termination of the Current Investment Advisory Agreements. Shareholders of the Funds are therefore being asked to approve New Investment Advisory Agreements for the Funds. Each New Investment Advisory Agreement will become effective only if each New Investment Advisory Agreement is approved by the shareholders of the applicable Fund, and if the Transaction is completed. Although the closing of the Transaction (the “Closing”) is currently expected to occur, if the Transaction is not completed or the Transaction Agreement (as defined below) is terminated, the New Investment Advisory Agreements will not go into effect and the Current Investment Advisory Agreements will continue in effect.

Dinsmore Capital is currently responsible for the provision of administrative services to the Funds pursuant to an administrative services agreement between each Fund and Dinsmore Capital (the “Current Administrative Services Agreements”). The Closing would result in the termination of the Current Administrative Services Agreements. Under the terms of the New Investment Advisory Agreements, Gabelli Funds would become responsible for the provision of administrative services to the Funds.

For a general description of the proposed New Investment Advisory Agreements and a comparison of the proposed New Investment Advisory Agreements and the Current Investment Advisory Agreements, see “New Investment Advisory Agreements” below. The form of the New Investment Advisory Agreements is included in this Proxy Statement as [Appendix A](#).

Current Investment Advisory Agreements and Current Administrative Services Agreements

Under the Current Investment Advisory Agreements, Dinsmore Capital, subject to the supervision of the Board and in conformity with the stated investment objectives, policies and limitations of the Funds, supervises all aspects of the Funds' operations including the investment and reinvestment of cash, securities or other properties comprising the Funds' assets. In this regard Dinsmore Capital is responsible to (a) supervise all aspects of the operations of the Funds; (b) obtain and evaluate pertinent information about significant developments and economic, statistical and financial data, domestic, foreign or otherwise, whether affecting the economy generally or any industry or the Funds or any issuer of securities held or to be purchased by the Funds; (c) determine which issuers and securities shall be represented in the Funds' investment portfolio and regularly report thereon to the Boards; (d) place orders for the purchase and sale of securities for the Funds; and (e) take, on behalf of the Funds, such other actions as may be necessary or appropriate in connection with the above.

In placing orders for the purchase and sale of securities for the Funds, Dinsmore Capital is obligated to obtain the most favorable price and execution available under the circumstances, and may take into account the value of the research provided, execution capability, commission rate, and financial responsibility and responsiveness of the broker-dealer to Dinsmore Capital.

Dinsmore Capital is also responsible for furnishing to the Funds' office space and facilities, paying the salaries of the Funds' executive officers, and furnishing bookkeeping and statistical services to the Company.

The Current Investment Advisory Agreements provide that the Funds will pay or cause to be paid all of the costs and expenses associated with the Funds' operations and activities, except those expressly assumed by Dinsmore Capital. Expenses not assumed by Dinsmore Capital include:

- expenses in connection with the Funds' organization and with the offering of their securities;
- fees and expenses of the Funds' Trustees who are not "interested persons" (as such term is defined in Section 2 (a)(19) of the 1940 Act) of Dinsmore Capital and who are not parties to the Current Investment Advisory Agreements or interested persons of any such party (the "Independent Trustees"), and of the Independent Trustees' legal counsel;
- legal and accounting fees, fees of the Funds' custodian, registrar and transfer agent;
- fees of the Funds' dividend disbursing agent and dividend reinvestment plan agent;
- taxes, interest, brokerage commissions; and
- direct costs of postage, printing, copying and travel expenses of the Funds' officers attributable to the conduct of the Funds' business.

The Current Investment Advisory Agreements will continue in effect from year to year only if such continuance is specifically approved at least annually by (i) the Boards or by the holders of a majority of the outstanding voting securities of the Funds as defined in the 1940 Act, and (ii) the affirmative vote of a majority of Independent Trustees by votes cast in person at a meeting called for such purpose. Each Current Investment Advisory Agreement provides that the Funds or Dinsmore Capital may terminate the agreement on 60 days' written notice without penalty. Each Current Investment Advisory Agreement terminates automatically in the event of its assignment.

Fees payable to Dinsmore Capital under the Current Investment Advisory Agreements are paid monthly and are computed at an annual rate of 0.75% of the first \$100,000,000 of each Fund's average weekly net assets and 0.50% of each Fund's average weekly net assets in excess of \$100,000,000.

In the 2014 fiscal year and in the first nine months of the 2015 fiscal year, the Funds paid Dinsmore Capital, for investment advisory services, the following amounts:

	2014⁽¹⁾		2015⁽²⁾	
	\$	% ⁽³⁾	\$	% ⁽³⁾
Bancroft	\$849,004	0.70%	\$656,322	0.70%
Ellsworth	\$920,566	0.68%	\$692,979	0.69%
Total	\$1,769,570	0.69%	\$1,349,301	0.69%

(1) For the fiscal year ended on September 30, 2014 (Ellsworth) and October 31, 2014 (Bancroft).

(2) For the nine months ended June 30, 2015 (Ellsworth) and July 31, 2015 (Bancroft).

(3) Percentage of average weekly net assets, annualized in the case of the 2015 fiscal year amounts.

Under the Current Administrative Services Agreements, Dinsmore Capital must provide or arrange for the provision of several kinds of services. These services include: principal financial officer services; security valuation; daily net-asset-value calculations; preparation of periodic reports (including financial statements and schedules of investments); working with auditors; preparing and filing tax returns; furnishing clerical, bookkeeping and statistical services; maintaining books and records; evaluating and reporting on the performance of the custodian, transfer agent and other agents; and supervising relationships with stock exchanges.

For administrative services, each Fund pays Dinsmore Capital a monthly fee computed at an annual rate of 0.05% of average weekly net assets, with a minimum of \$25,000 per year.

In the 2014 fiscal year and in the first nine months of the 2015 fiscal year, the Funds paid Dinsmore Capital, for administrative services, the following amounts:

	2014 ⁽¹⁾		2015 ⁽²⁾	
	\$	% ⁽³⁾	\$	% ⁽³⁾
Bancroft	\$60,258	0.05 %	\$46,892	0.05 %
Ellsworth	\$67,402	0.05 %	\$50,548	0.05 %
Total	\$127,660	0.05 %	\$97,440	0.05 %

(1) For the fiscal year ended on September 30, 2014 (Ellsworth) and October 31, 2014 (Bancroft).

(2) For the nine months ended June 30, 2015 (Ellsworth) and July 31, 2015 (Bancroft).

(3) Percentage of average weekly net assets, annualized in the case of the 2015 fiscal year amounts.

New Investment Advisory Agreements

The following summary of the material terms of each New Investment Advisory Agreement is qualified in its entirety by reference to the form of New Investment Advisory Agreement, a copy of which is included in this Proxy Statement as [Appendix A](#).

Each Fund's New Investment Advisory Agreement will be similar to its Current Investment Advisory Agreement. There will be no change in the overall fees applicable to each Fund under the New Investment Advisory Agreements. Under the New Investment Advisory Agreements, each Fund will pay Gabelli Funds a monthly fee computed at an annual rate of 0.80% of the first \$100,000,000 of average weekly net assets and 0.55% of average weekly net assets in excess of \$100,000,000. These percentages are the sum of those payable to Dinsmore Capital under the Current Investment Advisory Agreement and Current Administrative Services Agreement. Gabelli Funds has represented to the Boards that Gabelli Funds has no present intention to seek to alter the total net fees that the Funds pay for investment advisory or administrative services for the first two years after becoming investment adviser to the Funds.

Each New Investment Advisory Agreement requires Gabelli Funds to provide substantially the same investment advisory services to the Funds as Dinsmore Capital is required to provide under the Current Investment Advisory Agreements. The terms of the New Investment Advisory Agreements also require Gabelli Funds to provide or arrange for the provision of substantially the same administrative services to the Funds that the Current Administrative Services Agreements require Dinsmore Capital to provide to the Funds. Gabelli Funds has advised the Boards that it expects and intends that the nature and level of investment advisory and administrative services provided to the Funds

will not be diminished as a result of the Transaction or the implementation of the New Investment Advisory Agreements.

The New Investment Advisory Agreements contain an expense limitation provision, which the Current Investment Advisory Agreements do not contain. Under each New Investment Advisory Agreement, Gabelli Funds would either waive fees or reimburse each Fund to the extent necessary to limit the expenses of such Fund for a two-year period commencing on the effective date of the New Investment Advisory Agreements to an amount which, when divided by the Fund's average weekly net assets attributable to common shares plus the liquidation preference of preferred shares of the Fund during such period, would not exceed 1.10%. This expense limitation percentage approximates the annual expenses of the Funds over the past two fiscal years as a percentage of average weekly net assets. The expense limitation contained in the New Investment Advisory Agreement does not apply to certain expenses such as brokerage costs, interest, taxes, acquired fund fees and expenses, expenses chargeable to capital, and extraordinary expenses.

The New Investment Advisory Agreements contain an indemnification provision in favor of Gabelli Funds and each of Gabelli Funds' trustees, officers, employees, agents and controlling persons (collectively, "Indemnitees"). The Current Investment Advisory Agreements do not contain any similar indemnification provision. Under the indemnification provision in each New Investment Advisory Agreement, each Fund agrees to indemnify each Indemnatee against liabilities incurred in connection with any proceeding involving or threatened against such Indemnatee, except with respect to any matter as to which the Indemnatee is adjudicated not to have acted in good faith in the reasonable belief that such Indemnatee's action was in the best interests of the Fund; provided, however, that (1) no indemnification is owed for liabilities arising by reason of (i) willful misfeasance, (ii) bad faith,

(iii) gross negligence or (iv) reckless disregard of the Indemnatee's duties (the foregoing conduct, "Disabling Conduct"), (2) as to any matter disposed of by settlement payment by the Indemnatee, no indemnification either for said payment or for any other expenses shall be provided unless there has been a determination that such settlement or compromise is in the best interests of the Fund and that such Indemnatee appears to have acted in good faith in the reasonable belief that the Indemnatee's action was in the best interests of the Fund and did not involve Disabling Conduct by the Indemnatee and (3) with respect to any proceeding voluntarily prosecuted by any Indemnatee as plaintiff, indemnification shall be mandatory only if the prosecution of such proceeding by the Indemnatee was authorized by a majority of the full Board of the Fund.

Subject to the expense limitation described above, the New Investment Advisory Agreements provide that the Funds will bear certain expenses that the Funds currently do not bear. These costs include compensation and other expenses of certain officers of the Funds, including a Chief Compliance Officer, a Vice President, and an Ombudsman for each Fund. Another new expense that the Funds would bear under the New Investment Advisory Agreements is the cost of computing the Funds' respective net asset value ("NAV") per share. Currently, Dinsmore Capital pays the expenses of performing such computations.

Under the New Investment Advisory Agreements, Gabelli Funds may use a broker that is an affiliate of Gabelli Funds for placing trades for the Funds' investment portfolios, subject to applicable limitations and requirements under the 1940 Act. Currently, Dinsmore Capital does not use the services of any broker that is an affiliate of Dinsmore Capital, and Dinsmore Capital does not have any affiliated brokers.

Description of the Transaction

GAMCO, Dinsmore Capital, and each of the members of the current portfolio management team responsible for providing portfolio management services for the Funds (the "Dinsmore Portfolio Management Team") have entered into a Strategic Alliance Agreement (the "Transaction Agreement"), which contemplates a number of transactions among the parties thereto (such transactions, collectively, the "Transaction"). The Dinsmore Portfolio Management Team consists of Thomas Dinsmore, James Dinsmore, and Jane O'Keeffe. GAMCO is the corporate parent of Gabelli Funds.

The following is a summary of the material terms of the Transaction Agreement:

- (i) Dinsmore Capital will use commercially reasonable efforts to have the Boards and the Funds' shareholders approve Gabelli Funds as the new investment adviser to the Funds.

- (ii) The new investment advisory agreement between each Fund and Gabelli Funds is to be on substantially the same economic terms as the existing advisory agreement between Dinsmore Capital and each Fund.
- (iii) Dinsmore Capital will recommend to the Boards that they nominate a number of Trustee candidates of GAMCO's suggestion such that the GAMCO-suggested candidates would, if elected, constitute a majority of the Boards.

- (iv) GAMCO will establish "The Dinsmore Group, a GAMCO Investors Company" as a division within GAMCO and will offer (or cause Gabelli Funds to offer) employment to the Dinsmore Portfolio Management Team to serve as the portfolio management team for the Funds and as a portfolio management team for the Gabelli Convertible and Income Securities Fund, Inc. following the closing of the Transaction.

- (v) For their services to the Funds following the closing of the Transaction, the Dinsmore Portfolio Management Team will receive an annual draw (net of certain expenses) and the Dinsmore Portfolio Management Team will also be eligible to earn incentive compensation based on specified GAMCO revenues.

- (vi) GAMCO will pay Dinsmore Capital a lump sum amount in consideration for certain transition services and other matters. Dinsmore Capital anticipates using substantially more than a majority of the lump sum amount to make severance payments to employees of Dinsmore Capital.

(vii) Dinsmore Capital will assign to GAMCO all of Dinsmore's right, title, and interest in and to all intellectual property owned by Dinsmore Capital with respect to the Funds.

If the Boards and the Funds' shareholders have not approved new investment advisory agreements within 180 (viii) days of the date of the Transaction Agreement (i.e., by December 13, 2015), the Transaction Agreement will terminate.

Section 15(f) of the 1940 Act

Section 15(f) of the 1940 Act provides a non-exclusive safe harbor whereby an owner of an investment adviser of an investment company may receive a payment or benefit in connection with the sale of an interest in the business of the investment adviser if two conditions are satisfied. The first condition is that during the three-year period following the transaction, at least 75% of the investment company's board must not be "interested persons" (as defined in the 1940 Act) of the investment adviser or its predecessor. The Funds believe that each Board will meet this test if each Board consists exclusively of the Trustee nominees described below with respect to Proposal 2. Second, no "unfair burden" can be imposed on the investment company as a result of the transaction. An "unfair burden" includes any arrangement during the two-year period after the transaction where the investment adviser (or predecessor or successor adviser), or any of its "interested persons" (as defined in the 1940 Act), receives or is entitled to receive any compensation, directly or indirectly, (i) from any person in connection with the purchase or sale of securities or other property to, from or on behalf of the investment company (other than bona fide ordinary compensation as principal underwriter for the investment company) or (ii) from the investment company or its shareholders (other than fees for bona fide investment advisory or other services). Under the terms of the Transaction Agreement, GAMCO has agreed not to take any action that would render the Section 15(f) safe harbor unavailable.

In addition, the Funds have entered into an agreement (the "Reimbursement Agreement") with Dinsmore Capital relating to certain expenses. The Reimbursement Agreement requires Dinsmore Capital to pay or to reimburse the Funds for all reasonable out-of-pocket costs and expenses incurred by the Funds or the Trustees in connection with, among other things, (i) the consideration and review by the Funds' Independent Trustees of the Transaction and its potential impact on the Funds and the shareholders of the Funds, (ii) the preparation, review, and filing with the Securities and Exchange Commission (the "SEC") of proxy materials relating to the New Investment Advisory Agreements and the election of Trustees and related solicitation of proxies, (iii) the purchase of a "tail" policy of directors and officers or errors and omissions insurance covering the Independent Trustees for a time period of not less than three years following the closing of the Transaction for or with respect to all actions taken or omitted (or allegedly taken or omitted) by any of them prior to the closing of the Transaction, and (iv) certain other matters with respect to the Transaction. As a result of the foregoing provisions of the Reimbursement Agreement, the Funds expect that the costs of preparing, filing, printing, mailing, and circulating proxy materials will be borne by Dinsmore Capital and not by the Funds. The Reimbursement Agreement also contains representations by Dinsmore Capital concerning legal proceedings, the implementation of policies, compliance with law, and the capitalization of Dinsmore Capital. Under the Reimbursement Agreement, Dinsmore Capital provides covenants as to the accuracy of information to be included in proxy materials relating to the Transaction, other than information provided by or on behalf of GAMCO or its affiliates. Dinsmore Capital agrees to indemnify the Funds and each of their representatives and agents against

costs arising out claims based on inaccurate statements on which the Trustees or Fund shareholders rely in deciding whether to approve the New Investment Advisory Agreements. The foregoing summary of the material terms of the Reimbursement Agreement is qualified in its entirety by reference to the Reimbursement Agreement, a copy of which is included in this Proxy Statement as Appendix B. There is no assurance that Dinsmore Capital will have the financial ability to reimburse the Funds as required under the Reimbursement Agreement.

Additional Information about Gabelli Funds and GAMCO

Gabelli Funds is a New York limited liability company which serves as an investment adviser to registered investment companies with combined aggregate net assets of approximately \$24.7 billion as of June 30, 2015. Gabelli Funds is a registered investment adviser under the Investment Advisers Act of 1940, as amended. GAMCO, through its subsidiaries, manages assets of private advisory accounts, mutual funds and closed-end funds, and partnerships and offshore funds, and is known for its Private Market Value with a Catalyst™ style of investment. As of June 30, 2015, GAMCO had \$45.4 billion in assets under management.

For information regarding funds advised by Gabelli Funds that have investment objectives similar to the investment objective of each of the Funds, see [Appendix C](#).

The following table sets forth the name, position and principal occupation of each principal officer of Gabelli Funds. The address of each such person is One Corporate Center, Rye, New York 10580.

Name	Position with Gabelli Funds	Principal Occupation (if different than position with Gabelli Funds)
Mario J. Gabelli	Chief Investment Officer	N/A
Bruce N. Alpert	Executive Vice President and Chief Operating Officer	N/A
Agnes Mullady	Vice President	N/A
David Goldman	Vice President and General Counsel	N/A

All of the membership interests of Gabelli Funds are owned by GAMCO, One Corporate Center, Rye, New York 10580.

Board Considerations in Approving the New Investment Advisory Agreements

Introduction

At a meeting held on July 21, 2015, the Boards unanimously approved the New Investment Advisory Agreement for each Fund, and authorized the Funds, subject to shareholder approval, to enter into the New Investment Advisory Agreements with Gabelli Funds. The form of New Investment Advisory Agreement that the Boards approved and which will be voted on by shareholders is included in this Proxy Statement as [Appendix A](#).

These actions were taken by the full Board of each of the Funds, including all of the Independent Trustees. Representatives of the Independent Trustees met with representatives of Gabelli Funds at the latter's Rye, New York offices in June 2015 to discuss the proposed Transaction, and the Independent Trustees met among themselves several times to evaluate the Transaction. Before the meeting on July 21, 2015, the Independent Trustees discussed the Transaction during, among other occasions, meetings held on February 9, 2015, April 20, 2015, May 19, 2015, and July 13, 2015. At their meetings, the Independent Trustees reviewed and discussed materials and information provided by Gabelli Funds and by Dinsmore Capital pursuant to requests for information made by the Independent Trustees. During the course of their meetings, the Independent Trustees discussed their responsibilities in connection with the

Transaction. Throughout the process, the Independent Trustees were represented by independent legal counsel who advised the Independent Trustees regarding their responsibilities and specific factors they should consider in connection with considering the proposed New Investment Advisory Agreements.

As part of the process of evaluating the Transaction and the proposed New Investment Advisory Agreements, the Independent Trustees also considered information furnished throughout the year by Dinsmore Capital at regular meetings of the Boards, as well as information that they specifically requested in connection with the Transaction. Such information included reports on the Funds' investment performance, fees and expenses, and portfolio composition. They also evaluated information provided by Gabelli Funds about the scope and quality of services to be provided under the New Investment Advisory Agreements, and they reviewed, in particular, the Transaction Agreement and Reimbursement Agreement (defined and discussed above).

Nature, Extent and Quality of Services to Be Provided

With respect to the nature, extent and quality of the services to be provided by Gabelli Funds under each of the New Investment Advisory Agreements, the Independent Trustees considered carefully the benefits to the Funds and their shareholders of access to the considerable financial and other resources of Gabelli Funds which far exceed those of Dinsmore Capital. The Independent Trustees concluded that this increase in resources would be a substantial benefit to Fund shareholders. In addition, the Independent Trustees, after reviewing the Transaction Agreement, concluded that, notwithstanding the proposed implementation of the New Investment Advisory Agreements, the Funds would still enjoy the services of the current investment managers of the Funds, the Dinsmore Portfolio Management Team.

The Boards noted that under the New Investment Advisory Agreements, Gabelli Funds would be responsible, among other things, (a) to manage each Fund's assets in accordance with each Fund's investment restrictions and policies; (b) to make and implement all investment decisions for each Fund; (c) to exercise all voting rights in respect of each Fund's assets; (d) to place purchase and sale orders with respect to investments on behalf of each Fund; (d) to provide investment research and supervision of each Fund's investments and conduct a continual program of investment, evaluation and, if appropriate, sale and reinvestment of each Fund's assets; and (e) to furnish each Fund's Trustees with whatever statistical information they may reasonably request with respect to the assets that the respective Funds may hold or contemplate purchasing.

The Independent Trustees also considered Gabelli Funds' compliance and administrative capabilities which exceed those of Dinsmore Capital. They considered Gabelli Funds' practice of assigning an "ombudsman" to each fund managed by Gabelli Funds and understood that an ombudsman would be assigned to each of the Funds under the New Investment Advisory Agreements, which they viewed as beneficial to Fund shareholders. The Independent Trustees reviewed Gabelli Funds' audited financial statements for the two years ended December 31, 2013 and 2014 and were pleased with Gabelli Funds' financial strength. They concluded that the profits realized by Gabelli Funds from its investment management business would provide the financial resources to provide a high quality of services to the Funds. The Boards also anticipated that the Funds' new relationship with Gabelli Funds would have a beneficial effect on the price of the shares of the Funds relative to NAV, due to Gabelli Funds' reputation and name recognition. Overall, the Boards concluded that the nature, extent and quality of the services to be provided by Gabelli Funds to the Funds pursuant to the New Investment Advisory Agreements and the Transaction Agreement would be very good, and still, the Funds would continue to benefit from their relationship with the Dinsmore Portfolio Management Team. All of these factors supported the Trustees' unanimous decision to authorize the Funds to enter into the New Investment Advisory Agreements, subject to shareholder approval.

Investment Performance

As stated on page 6 of this proxy statement, the individual portfolio managers for the Funds are expected to remain in place and to continue to make the investment decisions for the Funds following the closing of the Transaction. Because these individuals will continue to make the investment decisions for the Funds following the effectiveness of the New Investment Advisory Agreements, the Independent Trustees felt it was appropriate to evaluate the historical investment performance of the Funds because the current individual managers would be performing the same investment management functions for the Funds in the future. The Independent Trustees noted that Bancroft's annualized performance (on a GIPS format basis for purposes of comparison with indices, which do not pay fees) for the one-, three-, five-, and 10-year time periods ended June 30, 2015 was 5.12%, 13.57%, 11.70%, and 7.68%, respectively. The comparable figures for Ellsworth (also on a GIPS format basis) were 5.22%, 13.46%, 12.07%, and 7.97%, respectively. These figures compared favorably to figures for the Barclays U.S. Convertibles: Balanced Sub-Index for all time periods (except the 10-year time period, for which the index data are not available), and were comparable to or better than the performance of the Bank of America Merrill Lynch All U.S. Convertibles Index for several of such time periods.

For purposes of comparing the Funds' performance to the performance of comparable funds, the Independent Trustees considered the Funds' performance at NAV. The Independent Trustees noted Bancroft's annualized performance (at NAV) for the one-, three-, five-, and 10-year time periods ended June 30, 2015, which was 4.91%, 13.13%, 11.11%, and 5.92%, respectively. The comparable figures for Ellsworth (at NAV) were 5.82%, 13.40%, 11.48%, and 7.05%, respectively. Almost all of such performance figures for the Funds were superior to the corresponding figures for the average of closed-end convertible funds (other than the Funds) and the SPDR Barclays Convertible Securities ETF.

Based on the review by the Independent Trustees of the Funds' comparative performance data, including the performance compared to relevant index benchmarks, as well as the investment performance compared to that of other, comparable funds, the Trustees, including all of the Independent Trustees, concluded that the Funds' performance record under the Dinsmore Portfolio Management Team was quite good when compared to those of their peers and appropriate benchmarks. This favorable comparison supported the decision to authorize the Funds to enter into the New Investment Advisory Agreements, subject to shareholder approval.

Fees and Costs

The Independent Trustees noted that Gabelli Funds had agreed to provide the Funds with investment management and administrative services of the same nature and level and at substantially the same cost to the

Funds as those services have been provided by Dinsmore Capital pursuant to the Current Investment Advisory Agreements and Current Administrative Services Agreements. The Boards also noted that Dinsmore Capital had agreed under the Reimbursement Agreement to reimburse the Funds for certain expenses incurred in connection with the Transaction, and that Gabelli Funds had agreed under each New Investment Advisory Agreement either to waive fees or to reimburse each Fund to the extent necessary to limit the annual expenses of such Fund during the first two years of the term of each New Investment Advisory Agreement to an amount which, when divided by the Fund's average weekly net assets attributable to common shares plus the liquidation preference of preferred shares of the Fund during such period, would not exceed 1.10%. After comparing the costs and expenses to be incurred by the Funds under these arrangements, the Independent Trustees concluded that the fees and costs to be borne by Fund shareholders, particularly during the first two years following the closing of the Transaction, would be comparable to what the Funds had been paying in the past, and that fees and costs at this level were lower than the costs and expenses incurred by most comparable funds. With respect to any possible increase in fees and costs to be borne by Fund shareholders after the expiration of the two-year expense limitation period, the Independent Trustees considered the fees and costs that other funds advised by Gabelli Funds have typically paid. By way of comparison to the 1.10% expense limitation provided for in the New Investment Advisory Agreements, the Gabelli Convertible and Income Securities Fund, Inc. had the following annual expense ratios for the fiscal years indicated below, as provided in such fund's annual report dated December 31, 2014:

	2014	2013	2012
Ratio of operating expenses to average net assets including liquidation value of preferred shares before advisory fee waivers, if applicable	1.49%	1.40%	1.47%
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of advisory fee waivers, if applicable	1.27%	1.40%	1.47%

The Gabelli Convertible and Income Securities Fund, Inc. is a fund that Gabelli Funds advises and that has an investment objective and strategy that are similar to those of the Funds. The Independent Trustees concluded that the expected benefits of the New Investment Advisory Agreements, taken as a whole, would outweigh any possible increase in the Funds' fees and costs after the expiration of the two-year expense limitation period.

Subject to Gabelli Funds' commitment to limit expenses for a two-year period, as described above, the New Investment Advisory Agreements provide that the Funds will bear certain expenses that the Funds currently do not bear. These costs include compensation and other expenses of certain officers of the Funds, including a Chief Compliance Officer, a Vice President, and an Ombudsman for each Fund. Another new expense that the Funds would bear under the New Investment Advisory Agreements is the cost of computing the Funds' NAV per share. Currently, Dinsmore Capital pays the expenses of performing such computations.

Although the Independent Trustees observed that the Funds would, subject to the expense limitation, be responsible for the new compensation costs of an ombudsman (subject to the expense limitations during the first two years), they

thought the additional services to be made available to Fund shareholders by such an individual were worth the additional costs to be imposed and that it was fair and appropriate that the Funds bear such expense. With respect to the cost of a chief compliance officer (the cost of which is now borne by Dinsmore Capital), the Trustees observed that in many fund complexes the cost of a chief compliance officer with responsibility for the funds in the complex is allocated among, and borne in part, if not entirely, by the funds served. Accordingly, they viewed this additional cost to be reasonable as well. Finally, the Independent Trustees believed the additional cost of NAV calculation to be borne under the New Investment Advisory Agreements would be modest. Accordingly, the Independent Trustees concluded that the fees and costs to be borne by the Funds under the New Investment Advisory Agreements were reasonable, particularly in light of the expense limitation described above.

The Independent Trustees also reviewed the structure of the Funds' advisory fees under the New Investment Advisory Agreements, and noted that each Fund's fee schedule includes one breakpoint for assets in excess of \$100 million. The Independent Trustees noted that each Fund's assets were above the \$100 million breakpoint.

The Independent Trustees concluded that the Funds' fee levels under the New Investment Advisory Agreements therefore would reflect economies of scale, consistent with the current fee structure of the Funds.

Other Considerations

The Independent Trustees discussed at length the indemnification provision in favor of Gabelli Funds which is contained in each New Investment Advisory Agreement. In connection with this discussion, the Independent Trustees reviewed information about the regulatory and disciplinary record of Gabelli Funds and its affiliates as well as the historical relationship that Gabelli Funds and its affiliates have had with regulatory authorities. The Independent Trustees noted that many investment advisory agreements for registered investment companies do not require indemnification of the adviser. They also noted that the current Investment Advisory Agreements do not require indemnification of Dinsmore Capital. As a result, the Independent Trustees resisted the inclusion of the indemnification provision, but GAMCO declined to remove the provision. Instead, legal counsel for GAMCO provided examples of indemnification provisions contained in other advisory agreements. After reviewing these examples, the Independent Trustees noted that the likelihood of a claim for indemnification would be relatively small. They also noted that under each Fund's bylaws indemnification of "covered persons," which would include the Fund's investment adviser, on terms similar to those in the provision requested by GAMCO, is mandatory. The Independent Trustees believed that, although the indemnification provision was not advantageous to the Funds, the advantages of the New Investment Advisory Agreements outweighed the disadvantage of including the indemnification provision. The Independent Trustees also noted that the Funds' obligations to provide indemnification payments under the indemnification provision would be subject to the expense limitation (described above under the heading "*Fees and Costs*") during the first two years of the term of the Investment Advisory Agreements. In light of these limitations on the indemnification rights, and also in light of all the other benefits associated with the New Investment Advisory Agreements, the Independent Trustees concluded that inclusion of the indemnification provision was acceptable.

The Independent Trustees also reviewed and considered benefits that Gabelli Funds would enjoy as a result of the New Investment Advisory Agreements, including the fact that the Dinsmore Portfolio Management Team would have to devote a portion of their time to the investment management decisions for the Gabelli Convertible Income and Securities Fund, Inc. The Independent Trustees believed that, although the Dinsmore Portfolio Management Team would have to devote time to the management of this existing fund, the common management of this fund and the Funds could very well work to the advantage of Fund shareholders because managing the Gabelli Convertible Income and Securities Fund would probably provide the Dinsmore Portfolio Management Team with access to research and other reports on securities with which they might not otherwise be familiar and which, therefore, would serve to provide access to increased investment opportunities for the Funds.

Conclusion

After full consideration of the factors discussed above, with no single factor identified as being of paramount importance, the Boards, including all of the Independent Trustees, concluded that the proposed assignment of the advisory agreements and the execution of the New Investment Advisory Agreements, subject to shareholder approval, was in the best interests of the Funds and their shareholders.

Required Vote

The affirmative vote of an “Investment Company Act Majority” of a Fund is needed to approve the New Investment Advisory Agreement for such Fund. An “Investment Company Majority” is defined as the lesser of (a) the vote of 67% or more of the voting securities of such Fund present at the Meeting in person or by proxy, if the holders of more than 50% of the outstanding voting securities of such Fund are present in person or by proxy, or (b) the vote of the holders of more than 50% of the outstanding voting securities of such Fund. Each New Investment Advisory Agreement will become effective only if the other New Investment Advisory Agreement also receives shareholder approval. Abstentions and broker non-votes are counted as present but are not considered votes cast. As a result, they have the same effect as a vote against this proposal. **WE DO NOT EXPECT THAT BROKERS WILL BE ENTITLED TO VOTE ON THIS PROPOSAL UNLESS THEY RECEIVE INSTRUCTIONS FROM UNDERLYING BENEFICIAL OWNERS.**

**THE BOARDS RECOMMEND THAT SHAREHOLDERS VOTE “FOR”
THE NEW INVESTMENT ADVISORY AGREEMENTS.**

PROPOSAL 2: ELECTION OF TRUSTEES TO THE FUNDS' BOARDS OF TRUSTEES

Introduction to Proposal 2

Each Fund is governed by a Board of Trustees, which has oversight responsibility for the management of the Fund's business affairs. The Trustees (each, a "Trustee" and collectively, the "Trustees") are responsible for supervising the management of the Funds and serving the needs and best interests of the Funds and their shareholders. The Boards establish procedures and oversee and review the performance of the investment adviser and others who perform services for the Funds. The following six individuals are currently Trustees of both Funds: Kinchen C. Bizzell, Elizabeth C. Bogan, Thomas H. Dinsmore, Daniel D. Harding, Jane D. O'Keeffe, and Nicolas W. Platt.

In Proposal 2, shareholders of each Fund are being asked to elect Trustees (together, the "Trustee Nominees") to the Boards of the Funds. The nominees for election to each Board of Trustees are:

Bancroft

Kinchen C. Bizzell (current Trustee)
Elizabeth C. Bogan, Ph.D. (current Trustee)
James P. Conn
Frank J. Fahrenkopf, Jr.
Mario J. Gabelli
Daniel D. Harding (current Trustee)
Michael J. Melarkey
Kuni Nakamura
Jane D. O'Keeffe (current Trustee)
Nicolas W. Platt (current Trustee)
Anthonie C. van Ekris

Ellsworth

Kinchen C. Bizzell (current Trustee)
Elizabeth C. Bogan, Ph.D. (current Trustee)
James P. Conn
James A. Dinsmore
Frank J. Fahrenkopf, Jr.
Mario J. Gabelli
Daniel D. Harding (current Trustee)
Michael J. Melarkey
Kuni Nakamura
Nicolas W. Platt (current Trustee)
Anthonie C. van Ekris

Regardless of the outcome of the shareholder vote pertaining to Proposal 2, each Trustee Nominee who would otherwise be elected will take office only if Proposal 1 is approved by the shareholders of the Funds and if both of the New Investment Advisory Agreements become effective. If Proposal 1 is not so approved, the Boards will continue unaffected by any vote on Proposal 2. If shareholders approve Proposal 1, a resignation by Thomas H. Dinsmore as a Trustee from both Boards will become effective as of the date on which the New Investment Advisory Agreements become effective. Similarly, if shareholders approve Proposal 1, a resignation by Jane D. O'Keeffe as a Trustee from the Board of Ellsworth will become effective as of the date on which the New Investment Advisory Agreements become effective. To accommodate the number of Trustee Nominees, the Trustees have amended the Amended and Restated Agreement and Declaration of Trust of each Fund to provide that the size of each Board shall be in no event less than three Trustees nor more than eleven Trustees.

Trustee Nominees

Thomas H. Dinsmore and Jane D. O’Keeffe are currently the only interested Trustees of Dinsmore Capital. If all Trustee Nominees join the Boards and the resignations of Thomas H. Dinsmore and Jane D. O’Keeffe as Trustees become effective as described above, Mario J. Gabelli, Jane D. O’Keeffe and James A. Dinsmore will be the only Trustees who are interested persons of Gabelli Funds, because of their business and financial relationships with the Funds and Gabelli Funds. Generally, the Boards act by majority vote of all the Trustees, including a majority vote of the Independent Trustees if required by applicable law.

Each Board is divided into three classes for purposes of election of Trustees. One class is elected at each annual meeting of shareholders. Trustees in each class serve for a three-year term. Classifying the Boards for election may be regarded as an “anti-takeover” feature because it has the effect of maintaining the continuity of the Boards and requiring at least two years to change a majority of the Boards. Each Trustee Nominee currently is available and has consented to serve if elected. If any of the Trustee Nominees should become unavailable before the Meeting, the designated proxy holders will have the authority to vote in their discretion for another person or persons who may be nominated for election as Trustees or, as an alternative, the Boards may keep the position(s) vacant or reduce the number of Trustees.

If elected and if shareholders approve Proposal 1, the Trustee Nominees will serve terms on the Boards as set forth below:

Class	Trustees to Serve on Boards	Date of Expiration of Term
I	Jane D. O’Keeffe (for Bancroft only), James A. Dinsmore (for Ellsworth only), Elizabeth C. Bogan, Ph.D. and Anthonie C. van Ekris	On the date of the annual meeting of the shareholders of each Fund following the end of their respective fiscal years occurring in calendar year 2016.
II	Kinchen C. Bizzell, James P. Conn, Frank J. Fahrenkopf, Jr. and Michael J. Melarkey	On the date of the annual meeting of the shareholders of each Fund following the end of their respective fiscal years occurring in calendar year 2017.
III	Mario J. Gabelli, Daniel D. Harding, Nicolas W. Platt and Kuni Nakamura	On the date of the annual meeting of the shareholders of each Fund following the end of their respective fiscal years occurring in calendar year 2018.

Information about Trustees, Trustee Nominees and Officers

Set forth in the following two tables are the names of the existing Trustees and of the individuals nominated for election as Trustees, and the names of the officers of the Funds, including information relating to their respective positions held with the Funds, a brief statement of their principal occupations and, in the case of Trustees and Trustee Nominees, the other directorships held by them during the past five years in any company with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 (the “Exchange Act”), or subject to the requirements of Section 15(d) of the Exchange Act, or any company registered as an investment company under the 1940 Act.

Fund Trustees and Fund Trustee Nominees

Name, Position(s), Address,⁽¹⁾ and Age	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in the “Fund Complex” (which consists solely of the Funds) Overseen by Trustee or Trustee Nominee	Other Directorships Held During Past Five Years
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Trustees and Trustee Nominees Who Are and Would Be Independent Trustees

Kinchen C. Bizzell Trustee Age: 61	Since 2008	Managing Director of CAVU Securities, a New York institutional	2	—
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securities broker-dealer
(since 2013); Investor
Relations Managing
Director (from 1998 until
2013) and Senior
Counselor (after 2013) at
Burson-Marsteller, a
global public relations
and communications firm

Elizabeth C. Bogan
Trustee
Age: 71

Since 1986 Senior Lecturer in
Economics at Princeton University (since 1992) 2

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Name, Position(s), Address, ⁽¹⁾ and Age	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in the “Fund Complex” (which consists solely of the Funds) Overseen by Trustee or Trustee Nominee	Other Directorships Held During Past Five Years
James P. Conn Trustee Nominee Age: 77	No previous service as Trustee	Former Managing Director and Chief Investment Officer of Financial Security Assurance Holdings, Ltd. (1992-1998)	—	Funds in the Gabelli/GAMCO Fund Complex ⁽⁷⁾ : 21
Frank J. Fahrenkopf, Jr. Trustee Nominee Age: 76	No previous service as Trustee	Co-Chairman of the Commission on Presidential Debates (since 1987); Former President and Chief Executive Officer of the American Gaming Association (1995-2013); Former Chairman of the Republican National Committee (1983-1989)	—	First Republic Bank (banking); Funds in the Gabelli/GAMCO Fund Complex: 9
Daniel D. Harding Trustee Age: 63	Since 2007	Managing General Partner of the Global Equity Income Fund, a private investment fund (since 2005); Director of TRC, a private asset management firm (since 2013); General Partner of Latitude Capital LLC, a private investment firm (since 2008); Director of Legg Mason Investment Counsel, LLC and Chair of Investment Committee (from 2010 to 2012)	2	Morristown Medical Center, Atlantic Health Systems, Ocean Reef Community Foundations and Ocean Reef Medical Center Foundation
Michael J. Melarkey Trustee Nominee Age: 65	No previous service as Trustee	Owner in Pioneer Crossing Casino Group (since 2013); Of Counsel in the law firm of McDonald Carano	—	Southwest Gas Corporation (natural gas utility); Funds in the Gabelli/GAMCO Fund Complex: 6

Wilson LLP (since June
2015); previously partner
in the law firm of
Avansino, Melarkey,
Knobel, Mulligan &
McKenzie (1980-2015)

Name, Position(s), Address, ⁽¹⁾ and Age	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in the “Fund Complex” (which consists solely of the Funds) Overseen by Trustee or Trustee Nominee	Other Directorships Held During Past Five Years
Kuni Nakamura Trustee Nominee Age: 47	No previous service as Trustee	President of Advanced Polymer, Inc. (chemical manufacturing company) (since 1990); President of KEN Enterprises, Inc. (real estate) (since 1996)	—	Funds in the Gabelli/GAMCO Fund Complex: 16
Nicolas W. Platt Trustee Age: 62	Since 1997	Private Investor; Member of NYSE MKT LLC Committee on Securities (since 2007); Managing Director of FTI Consulting Inc., an international consulting company (from March 2009 to May 2011); currently Mayor of Township of Harding, New Jersey	2	—
Anthonie C. van Ekris ⁽²⁾ Trustee Nominee Age: 81	No previous service as Trustee	Chairman and Chief Executive Officer of BALMAC International, Inc. (global import/export company) (since 1991)	—	Funds in the Gabelli/GAMCO Fund Complex: 20

Trustees and Trustee Nominees Who Are Not or Would Not Be Independent Trustees

James A. Dinsmore ^{(2) (3)} Trustee Nominee and Officer Age: 32	No previous service as Trustee	President of Ellsworth (since February 2014); Executive Vice President of Ellsworth (from January 2013 until February 2014); Executive Vice President of Bancroft; Vice President of the Funds (from 2009 through 2012)	—	—
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Thomas H. Dinsmore^{(2) (4)}
Trustee and Officer
Age: 62

Bancroft
Trustee
since 1985,
Ellsworth
Trustee
since 1986

Chairman, Chief
Executive Officer and
portfolio manager of the
Funds; Member of the
Executive Committee of
the Closed-End Fund
Association (since 2001)

2

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Name, Position(s), Address, ⁽¹⁾ and Age	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Funds in the “Fund Complex” (which consists solely of the Funds) Overseen by Trustee or Trustee Nominee	Other Directorships Held During Past Five Years
Mario J. Gabelli ⁽⁵⁾ Trustee Nominee Age: 73	No previous service as Trustee	Chairman, Chief Executive Officer, and Chief Investment Officer – Value Portfolios of GAMCO Investors, Inc. and Chief Investment Officer – Value Portfolios of Gabelli Funds, LLC and GAMCO Asset Management Inc. (since 1977); Director/Trustee or Chief Investment Officer of other registered investment companies in the Gabelli/GAMCO Fund Complex (since 1986); Chief Executive Officer of GGCP, Inc. (since 1977)	—	Morgan Group Holdings, Inc. (holding company); Chairman of the Board and Chief Executive Officer of LICT Corp. (multimedia and communication services company); CIBL, Inc. (broadcasting and wireless communications); ICTC Group Inc. (communications); RLJ Acquisition, Inc. (blank check company) (2011-2012); Funds in the Gabelli/GAMCO Fund Complex: 29
Jane D. O’Keeffe ⁽²⁾ Trustee and Officer Age: 60	Trustee since 1995	President of Bancroft (since 1996); Executive Vice President of Ellsworth (since February 2014); President of Ellsworth (from 1996 until February 2014); President of Dinsmore Capital (since 1996)	2	—

(1) Address: c/o the Funds, 65 Madison Avenue, Suite 550, Morristown, New Jersey 07960.

(2)

Certain relationships: Thomas H. Dinsmore and Jane D. O’Keeffe are brother and sister. Thomas H. Dinsmore is the father of, and Ms. O’Keeffe is the aunt of, James A. Dinsmore. Mr. van Ekris is an independent director of Gabelli International Ltd., Gabelli Fund, LDC, GAMA Capital Opportunities, Ltd., GAMA Capital Opportunities Master, Ltd. and GAMCO International SICAV, which may be deemed to be controlled by Mario J. Gabelli and/or affiliates and in that event would be deemed to be under common control with Gabelli Funds.

Mr. Dinsmore, if elected and seated as a member of the Ellsworth Board, would be an interested person (within the (3) meaning of the 1940 Act) of Ellsworth and Gabelli Funds because he would be employed by Gabelli Funds or an affiliate.

Mr. Dinsmore is an interested person (within the meaning of the 1940 Act) of the Funds and of Dinsmore Capital (4) because he is an officer of the Funds and officer, director and holder of more than 5% of the outstanding shares of voting common stock of Dinsmore Capital. Mr. Dinsmore is not a Trustee Nominee.

Mr. Gabelli, if elected and seated as a member of the Boards, would be an interested person (within the meaning of (5) the 1940 Act) of the Funds and of Gabelli Funds because of the positions and relationships he has with GAMCO and its affiliates.

Ms. O’Keeffe is an interested person (within the meaning of the 1940 Act) of the Funds and of Dinsmore Capital because she is an officer of the Funds and officer, director and holder of more than 5% of the outstanding shares of (6) voting common stock of Dinsmore Capital. Ms. O’Keeffe, if elected and seated as a member of the Bancroft Board, would be an interested person (within the meaning of the 1940 Act) of Bancroft and of Gabelli Funds because she would be employed by Gabelli Funds or an affiliate thereof.

(7) The “Gabelli/GAMCO Fund Complex” includes each of the funds registered under the 1940 Act which has GAMCO or an affiliate (including Gabelli Funds) as its investment adviser.

Officers of the Funds

Name, Position(s), Address ⁽¹⁾ , and Age	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Thomas H. Dinsmore ⁽²⁾ Trustee, Chairman and Chief Executive Officer Age: 62	1983, for Bancroft; 1986, for Ellsworth	Information about Mr. Dinsmore is presented in the table above.
Jane D. O’Keeffe ⁽²⁾ Trustee and President of Bancroft and Executive Vice President of Ellsworth Age: 60	1994	Information about Ms. O’Keeffe is presented in the table above.
James A. Dinsmore ⁽²⁾ President of Ellsworth and Executive Vice President of Bancroft Age: 32	2007	Information about Mr. Dinsmore is presented in the table above.
H. Tucker Lake, Jr. ⁽²⁾ Vice President Age: 68	1994	Vice President of the Funds and Dinsmore Capital.
	1986	

Gary I. Levine⁽²⁾

Executive Vice President,
Chief Financial Officer
and Secretary
Age: 58

Executive Vice President, Chief Financial Officer and
Secretary of the Funds and Dinsmore Capital.

Germaine M. Ortiz⁽²⁾

Vice President
Age: 46

1998

Vice President of the Funds and Dinsmore Capital.

Mercedes A. Pierre

Vice President and
Chief Compliance Officer
Age: 54

1997

Vice President and Chief Compliance Officer of the Funds
and Dinsmore Capital.

(1) Address: c/o the Funds, 65 Madison Avenue, Suite 550, Morristown, New Jersey 07960.

Certain relationships: Thomas H. Dinsmore and Jane D. O’Keeffe are brother and sister. Thomas H. Dinsmore is (2)the father of, and Ms. O’Keeffe is the aunt of, James A. Dinsmore. Mr. Lake is the first cousin of Thomas H. Dinsmore and Ms. O’Keeffe. Ms. Ortiz is the first cousin of Mr. Levine’s wife.

Background Information Regarding Trustees and Trustee Nominees

Included below is a discussion regarding the Trustees and Trustee Nominees, including a summary of their specific experience, qualifications, attributes or skills that led to the conclusion that they are qualified to serve as a Trustee.

Trustees and Trustee Nominees Who Are and Would Be Independent Trustees

Kinchen C. Bizzell, CFA Trustee since 2008

Kinchen C. Bizzell is a Managing Director of CAVU Securities, a New York institutional securities broker-dealer. At CAVU, he is a Compliance Officer and a Financial Institution Group Investment Banker. From 1998 until 2013, Mr. Bizzell was an Investor Relations Managing Director and later a Senior Counselor at Burson-Marsteller, a global public relations and communications firm. He advised clients on earnings warnings and restatements, mergers and acquisitions, and bankruptcies. He started his career as a lawyer and was a partner in the New York law firm of Mendes & Mount, counsel to Lloyd’s of London and British insurers.

Mr. Bizzell is a CFA charterholder and is a member of the New York State Bar. He holds twelve securities licenses from the Financial Industry Regulatory Authority (FINRA), including: Research Analyst [Series 86, 87] and Principal registration for Financial and Operations, General Securities, Municipal Securities and Registered Options [Series 27, 24, 53, 4]. Mr. Bizzell received a B.A. degree from North Carolina State University, and a J.D. degree from Duke University.

As an attorney, CFA charterholder and FINRA licensee, Mr. Bizzell brings extensive legal and financial expertise and oversight skills to the Boards. He has significant experience providing legal, investor relations and financial advisory services. His insight and financial knowledge have been of great benefit to the Boards.

Mr. Bizzell serves on the Audit Committees and Pricing Committees.

Elizabeth C. Bogan, Ph.D. Trustee since 1986

Elizabeth C. Bogan, Ph.D. has been Senior Lecturer in Economics at Princeton University since 1992. Dr. Bogan was formerly Chair of the Economics and Finance Department, Fairleigh Dickinson University, and a member of the Executive Committee for the College of Business Administration. She received an A.B. degree in Economics from Wellesley College, an M.A. degree in Quantitative Economics from the University of New Hampshire, and a Ph.D. degree in Economics from Columbia University.

As a scholar and educator, Dr. Bogan brings to the Boards significant economic and financial expertise and a unique approach to examining issues. She has been involved in several decades of research and scholarship and has authored several published writings on finance. Her writings on finance have been published in *The Financial Analysts Journal* and in other journals. Her most recent publication was “Asymmetries in Short Selling of Exchange-Traded Funds and the Potential for Systemic Risk,” with Andrew A. Bogan, Brendan Connor, and Thomas R. Bogan, *The Journal of Index Investing*, Spring 2012, Vol. 2, No. 4: pp. 74-83.

Dr. Bogan serves on the Audit Committees and Governance Committees. She was formerly Chair of the Audit Committees.

James P. Conn No previous service as Trustee of either Fund

James P. Conn currently serves as a director of other funds in the Gabelli/GAMCO Fund Complex. He was a senior business executive of Transamerica Corp., an insurance holding company, for much of his career including service as Chief Investment Officer. Mr. Conn has been a director of several public companies in banking and other industries, and was lead director and/or chair of various committees. He received his Bachelor's degree in Business Administration from Santa Clara University.

As a former executive at a major financial services corporation, Mr. Conn can bring substantial and relevant capabilities to the Boards.

Frank J. Fahrenkopf, Jr. No previous service as Trustee of either Fund

Frank J. Fahrenkopf currently serves as a director of other funds in the Gabelli/GAMCO Fund Complex. He is the former President and Chief Executive Officer of the American Gaming Association ("AGA"), the trade group for the hotel-casino industry. He is the Co-Chairman of the Commission on Presidential Debates, which is responsible for the widely-viewed Presidential debates during the quadrennial election cycle. Additionally, he serves as a board member of the International Republican Institute, which he founded in 1984. He served for many years as Chairman of the Pacific Democrat Union and Vice Chairman of the International Democrat Union, a worldwide association of political parties from the United States, Great Britain, France, Germany, Canada, Japan, Australia, and twenty other nations. Prior to becoming the AGA's first chief executive in 1995, Mr. Fahrenkopf was a partner in the law firm of Hogan & Hartson, where he chaired the International Trade Practice Group and specialized in regulatory, legislative, and corporate matters for multinational, foreign, and domestic clients. He also served as Chairman of the Republican National Committee for six years during Ronald Reagan's presidency. Mr. Fahrenkopf is the former Chairman of the Finance Committee of the Culinary Institute of America and remains a member of the board. For over 30 years Mr. Fahrenkopf has served on the Board of First Republic Bank and serves as Chair of the Corporate Governance and Nominating Committee and as a member of the Audit Committee. Mr. Fahrenkopf received his Bachelor's degree from the University of Nevada, Reno and his Juris Doctor from Boalt Hall School of Law, U.C. Berkeley.

Mr. Fahrenkopf's extensive experience providing legal advice and overseeing board matters enables him to add helpful legal and oversight skills to the Boards' expertise.

Daniel D. Harding, CFA Trustee since 2007

Daniel D. Harding is co-founder and was Chief Investment Officer of Harding Loevner Management LP, an investment advisory firm, from 1989 through 2003. Prior to founding Harding Loevner he was a Trust Investment

Officer at American National Bank and a Partner and Associate for the Rockefeller Family Office. He received his undergraduate degree from Colgate University and is a CFA and a CIC charterholder.

Mr. Harding is the Managing General Partner of the Global Equity Income Fund, a private investment fund. He is a director of TRC a private asset management firm and a General Partner of Latitude Capital LLC, a private investment firm specializing in asset backed lending and tax lien securities. He was a Director of Legg Mason Investment Counsel, LLC and Chair of the Investment Committee from 2010 to 2012. Mr. Harding is engaged in numerous not for profit organizations with fiduciary responsibilities including Morristown Medical Center, Atlantic Health Systems, Ocean Reef Community Foundations and Ocean Reef Medical Center Foundation.

Mr. Harding has extensive experience in investment management and financial research. As a founder of a highly successful global investment management company, he provides an important world view of the financial markets. The Boards have determined that Mr. Harding is an “audit committee financial expert” as defined by the rules of the SEC.

Mr. Harding is Chair of the Audit Committees, the Ellsworth Investment Committee and a member of the Pricing Committees.

Michael J. Melarkey, Esq. No previous service as Trustee of either Fund

Michael J. Melarkey currently serves as a director of other funds in the Gabelli/GAMCO Fund Complex. He has over thirty-five years of experience as an attorney specializing in business, estate planning, and gaming regulatory work. He is currently Chairman of the Board of Southwestern Gas Corporation and serves on its Nominating, Compensation and Governance Committees. Mr. Melarkey acts as a trustee and officer for several private charitable organizations including as a Trustee of The Bretzlaff Foundation and Edwin L. Weigand Trust. He is an owner of Pioneer Crossing Casino Group consisting of three Nevada casinos, and an officer of a private oil and gas company. Mr. Melarkey received his Bachelor's degree from the University of Nevada, Reno, Juris Doctor from the University of San Francisco School of Law, and Masters of Law in Taxation from New York University School of Law.

Mr. Melarkey is able to make meaningful contributions to the Boards based on his years of experience handling and overseeing legal and governance matters for a number of organizations.

Kuni Nakamura No previous service as Trustee of either Fund

Kuni Nakamura currently serves as a director of other funds in the Gabelli/GAMCO Fund Complex. He is the President and sole shareholder of a chemical manufacturing company, and President of a real estate company. He is the sole shareholder of a real estate holding company, and a member of both a boat holding company and a chemical wholesale company. Mr. Nakamura was previously a board member of LGL Group, Inc. Mr. Nakamura serves on the Board of Trustees of Mercy College in Dobbs Ferry, New York. He has been involved in various organizations for underprivileged children, such as Big Brother-Big Sister, the Fresh Air Fund and Andrus Dyckman Children's Home. Mr. Nakamura is also involved in various capacities with The University of Pennsylvania and The Japan Society. He is a graduate of the University of Pennsylvania – The Wharton School with a Bachelor's degree in Economics and Multinational Management.

Because of his extensive experience, Mr. Nakamura is able to bring valuable technical and governance competencies to the Boards.

Nicolas W. Platt Trustee since 1997

Nicolas W. Platt is a private investor. He served as Managing Director of FTI Consulting Inc. (FCN-NYSE), an international financial consulting company, from March 2009 to May 2011. Prior to March 2009 he was a senior executive with WPP Group, plc subsidiaries Ogilvy Worldwide and Young & Rubicam - Burson-Marsteller's corporate practice. He spent thirteen years in leadership roles at both the New York and American Stock Exchanges. At the AMEX, Mr. Platt oversaw the exchange's domestic and international listing efforts and was the liaison to the

investment banking community. Mr. Platt is a member of the NYSE MKT LLC Committee on Securities which reviews the continued listing qualifications for companies on the NYSE MKT LLC. He sits on the boards of several non-public organizations. He currently serves as the Mayor of the Township of Harding, New Jersey. Mr. Platt received a B.A. degree from Skidmore College and an M.A. degree in Economics from Columbia University.

As a result of Mr. Platt's experience in financial consultancy, knowledge of market regulations, and investor relations and expertise in advising public companies on crisis communication issues and as a former executive of both the New York and American Stock Exchanges and the NYSE MKT LLC Committee on Securities, he is able to deliver important insights to Fund management and to other Trustees on subjects ranging from corporate governance and Trustee compensation to corporate strategy and management oversight. As a result of his current and prior leadership responsibilities, management expertise and independence, Mr. Platt's fellow Trustees have elected him to serve as Chair of the Funds' Governance Committees and Pricing Committees.

Mr. Platt is Chair of both the Governance Committees and the Pricing Committees.

Anthony C. van Ekris No previous service as Trustee of either Fund

Anthony C. van Ekris has been the Chairman and Chief Executive Officer of BALMAC International, Inc., a global import/export company for over twenty years. Mr. van Ekris serves on the boards of other funds

in the Gabelli/GAMCO Fund Complex. He serves as Chairman of the GAMCO International SICAV. Mr. van Ekris has over fifty-five years of experience as Chairman and/or Chief Executive Officer of public and private companies involved in international trading or commodity trading, and served in both of these capacities for nearly twenty years for a large public jewelry chain. Mr. van Ekris is a former Director of an oil and gas operations company. He served on the boards of a number of public companies and for more than ten years on the Advisory Board of the Salvation Army of Greater New York.

Mr. van Ekris's substantial experience as a senior business executive and as a member of boards enables him to add critical oversight skills to the Boards' expertise.

Trustees and Trustee Nominees Who Are Not or Would Not Be Independent Trustees

James A. Dinsmore, CFA No previous service as Trustee of either Fund

James A. Dinsmore has been President of Ellsworth since February 2014. He was Executive Vice President of Ellsworth from January 2013 until February 2014. He has been Executive Vice President of Bancroft since January 2013. He served as Vice President of the Funds from 2009 through 2012. He received a B.A. degree in Economics from Cornell University and an MBA in Finance and Marketing from Rutgers University. Mr. Dinsmore is a CFA charterholder.

Mr. Dinsmore brings to the Board considerable executive experience including current and past service as officer of the Funds and of Dinsmore Capital. He has substantial experience as a portfolio manager and a research analyst.

Thomas H. Dinsmore, CFA Bancroft Trustee since 1985
Ellsworth Trustee since 1986

Thomas H. Dinsmore has been Chairman, Chief Executive Officer and portfolio manager of the Funds since 1996. Mr. Dinsmore is a member of the Executive Committee of the Closed-End Fund Association, and formerly served as its president. He received a B.S. degree in Economics from the Wharton School of Business at the University of Pennsylvania and an M.A. degree in Economics from Fairleigh Dickinson University. Mr. Dinsmore is a CFA charterholder.

Mr. Dinsmore brings to the Board significant executive experience including current and past service as Chairman and Chief Executive Officer of the Funds and Dinsmore Capital. He has extensive experience as a portfolio manager, a research analyst, and co-founder of Ellsworth.

Mr. Dinsmore is Chairman of the Boards and a member of the Pricing Committees.

Mario J. Gabelli, CFA No previous service as Trustee of either Fund

Mario J. Gabelli currently serves as Chairman of the boards of other funds in the Gabelli/GAMCO Fund Complex. Mr. Gabelli is Chairman, Chief Executive Officer, and Chief Investment Officer-Value Portfolios of GAMCO, a New York Stock Exchange-listed asset manager and financial services company. He is also the Chief Investment Officer of Value Portfolios of Gabelli Funds and GAMCO Asset Management, Inc., both asset management subsidiaries of GAMCO. In addition, Mr. Gabelli is Chief Executive Officer, Chief Investment Officer, a director and the controlling shareholder of GGCP, Inc., a private company that holds a majority interest in GAMCO, and the Chairman of MJG Associates, Inc., which acts as an investment manager of various investment funds and other accounts. Mr. Gabelli also sits on the boards of other publicly traded companies and private firms, and various charitable foundations and educational institutions, including the Board of Trustees of Boston College, Roger Williams University, the Winston Churchill Foundation, and The E.L. Weigand Foundation, and the Board of Overseers of Columbia University Graduate School of Business. Mr. Gabelli received his Bachelor's degree from Fordham University, his M.B.A. from Columbia Business School, and honorary Doctorates from Fordham University and Roger Williams University.

Mr. Gabelli's extensive experience as an acknowledged leader in the asset management industry would benefit the Boards in carrying out their responsibilities.

Jane D. O’Keeffe Trustee since 1995

Jane D. O’Keeffe has been President of Bancroft since 1996. Ms. O’Keeffe has been Executive Vice President of Ellsworth since February 2014 and was President of Ellsworth from 1996 until February 2014. Ms. O’Keeffe has been President of Dinsmore Capital since 1996. Ms. O’Keeffe received a B.A. degree from the University of New Hampshire and attended the Lubin Graduate School of Pace University.

Ms. O’Keeffe brings to the Board extensive investment and research experience and expertise, as she has worked in the investment business since 1980. She has worked with mutual funds (IDS Progressive Fund), hedge funds (Soros Fund Management), individuals, endowments and foundations (Simms Capital and Fiduciary Trust). Her extensive experience researching companies for purposes of investment management, and investing in many different categories, styles and capital types, gives Ms. O’Keeffe a unique perspective in managing funds as well as serving as a Trustee.

Committees of the Boards

Each Board has the following three committees: an Audit Committee; a Governance Committee; and a Pricing Committee. In addition, Ellsworth has an Investment Committee.

Audit Committees

The Funds have Audit Committees that are separately designated and established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committees comprise only Independent Trustees (currently, Mr. Bizzell, Dr. Bogan and Mr. Harding, serving as Chair). All such members are independent as such term is defined by the NYSE MKT LLC Company Guide.

In accordance with their charters, the Audit Committees oversee the Funds’ accounting and financial reporting policies and practices, as well as the quality and objectivity of the Funds’ financial statements and the independent audit of the financial statements. Among other duties, the Committees are responsible for: (i) the appointment, compensation, retention and oversight of any independent registered public accountants employed by the Funds (including monitoring the independence qualifications and performance of such accountants and resolution of disagreements between the Funds’ management and the accountants regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services; (ii) overseeing the accounting and financial reporting process of the Funds; (iii) monitoring management’s preparation of financial statements of the Funds to

promote accuracy and integrity of such financial statements and asset valuation; (iv) assisting the Boards in their oversight of the Funds' compliance with legal and regulatory requirements that relate to the Funds' accounting and financial reporting, internal control over financial reporting and independent audits; (v) pre-approving all permissible audit and non-audit services provided to the Funds by their independent accountants, to the extent required by Section 10A of the Exchange Act; (vi) pre-approving, in accordance with Item 2.01(c)(7)(ii) of Regulation S-X, certain non-audit services provided by the Funds' independent registered public accountants to the Funds' investment adviser and certain other affiliated entities if the Funds' independent registered public accountants are the same as, or affiliated with, the investment adviser's or affiliated entities' accountants; and (vii) to the extent required by Regulation 14A under the Exchange Act, preparing an audit committee report for inclusion in the Funds' annual proxy statement.

A current copy of the Charters of the Audit Committees are available at the Funds' websites at www.bancroftfund.com/BCVcorp.htm and www.ellsworthfund.com/ECFcorp.htm.

Governance Committees

The Governance Committees comprise only Independent Trustees (currently, Dr. Bogan and Mr. Platt, serving as Chair). In addition, all such members are independent as such term is defined by the NYSE MKT LLC Company Guide.

In accordance with their charters, the Governance Committees, among other duties, are responsible for: (i) nominating persons for election or appointment: (a) as additions to the Boards; (b) to fill vacancies which, from time to time, may occur on the Boards; and (c) for election by shareholders of the Funds at meetings called for the election of Trustees; (ii) nominating persons for appointment as members of each committee of the Boards,

including, without limitation, the Audit Committees, the Governance Committees, and the Pricing Committees; (iii) reviewing from time to time the compensation, if any, payable to the Trustees and making recommendations to the Boards regarding compensation; (iv) reviewing and evaluating from time to time the functioning of the Boards and the various committees of the Boards; (v) overseeing the selection of independent legal counsel to the Independent Trustees; and (vi) monitoring the performance of independent legal counsel employed by the Funds and the Independent Trustees.

Current copies of the Governance Committees' Charters are available at the Funds' websites at www.bancroftfund.com/BCVcorp.htm and www.ellsworthfund.com/ECFcorp.htm.

Prior to a meeting of the shareholders of a Fund called for the purpose of electing Trustees, the Governance Committees will nominate one or more persons for election as Trustees at such meeting. The Governance Committees are also responsible for nominating persons to fill vacancies on the Boards resulting from an increase in the size of the Boards or as a result of the resignation, death or removal of a Trustee. The Independent Trustees are generally authorized to elect nominees to fill such vacancies.

Consistent with the 1940 Act, the Governance Committees can consider recommendations from management and others in its evaluation process.

Pricing Committees

The Pricing Committees comprise four members, three of whom are Independent Trustees (Mr. Bizzell, Mr. Harding and Mr. Platt, serving as Chair) and one of whom is an interested person of Dinsmore Capital (Mr. Thomas H. Dinsmore). In accordance with their charter, the Committees assist the Funds' investment adviser in its valuation of the Funds' portfolio securities when pricing anomalies arise and the full Board of the applicable Fund is not available to assist the investment adviser in making a fair value determination. The Pricing Committees are also responsible for the fair value pricing of any securities held by the Funds as necessary.

Investment Committee (Ellsworth only)

The Investment Committee of Ellsworth comprises one member, Mr. Harding, who is an Independent Trustee. In accordance with its charter, the Investment Committee assists the Board of Ellsworth in the oversight, monitoring, and evaluation of the investment advisory services provided by the investment adviser of Ellsworth, and reviews from

time to time materials supplied by the adviser regarding investment performance and expenses. The Investment Committee meets periodically with the portfolio managers of Ellsworth and obtains from them information on such investment related matters as it deems appropriate, including by way of example and not by way of limitation: (i) performance attribution, (ii) trading practices, and (iii) asset allocation. Bancroft does not have an Investment Committee.

Selecting Trustee Nominees

Evaluation of a person as a potential nominee to serve as a Trustee, including a person nominated by a shareholder, should result in the following findings: (i) with respect to the nomination of Independent Trustees only, upon advice of independent legal counsel to the Independent Trustees, that the person will qualify as an Independent Trustee, and that the person is otherwise not disqualified under the 1940 Act or the rules of the NYSE MKT LLC stock exchange from serving as a Trustee of the applicable Fund; (ii) with respect to the nomination of Independent Trustees only, that the person is free of any material relationship with the applicable Fund (other than as a shareholder of the Fund), that would interfere with the exercise of his or her independent judgment; (iii) that the person is willing to serve and is able to commit the time necessary for the performance of the duties of a Trustee; (iv) that the person can make a positive contribution to the Boards and the Funds, with consideration being given to the person's education, business experience, and such other factors as the Boards may consider relevant; (v) that the person is of good character and high integrity; (vi) that the person has desirable personality traits including independence, leadership and the ability to work with the other members of the Boards; and (vii) that the person is not an NYSE MKT LLC stock exchange employee or floor member. Although the Boards do not have a formal written policy with regard to the consideration of diversity in identifying nominees, the Boards consider diversity as to educational background, skills, business experience, viewpoints, occupation, gender, and race when considering potential nominees.

As discussed above in the section relating to Proposal 1, according to the Transaction Agreement, Dinsmore Capital agreed to recommend to the Boards that they nominate a number of Trustee candidates suggested by GAMCO that would, if elected, constitute a majority of the Boards. GAMCO provided the names of potential candidates to the Chairman of the Governance Committees to be considered for nomination as Trustees at the Meeting.

Because of the importance of the Transaction and the related nomination process, the two members of the Governance Committees asked the remaining Independent Trustees to assist them in the process of vetting candidates. The current Independent Trustees reviewed information regarding the backgrounds and qualifications of these candidates, and each of the candidates met in person or by telephone with two or more of the Independent Trustees. In total the Independent Trustees interviewed nine individuals, each of whom would qualify as an Independent Trustee if nominated and elected.

The Independent Trustees found that all of these individuals, based on their experience, expertise, skill sets, and other attributes, were extremely well qualified to serve on the Boards, and that all of them, besides Mr. Mario Gabelli, would qualify as Independent Trustees. The Independent Trustees reviewed and compared the experience, expertise, skill sets and other attributes of the current Independent Trustees with the corresponding attributes of the GAMCO candidates, keeping in mind the Funds' goal of populating the Boards with members of diverse and complementary experiences and backgrounds. The Independent Trustees also recognized the importance of qualities such as collegiality and compatibility among members of the Boards. Because some of the GAMCO candidates that the Independent Trustees were interested in nominating were over 70 years of age, and in consideration of the retirement planning needs of the Boards, the Independent Trustees decided to increase the mandatory retirement age for Board members from 75 to 82, as part of the nomination process.

After evaluation and deliberation, the Independent Trustees recommended to the full Boards the nomination of eleven individuals to be Trustee Nominees of each Fund – Mr. Gabelli, Ms. O'Keeffe (Bancroft only), Mr. James Dinsmore (Ellsworth only), five of the nine individuals suggested by GAMCO, and the four current Independent Trustees. After discussion and due consideration, each of the Trustee Nominees was nominated by the Boards, and separately by the Independent Trustees, to stand for election, and the Boards determined to submit the names of the Trustee Nominees for consideration by Fund shareholders at the Meeting.

The Boards recommend that shareholders vote **FOR** all Trustee Nominees.

Attendance at Meetings of Boards and Committees

During each Fund's respective 2014 fiscal year, each Fund Board met eight times, each Audit Committee met four times, each Governance Committee met three times, and each Pricing Committee met two times. The Ellsworth Investment Committee met eight times. Each Trustee attended at least 75% of the meetings of the Boards and of each Committee on which such Trustee served.

In the current fiscal year, as of July 31, 2015, the Bancroft Board met eight times, the Audit Committee met three times, the Governance Committee met two times, and the Pricing Committee met two times. Each Trustee attended at least 75% of the meetings of the Board and of each Committee on which such Trustee served for Bancroft.

In the current fiscal year, as of July 31, 2015, the Ellsworth Board met nine times, the Audit Committee met four times, the Governance Committee met three times, the Pricing Committee met two times, and the Investment Committee met eight times. Each Trustee attended at least 75% of the meetings of the Board and of each Committee on which such Trustee served for Ellsworth.

The Funds' policy regarding Trustee attendance at annual meetings of shareholders is that Trustees are encouraged but not required to attend such annual meetings. Each of the Funds' then current Trustees attended each Fund's 2015 annual meeting of shareholders.

Trustee Compensation

Each Trustee who is not an officer of the Funds or Dinsmore Capital currently receives (1) an annual fee of \$8,500, (2) \$1,000 plus expenses for each Board meeting attended, (3) \$1,000 for each shareholders' meeting

attended, and (4) \$500 for each Committee meeting attended. Each chairperson of the Audit and Governance Committees receives an additional \$2,000 annual fee.

Set forth in the table below is the compensation that was paid to the Trustee Nominees and Thomas H. Dinsmore, a current Trustee but not a Trustee Nominee, by each Fund as well as by the “Fund Complex” as a whole (which consists solely of the Funds) during each Fund’s 2014 fiscal year and 2015 fiscal year to July 31, 2015.

	2014 Fiscal Year Aggregate Compensation From Bancroft	2014 Fiscal Year Aggregate Compensation From Ellsworth	2014 Fiscal Year Total Compensation From Fund Complex	2015 Fiscal Year Aggregate Compensation From Bancroft	2015 Fiscal Year Aggregate Compensation From Ellsworth	2015 Fiscal Year Total Compensation From Fund Complex
Thomas H. Dinsmore	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
James A. Dinsmore*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Mario J. Gabelli*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Jane D. O’Keeffe	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Kinchen C. Bizzell	\$ 20,500	\$ 20,500	\$ 41,000	\$ 19,000	\$ 20,500	\$ 39,500
Elizabeth C. Bogan, Ph.D.	\$ 21,000	\$ 21,000	\$ 42,000	\$ 19,000	\$ 21,000	\$ 40,000
James P. Conn*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Frank J. Fahrenkopf, Jr.*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Daniel D. Harding	\$ 22,500	\$ 51,750	\$ 74,250	\$ 21,000	\$ 41,250	\$ 62,250
Michael J. Melarkey*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Kuni Nakamura*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Nicolas W. Platt	\$ 22,000	22,000	\$ 44,000	\$ 20,500	\$ 22,000	\$ 42,500
Anthonie C. van Ekris*	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

* Trustee Nominee who is not currently a Trustee.

Ownership of Fund Shares by Trustees, Trustee Nominees and Officers

The Funds' Trustees, Trustee Nominees, and current officers beneficially owned the Funds' common shares (the only class of shares outstanding) as shown in the following table as of August 24, 2015:

<u>Name of Beneficial Owner</u>	Shares of Bancroft*	Shares of Ellsworth*
Kinchen C. Bizzell	2,339	5,419
Elizabeth C. Bogan, Ph.D.	3,183	13,003
James P. Conn	-0-	-0-
James A. Dinsmore	4,601	3,346
Thomas H. Dinsmore ⁽¹⁾	24,133	77,003
Frank J. Fahrenkopf, Jr.	-0-	-0-
Mario J. Gabelli ⁽²⁾	255,400	-0-
Daniel D. Harding	1,213	12,224
Michael J. Melarkey	-0-	-0-
Kuni Nakamura	-0-	-0-
Jane D. O'Keeff ⁽³⁾	18,136	23,651
Nicolas W. Platt	250	500
Anthonie C. van Ekris	-0-	-0-
H. Tucker Lake, Jr. ⁽⁴⁾	539	6,383
Gary I. Levine ⁽⁵⁾	2,864	4,646
Germaine M. Ortiz ⁽⁶⁾	374	3,529
Mercedes A. Pierre ⁽⁷⁾	288	5,046

Represents for each Trustee, Trustee Nominee, and officer less than 1% of the outstanding shares of the Fund, except with respect to the holdings of the shares of Bancroft by Mr. Gabelli, whose beneficial ownership represents approximately 5.0% of the outstanding shares of Bancroft. Trustees, Trustee Nominees, and officers of the Funds as a group beneficially owned in the aggregate 313,320 shares of Bancroft and 154,750 shares of Ellsworth, representing approximately 6.1% of the outstanding shares of Bancroft and 1.2% of the outstanding shares of Ellsworth. Except as otherwise indicated, each Trustee, Trustee Nominee, and officer possesses sole investment and voting power with respect to shares beneficially owned.

Bancroft: Includes (i) 4,191 shares owned by Mr. Dinsmore's daughter, as to which shares Mr. Dinsmore disclaims beneficial ownership, (ii) 4,211 shares which Mr. Dinsmore owns jointly with Mr. Dinsmore's wife, and (iii) 6,068 shares owned solely by Mr. Dinsmore's wife, as to which shares Mr. Dinsmore disclaims beneficial ownership.

(1) Ellsworth: (i) 1,662 shares owned by Mr. Dinsmore's daughter, as to which shares Mr. Dinsmore disclaims beneficial ownership, (ii) 12,288 shares which Mr. Dinsmore owns jointly with Mr. Dinsmore's wife, and (iii) 5,705 shares owned solely by Mr. Dinsmore's wife, as to which shares Mr. Dinsmore disclaims beneficial ownership.

(2) Bancroft: Includes (i) 200,000 shares owned directly by Mr. Gabelli, and (ii) 55,400 shares owned by GAMCO.

Bancroft: Includes (i) 4,739 shares owned by Ms. O’Keeffe’s daughter, as to which shares Ms. O’Keeffe disclaims beneficial ownership, (ii) 4,677 shares owned by Ms. O’Keeffe’s son, as to which shares Ms. O’Keeffe disclaims beneficial ownership, and (iii) 3,648 shares which Ms. O’Keeffe owns jointly with her husband. Ellsworth: Includes (3)(i) 2,088 shares owned by Ms. O’Keeffe’s daughter, as to which shares Ms. O’Keeffe disclaims beneficial ownership, (ii) 2,088 shares owned by Ms. O’Keeffe’s son, as to which shares Ms. O’Keeffe disclaims beneficial ownership, (iii) 1,386 shares which Ms. O’Keeffe owns jointly with her husband, and (iv) 1,118 shares owned solely by Ms. O’Keeffe’s husband, as to which shares Ms. O’Keeffe disclaims beneficial ownership.

(4) Bancroft: Includes 324 shares owned by Mr. Lake’s spouse. Ellsworth: Includes 2,688 shares owned by Mr. Lake’s spouse.

(5) Ellsworth: Includes (i) 303 shares owned by Mr. Levine's minor daughter, (ii) 637 shares owned by Mr. Levine's son, as to which shares Mr. Levine disclaims beneficial ownership, (ii) 583 shares which Mr. Levine owns jointly with his wife, and (iii) 3,123 shares owned solely by Mr. Levine's wife, as to which shares Mr. Levine disclaims beneficial ownership.

(6) Ellsworth: Includes 966 shares as to which Ms. Ortiz possesses shared investment and voting power.

(7) Bancroft: Ms. Pierre possesses shared investment and voting power with her husband. Ellsworth: Includes 724 shares as to which Ms. Pierre possesses shared investment and voting power.

Other Beneficial Owners of Funds Shares

Bancroft

Based solely on a review of filings with the SEC, the following table provides information about those shareholders that beneficially own more than 5% of the outstanding shares of Bancroft.

Name	Number of Shares Owned	Percent of Outstanding Shares
UBS AG Bahnhofstrasse 45 Zurich, Switzerland ⁽¹⁾	275,413	5.25%

(1) Based on information disclosed in a Schedule 13F dated June 30, 2015.

Ellsworth

Based solely on a review of filings with the SEC, the following table provides information about those shareholders that beneficially own more than 5% of the outstanding shares of Ellsworth.

Name	Number of Shares Owned	Percent of Outstanding Shares
Morgan Stanley Smith Barney LLC Bingham McCutchen LLP One Federal Street Boston, Massachusetts 02110 ⁽¹⁾	843,120	6.24%
UBS AG Bahnhofstrasse 45 Zurich, Switzerland ⁽¹⁾	753,126	5.58%

(1) Based on information disclosed in a Schedule 13F dated June 30, 2015.

Principal Officers of the Funds

Officers of each Fund are elected by the Fund's Board. Officers of the Funds are identified above in the "Trustees, Trustee Nominees and Officers" section of this Proxy Statement regarding Proposal 2.

Required Vote

Trustees are elected by a plurality vote of shares cast, meaning that the Trustee Nominee with the most affirmative votes for a particular seat on the Board is elected for such seat. In an uncontested election for Trustees, the plurality requirement is not a factor. Abstentions will not count as votes cast and will have no effect on the outcome of this proposal. We expect that brokers will be entitled to vote on this proposal even without instructions from shareholders; however, any broker non-vote will have no effect on the outcome of this Proposal

2. Regardless of the outcome of the shareholder vote pertaining to Proposal 2, each Trustee Nominee will take office only if Proposal 1 is approved by shareholders of the Funds. If Proposal 1 is not so approved, the Boards will continue unaffected by any vote on Proposal 2.

THE BOARDS RECOMMEND THAT SHAREHOLDERS VOTE “FOR” ALL TRUSTEE NOMINEES.

ADDITIONAL INFORMATION ON VOTING

Voting by Proxy

Whether you plan to attend the Meeting or not, we urge you to complete, sign and date the enclosed proxy card and to return it promptly in the envelope provided. If you are the record owner of your shares on the books of the Funds transfer agent, then you may also submit your proxy vote by telephone or over the Internet, by following the instructions accompanying this Proxy Statement. If your broker holds your shares in its name, you may submit your proxy vote by any other means specified in the instructions that accompany this Proxy Statement. Returning the proxy card or using any of the available alternative proxy voting methods will not affect your right to attend the Meeting and vote.

If you properly fill in your proxy card and send it to us in time to vote or use any of the available alternative proxy voting methods, your “proxy” (one of the individuals named on your proxy card) will vote your shares as you have directed. If you sign the proxy card or use any of the available alternative proxy voting methods but do not make specific choices, your proxy will vote your shares as recommended by the Boards as follows and in accordance with management’s recommendation on other matters:

FOR the approval of the New Investment Advisory Agreements.

FOR the election of all Trustee Nominees.

Your proxy will also have authority to vote and act on your behalf at any adjournment of the Meeting.

If you authorize a proxy to vote for you, you may revoke the authorization at any time before it is exercised. You can do this in one of four ways:

You may send in another proxy with a later date.

- If you submitted a proxy by telephone, over the Internet or via an alternative method of voting permitted by your broker, you may submit another proxy by telephone, over the Internet, or via such alternative method of voting, or send in another proxy with a later date.
- You may notify the Funds' Secretary in writing before the Meeting that you have revoked your proxy.
- You may vote in person at the Meeting if you were the record owner of your shares on the record date.

Voting in Person

If you do attend the Meeting, were the record owner of your shares on the record date, which is September 4, 2015, and you wish to vote in person, we will give you a ballot when you arrive. **However, if your shares were held in the name of your broker, bank or other nominee on the record date, you must bring a letter from the nominee indicating that you were the beneficial owner of the shares on the record date, and authorizing you to vote. The letter must also state whether you authorized a proxy to vote for you before the Meeting and, if so, how you instructed such proxy to vote.**

Quorum Requirement

A quorum of shareholders is necessary to hold a valid meeting. A quorum will exist if, with respect to a Fund, shareholders entitled to vote a majority of all shares outstanding on the record date are present in person or by proxy. Broker non-votes, if any, and abstentions will count as present for establishing a quorum.

Adjournments

If a quorum is not present at the Meeting or a quorum is present but sufficient votes to approve a proposal are not received, the persons named as proxies may propose one or more adjournments of the Meeting to permit further solicitation of proxies. Any such adjournment will require the affirmative vote of a majority of the votes cast at the Meeting in person or by proxy.

The persons named as proxies will vote those proxies they are entitled to vote “for” a proposal in favor of such an adjournment and will vote those proxies required to be voted “against” such proposal against such an adjournment. A shareholder vote may be taken on a proposal in this Proxy Statement prior to any such adjournment if sufficient votes have been received and it is otherwise appropriate.

ADDITIONAL INFORMATION

Investment Adviser

Dinsmore Capital Management Co., 65 Madison Avenue, Suite 550, Morristown, New Jersey 07960, is currently the investment adviser to the Funds.

Executive Officers

The Funds’ executive officers are elected by the Boards and receive no compensation from the Funds. Each executive officer holds office until his or her successor has been duly elected and qualified, or until his or her earlier death,

resignation or removal. Information about these officers is set forth in the following table. For information regarding officers of Gabelli Funds, see the information above under the heading “Additional Information about Gabelli Funds and GAMCO.”

Dollar Range of Securities Held by Trustees and Trustee Nominees

Set forth below is the dollar range of equity securities beneficially owned⁽¹⁾ in each Fund and the Fund Complex by each Trustee and Trustee Nominee as of August 24, 2015.⁽²⁾

	Dollar Range of Equity Securities in each Fund⁽³⁾	Aggregate Dollar Range of Equity Securities in All Funds Overseen by the Trustee or Trustee Nominee in Fund Complex⁽³⁾
Kinchen C. Bizzell	\$10,001–\$50,000	\$50,001–\$100,000
Elizabeth C. Bogan, Ph.D.	With respect to Bancroft, \$50,001–\$100,000; With respect to Ellsworth, over \$100,000	over \$100,000
James P. Conn	\$0	\$0
James A. Dinsmore	With respect to Bancroft, \$50,001-\$100,000; With respect to Ellsworth, \$10,001-\$50,000	over \$100,000
Thomas H. Dinsmore	over \$100,000	over \$100,000
Frank J. Fahrenkopf, Jr.	\$0	\$0

	Dollar Range of Equity Securities in each Fund⁽³⁾	Aggregate Dollar Range of Equity Securities in All Funds Overseen by the Trustee or Trustee Nominee in Fund Complex⁽³⁾
Mario J. Gabelli	With respect to Bancroft, over \$100,000; With respect to Ellsworth, \$0	over \$100,000
Daniel D. Harding	With respect to Bancroft, \$10,001-\$50,000; With respect to Ellsworth, \$50,001-\$100,000	over \$100,000
Michael J. Melarkey	\$0	\$0
Kuni Nakamura	\$0	\$0
Jane D. O’Keeffe	over \$100,000	over \$100,000
Nicolas W. Platt	\$1-\$10,000	\$1-\$10,000
Anthonie C. van Ekris	\$0	\$0

(1) Beneficial ownership has been determined based upon the Trustee Nominee’s direct or indirect pecuniary interest in the equity securities.

(2) The dollar ranges are: \$1-\$10,000, \$10,001-\$50,000, \$50,001-\$100,000, or over \$100,000.

(3) The dollar range of equity securities owned is based on the closing prices of \$19.06 for Bancroft and \$7.99 for Ellsworth on August 24, 2015 on the NYSE MKT LLC stock exchange.

Funds’ Independent Auditors

Tait, Weller & Baker LLP (“Tait Weller”) serves as the Funds’ independent registered public accountants.

Fees Billed by Tait Weller Related to the Funds

Set forth in the table below are fees billed to the Funds, in the aggregate, by Tait Weller for services rendered during the Funds’ last two fiscal years ending in 2013 and 2014. Tait Weller billed to each Fund exactly half of the dollar amounts set forth below for services Tait Weller rendered to each Fund during the fiscal years ending in 2013 and 2014.

Fiscal Year Ended	Audit Fees	Audit-Related Fees ⁽¹⁾	Tax Fees ⁽²⁾	All Other Fees
2013	\$ 75,000	\$ 0	\$ 7,000	\$ 0
2014	\$ 77,000	\$ 0	\$ 7,200	\$ 0

For non-audit services rendered, Tait Weller billed each Fund non-audit fees of \$3,600 for the fiscal year ended 2014, and \$3,500 for the fiscal year ended 2013.

The Funds' Audit Committees pre-approve all Audit-Related Fees. For the Funds' last two fiscal years ending in (1)2013 and 2014, no Audit-Related Fees were approved by the Funds' Audit Committee pursuant to section 2-01(c)(7)(i)(C) of Regulation S-X, which waives the pre-approval requirement for certain de minimis fees.

"Tax Fees" include those fees billed by Tait Weller in connection with their review of the Funds' income tax returns for the fiscal years ending in 2013 and 2014. The Funds' Audit Committees pre-approve all Tax Fees. For the Funds' (2)last two fiscal years ending in 2013 and 2014, no Tax Fees were approved by the Funds' Audit Committees pursuant to section 2-01(c)(7)(i)(C) of Regulation S-X, which waives the pre-approval requirement for certain de minimis fees.

Non-Audit Services Billed to Dinsmore Capital

During each of the last two fiscal years ending in 2013 and 2014, Tait Weller did not provide any non-audit services to Dinsmore Capital or its affiliates or otherwise bill Dinsmore Capital or its affiliates for any non-audit services.

Audit Committee Pre-Approval Policies and Procedures

The Audit Committees pre-approve all audit and permissible non-audit services that are proposed to be provided to the Funds by their independent registered public accountants before they are provided to the Funds. Such pre-approval also includes the proposed fees to be charged by the independent registered public accountants for such services. The Audit Committees may delegate the pre-approval of audit and permissible non-audit services and related fees to one or more members of the Audit Committees who are “independent,” as such term is defined in Rule 10A-3(b)(1)(iii) under the Exchange Act. Any such member’s decision to pre-approve audit and/or non-audit services and related fees shall be presented to the full Audit Committees, solely for informational purposes, at their next scheduled meeting.

The Audit Committees also pre-approve non-audit services to be provided by the Funds’ independent registered public accountants to the Funds’ investment adviser if the engagement relates directly to the operations and financial reporting of the Funds and if the Funds’ independent registered public accountants are the same as, or affiliated with, the investment adviser’s registered public accountants.

Proxy Solicitation

Dinsmore Capital has agreed to pay or to reimburse the Funds for expenses incurred in connection with the preparation of proxy materials relating to Proposal 1, Proposal 2, and any other matter with respect to the Transaction. The Funds expect to solicit proxies principally by mail. Dinsmore Capital or the Funds (with reimbursement by Dinsmore Capital) may reimburse third parties for their expenses in forwarding solicitation materials to the beneficial owners of the Funds’ shares. Officers of the Funds may also solicit proxies by telephone, facsimile, the Internet or personal interview, and will not receive any additional compensation for such solicitation.

By order of the Boards of Trustees,

/s/ THOMAS H. DINSMORE
Thomas H. Dinsmore

Chairman of the Boards of Trustees

September 11, 2015

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Appendix A

New Investment Advisory Agreement

INVESTMENT ADVISORY AGREEMENT

_____, 2015

Gabelli Funds, LLC

One Corporate Center

Rye, New York 10580

Dear Sir:

[Bancroft Fund Ltd. / Ellsworth Growth and Income Fund Ltd.] (the “Fund”), a statutory trust organized under the laws of the state of Delaware, confirms its investment advisory agreement with Gabelli Funds, LLC (the “Adviser”), as follows:

1. Investment Description: Appointment

The Fund desires to employ its capital by investing and reinvesting in investments of the kind and in accordance with the limitations specified (a) in its Amended and Restated Agreement and Declaration of Trust, dated [January 16, 2006 / January 20, 2015] as amended from time to time (the “Declaration of Trust”), (b) in its Registration Statement on Form N-2 filed under the Investment Company Act of 1940, as amended (the “1940 Act”) as from time to time in effect (the “Registration Statement”), and (c) in its Investments Restrictions and Policies (the “Investment Policies”) as from time to time in effect, and in such manner and to such extent as may from time to time be approved by the Fund’s Board of Trustees. The Adviser acknowledges receipt of copies of the Declaration of Trust, the Registration Statement, and the Investment Policies in their form on the date hereof. The Fund desires to employ and hereby appoints the Adviser to act as its investment adviser and to oversee the administration of all aspects of the Fund’s business and affairs and provide, or arrange for others whom it believes to be competent to provide, certain services as specified below. The Adviser accepts the appointment and agrees to furnish the services set forth below for the compensation set forth below. Nothing contained herein shall be construed to restrict the Fund’s right to hire its own employees or to contract for administrative services to be performed by third parties, including but not limited to, the calculation of the net asset value of the Fund’s shares.

2. Services

(a) Investment Advice. Subject to the direction and control of the Fund's Board of Trustees, the Adviser will (i) act in conformity with the Declaration of Trust, the 1940 Act and the Investment Advisers Act of 1940, as the same may from time to time be amended, (ii) manage the Fund's assets in accordance with the Fund's Investment Policies, (iii) make and implement all investment decisions for the Fund, (iv) exercise all voting rights in respect of the Fund's assets and (v) place purchase and sale orders with respect to investments on behalf of the Fund. In rendering those services, the Adviser will provide investment research and supervision of the Fund's investments and conduct a continual program of investment, evaluation and, if appropriate, sale and reinvestment of the Fund's assets. In addition, the Adviser will furnish the Fund Trustees with whatever statistical information they may reasonably request with respect to the assets that the Fund may hold or contemplate purchasing.

(b) Administration. The specific services to be provided or arranged for by the Adviser for the Fund are (i) maintaining the Fund's books and records, such as journals, ledger accounts and other records in accordance with applicable laws and regulations to the extent not maintained by the Fund's custodian, transfer agent or dividend disbursing agent; (ii) initiating all money transfers to the Fund's custodian and from the Fund's custodian for the payment of the Fund's expenses, investments, dividends and other distributions; (iii) reconciling account information and balances among the Fund's custodian, transfer agent, dividend disbursing agent and the Adviser; (iv) providing the Fund with such office space and facilities, utilities and office equipment as are adequate for the Fund's needs; (v) preparing, but not paying for distribution costs or filing fees with respect to all reports sent by the Fund to its shareholders and all reports and filings required to maintain registration and qualification of the Fund's shares under federal and state law; (vi) preparation of additional registration statements for or with respect to future offerings of securities of the Fund (but not paying the filing fees or other costs associated

therewith); (vii) supervising the calculation of net asset value of the Fund's shares; and (viii) preparing notices and agendas for meetings of the Fund's shareholders, Board of Trustees, and Board committees, as well as minutes of all such meetings.

3. Brokerage

In executing transactions for the Fund and selecting brokers or dealers, the Adviser will seek best execution. In doing so, the Adviser will consider all factors it deems relevant including, but not limited to, the breadth of the market in the security to be purchased or sold, the price of such security, the financial condition and execution capability of the broker or dealer and the reasonableness of any commission for the specific transaction and on a continuing basis. In selecting brokers or dealers to execute a particular transaction, the Adviser may consider the brokerage and research services provided to the Fund and/or other accounts over which the Adviser or an affiliate of the Adviser exercises investment discretion. If the Adviser selects an affiliated person of the Adviser to act as a broker or dealer for the Fund, it will comply with all legal requirements and will report on the use of such broker or dealer to the Fund Board of Trustees at the next regularly scheduled Board meeting.

4. Information Provided to the Fund

The Adviser will keep the Fund informed of developments materially affecting the Fund, and will, on its own initiative, furnish the Fund from time to time with whatever information the Adviser believes is appropriate for this purpose. The Adviser will also provide information reasonably requested from time to time by the Independent Trustees.

5. Standard of Care

The Adviser shall exercise its professional judgment in rendering the services described in paragraphs 2 and 3 above. The Adviser shall not be liable for any error of judgment or mistake of law or for any loss suffered by the Fund in connection with the matters of which this Agreement relates, provided that nothing in this paragraph shall be deemed to protect or purport to protect the Adviser against any liability to the Fund or to its shareholders to which the Adviser would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on its part in the performance of its duties or by reason of the Adviser's reckless disregard of its obligations and duties under this Agreement.

6. Compensation

In consideration of the services rendered pursuant to this Agreement, the Fund will pay the Adviser, on the first business day of each month, a fee for the previous month at an annual rate of 0.80% of the first \$100,000,000 of the Fund's average weekly net assets and 0.55% of the Fund's average weekly net assets in excess of \$100,000,000. Upon any termination of this Agreement before the end of a month, the fee for such part of that month shall be prorated according to the proportion that such period bears to the full monthly period and shall be payable upon the date of termination of this Agreement. For the purpose of determining fees payable to the Adviser, the Fund's average weekly net assets shall be determined at the end of each month on the basis of the Fund's average net assets for each week during the month. The assets for each weekly period shall be determined by averaging the net assets at the end of a week with the net assets at the end of the prior week. The value of the Fund's average weekly net assets shall be deemed to be the average weekly value of the Fund's total assets minus the sum of the Fund's liabilities (such liabilities shall exclude the aggregate liquidation preference of outstanding preferred shares and accumulated dividends, if any, on those shares).

7. Expenses

The Adviser will bear all expenses in connection with the performance of its services under this Agreement. The Fund will bear certain other expenses to be incurred in its operation, including: underwriting compensation and reimbursements in connection with sales of its securities, expenses for legal and independent accountants' services, costs of printing proxies, stock certificates and shareholder reports, charges of the custodian, any sub-custodian and transfer and dividend paying agent, expenses in connection with the Automatic Dividend Reinvestment and Voluntary Cash Purchase Plan, Securities and Exchange Commission fees, fees and expenses of Trustees who are not officers or employees of the Adviser or its affiliates, compensation and other expenses of officers and employees of the Fund (including, but not limited to, the Chief Compliance Officer, Vice

President and Ombudsman) as approved by the Trustees, accounting and pricing costs, membership fees in trade associations, fidelity bond coverage for the Fund's officers and employees, Trustees and officers' errors and omissions insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses, all expenses of computing the Fund's net asset value per share, including any equipment or services obtained solely for the purpose of pricing shares or valuing the Fund's investment portfolios, expenses of qualifying the Fund's shares for sale in various states, preparation of filings with the Securities and Exchange Commission (including but not limited to Form N-PX, Form N-CSR and Form N-SAR), the costs of third-party services to monitor and recover class action settlement amounts, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

During the two year period commencing on the date this Agreement becomes effective, the Adviser will either waive fees or reimburse the Fund to the extent the total expenses of the Fund (excluding brokerage costs, interest, (including in respect of any preferred shares) taxes, acquired fund fees and expenses, expenses chargeable to capital, and extraordinary expenses) during any 365-day period exceed 1.10% of the weekly average assets attributable to common shares plus the liquidation preference of preferred shares of the Fund during such period.

The Adviser hereby covenants and agrees to pay directly (or to reimburse the Fund or Dinsmore Capital Management Co. ("Dinsmore") for) all regular compensation costs (but not severance costs) paid or payable by the Fund or by Dinsmore to Gary I. Levine for the time period from the effective date of this Agreement to and including December 31, 2015. The Adviser also hereby covenants and agrees to pay directly (or to reimburse the Fund or Dinsmore for) all costs and expenses paid or payable by the Fund or by Dinsmore to or for the QED accounting and support system from the effective date of this Agreement to and including December 31, 2015 or until such later date as the Adviser chooses to maintain the services thereof. The costs and expenses payable or reimbursable by the Adviser pursuant to this paragraph shall be payable or reimburseable regardless of whether the total expenses of the Fund during the 365-day period during which such amounts were incurred exceed or do not exceed 1.10% of the weekly average assets attributable to common shares as set forth in the preceding paragraph.

8. Services to Other Companies or Accounts

The Fund understands that the Adviser now acts and will continue to act as investment adviser to other investment companies and may act in the future as investment adviser to other investment companies or portfolios, and the Fund has no objection to the Adviser so acting, provided that whenever the Fund and one or more other portfolios of or investment companies advised by the Adviser and its affiliates have available funds for investment, investments suitable and appropriate for each will be allocated in a manner believed to be equitable to each and that whenever the Fund and one or more other portfolios of or investment companies advised by the Adviser and its affiliates desire to dispose of the same assets, such dispositions will be allocated in a manner believed equitable to each. The Fund recognizes that in some cases this procedure may adversely affect the size of the position obtainable for the Fund. In addition, the Fund understands that the Adviser's agents will not devote their full time to the discharge of its duties under this Agreement and nothing contained herein shall be deemed to limit or restrict the right of the Adviser or any affiliate of the Adviser to engage in and devote time and attention to other businesses or to render services of whatever

kind or nature.

9. Indemnity

(a) The Fund hereby agrees to indemnify the Adviser and each of the Adviser's Trustees, officers, employees, and agents (including any individual who serves at the Adviser's request as director, officer, partner, trustee or the like of another corporation) and controlling persons (each such person being an "indemnatee") against any liabilities and expenses, including amounts paid in satisfaction of judgments, in compromise or as fines and penalties, and counsel fees (all as provided in accordance with applicable corporate law) reasonably incurred by such indemnatee in connection with the defense or disposition of any action, suit or other proceeding, whether civil or criminal, before any court or administrative or investigative body in which he may be or may have been involved as a party or otherwise or with which he may be or may have been threatened, while acting in any capacity set forth above in this paragraph or thereafter by reason of his having acted in any such capacity, except with respect to any matter as to which he shall have been adjudicated not to have acted in good faith in the reasonable belief that his action was in the best interest of the Fund and furthermore, in the case of any criminal proceeding, so long as he had no reasonable cause to believe that the conduct was unlawful, provided, however, that (1) no indemnatee shall be indemnified hereunder against any liability to the Fund or its shareholders or any

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expense of such indemnitee arising by reason of (i) willful misfeasance, (ii) bad faith, (iii) gross negligence, (iv) reckless disregard of the duties involved in the conduct of his position (the conduct referred to in such clauses (i) through (v) being sometimes referred to herein as “disabling conduct”), (2) as to any matter disposed of by settlement or a compromise payment by such indemnitee, pursuant to a consent decree or otherwise, no indemnification either for said payment or for any other expenses shall be provided unless there has been a determination that such settlement or compromise is in the best interests of the Fund and that such indemnitee appears to have acted in good faith in the reasonable belief that his action was in the best interest of the Fund and did not involve disabling conduct by such indemnitee and (3) with respect to any action, suit or other proceeding voluntarily prosecuted by any indemnitee as plaintiff, indemnification shall be mandatory only if the prosecution of such action, suit or other proceeding by such indemnitee was authorized by a majority of the full Board of the Fund. Notwithstanding the foregoing the Fund shall not be obligated to provide any such indemnification to the extent such provision would waive any right which the Fund cannot lawfully waive.

(b) The Fund shall make advance payments in connection with the expenses of defending any action with respect to which indemnification might be sought hereunder if the Fund receives a written affirmation of the indemnitee’s good faith belief that the standard of conduct necessary for indemnification has been met and a written undertaking to reimburse the Fund unless it is subsequently determined that he is entitled to such indemnification and if the Trustees of the Fund determine that the facts then known to them would not preclude indemnification. In addition, at least one of the following conditions must be met: (A) the indemnitee shall provide a security for his undertaking, (B) the Fund shall be insured against losses arising by reason of any lawful advances, or (C) a majority of a quorum of Trustees of the Fund who are neither “interested persons” of the Fund nor parties to the proceeding (“Disinterested Non-Party Trustees”) or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a full trial-type inquiry), that there is reason to believe that the indemnitee ultimately will be found entitled to indemnification.

(c) All determinations with respect to indemnification hereunder shall be made (1) by a final decision on the merits by a court or other body before whom the proceeding was brought that such indemnitee is not liable by reason of disabling conduct or, (2) in the absence of such a decision, by (i) a majority vote of a quorum of the Disinterested Non-party Trustees of the Fund, or (ii) if such a quorum is not obtainable or even, if obtainable, if a majority vote of such quorum so directs, independent legal counsel in a written opinion.

(d) The rights accruing to any indemnitee under these provisions shall not exclude any other right to which he may be lawfully entitled.

(e) Any indemnity payment to the Adviser pursuant to this Section 9 shall be subject to the expense limitation set forth in the penultimate paragraph of Section 7 for the two year time period referred to therein.

10. Use of the Word “Gabelli”

It is understood and agreed that the word “Gabelli” is the Adviser’s property for copyright and other purposes. The Fund further agrees that the word “Gabelli” in its name is derived from the name of Mario J. Gabelli and such name may freely be used by the Adviser for other investment companies, entities or products. The Fund further agrees that, in the event that the Adviser shall cease to act as an investment adviser to the Fund, the Fund shall promptly take all necessary and appropriate action to change its name to one that does not include the word “Gabelli”; provided, however, that the Fund may continue to use such name if the Adviser consents in writing to such use.

11. Term of Agreement

This Agreement shall become effective, if it has been approved by the Board of Trustees or the shareholders of the Fund in accordance with the requirements of the 1940 Act, upon the date hereof and will continue in effect for two years and thereafter will continue for successive annual periods, provided such continuance is specifically approved at least annually in accordance with the requirements of the 1940 Act. This Agreement is terminable, without penalty, on 60 days’ written notice by the Fund’s Board of Trustees, by vote of holders of a majority of the Fund’s shares, or by the Adviser. This Agreement will also terminate automatically in the event of its assignment (as defined in the 1940 Act and the rules thereunder).

12. Amendment

The Adviser and the Fund may amend this Agreement without shareholder approval so long as such amendment does not materially change the advisory relationship between the Adviser and the Fund.

13. Definitions

For purposes of this Agreement, the terms “value,” “affiliated person,” “assignment,” and “interested person” shall have the respective meanings given to them in the 1940 Act, and the term “Independent Trustee” means a trustee of the Fund who is not an interested person of the Adviser.

[Signature page follows]

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If the foregoing is in accordance with your understanding, kindly indicate your acceptance of this Agreement by signing and returning the enclosed copy.

Very truly
yours,

[BANCROFT
FUND LTD. /
ELLSWORTH
GROWTH
AND
INCOME
FUND LTD.]

By:
Name:
Title:

Agreed to
mand
Accepted:

GABELLI
FUNDS, LLC

By:
Name:
Title:

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Appendix B

Reimbursement Agreement

AGREEMENT

THIS AGREEMENT is made this 14th day of July, 2015 by and between **DINSMORE CAPITAL MANAGEMENT CO.** ("Dinsmore Capital"), **BANCROFT FUND LTD.**, and **ELLSWORTH GROWTH AND INCOME FUND LTD.** (each of the two foregoing entities, a "Fund" and, both of them collectively, the "Funds").

WITNESSETH:

WHEREAS, Dinsmore Capital is the investment adviser to each of the Funds;

WHEREAS, Dinsmore Capital and GAMCO Investors, Inc. ("GAMCO") are parties to that certain Strategic Alliance Agreement dated as of June 16, 2015 (the "Transaction Agreement") pursuant to which, among other things, Gabelli Funds, LLC ("Gabelli") is intended to replace Dinsmore Capital as the investment adviser to the Funds (such transaction, along with all other transactions contemplated by the Transaction Agreement, the "Transaction");

WHEREAS, Dinsmore Capital, GAMCO, and Gabelli have asked the trustees of the Funds (the "Trustees") to consider approving a new investment advisory and administrative services agreement between each of the Funds, on the one hand, and Gabelli on the other hand (the "New Agreement") (such consideration and the taking of any and all actions by the Trustees in connection with considering whether to approve the New Agreement and whether to recommend to stockholders of the Funds the approval of the New Agreement, and all reasonably related actions, the "Approval Consideration");

WHEREAS, Dinsmore Capital desires to assure the Trustees of the Funds who are not "interested persons" of Dinsmore Capital (the "Independent Trustees") within the meaning of Section 2(a)(19) of the Investment Company Act of 1940 (the "1940 Act") that no costs or unfair burden will be imposed on the Funds as a result of the Transaction.

NOW, THEREFORE, for and in consideration of the respective promises and covenants contained herein, and other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties, intending to be legally bound hereby, agree as follows:

1. Section 15(f): Reimbursement Obligations of Dinsmore Capital.

Dinsmore Capital hereby covenants and agrees, from and after the date of the closing of all transactions contemplated by the Transaction Agreement (the “Closing”), that it shall not take, and shall cause its Affiliates not to take, any action that would have the effect, directly or indirectly, of causing the requirements of any of the (a) provisions of Section 15(f) of the 1940 Act not to be met or satisfied with respect to the Transaction, and shall not fail to take, and shall cause its Affiliates not to fail to take any action if the failure to take such action would have the effect, directly or indirectly, of causing the requirements of any of the provisions of Section 15(f) of the 1940 Act not to be met or satisfied with respect to the Transaction.

Dinsmore Capital hereby covenants and agrees to pay directly (or to reimburse the Funds for) all reasonable out-of-pocket costs and expenses incurred by the Funds or the Trustees in connection with (i) the consideration and review by the Independent Trustees of the Transaction and its potential impact on the Funds and the stockholders (b) of the Funds, (ii) the Approval Consideration, and (iii) the preparation, review, and filing with the Securities and Exchange Commission of one or more proxy statements and related solicitation materials, including preliminary proxy statements (collectively, the “Proxy Statements”), the solicitation of proxies and the conduct of stockholder meetings called to consider the New Agreement, the election of Fund Trustees, or any other matter with

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respect to the Transaction (collectively, the “Costs”). Without intending any limitation on the generality of the foregoing, Costs include the reasonable expenses incurred by each of the Funds and by each of the Independent Trustees in connection with the special in-person meeting of Trustees to consider the proposed Transaction currently scheduled for July 21, 2015, together with any adjournments or postponements thereof.

All Costs shall be paid promptly upon presentation to Dinsmore Capital of an invoice therefor, or request for reimbursement thereof, in each case setting forth in reasonable detail the nature of the Cost (provided, however, (c) that such detail regarding the fees and expenses of legal counsel need not be provided if it would or, in the opinion of such legal counsel, might result in the waiver of any applicable privilege).

2.

Covered Cost Items.

(a) The obligations of Dinsmore Capital provided for herein to pay (or reimburse) for Costs include, without limitation, Costs incurred in connection with:

(i) preparing, printing, and mailing to stockholders each of the Funds’ Proxy Statements;

(ii) retaining or using a proxy solicitor in connection with the Proxy Statements and related stockholder meetings;

(iii) an evaluation of the New Agreement, the preparation for and participation in the Funds’ stockholder meetings referred to in the Proxy Statements, or the Transaction generally, the retention or use of Ballard Spahr LLP as legal counsel (A) to the Independent Trustees of the Funds, or (B) to the Funds;

(iv) Reasonable travel costs, meeting costs, and telephone and other similar expenses incurred by the Funds or the Independent Trustees in connection with the Approval Consideration or the consideration of the Transaction by the Trustees;

(v) any information furnished to Fund stockholders (including any contained in the Proxy Statements) in connection with the Transaction, except to the extent related solely to information supplied in writing by one or more of the Trustees, GAMCO, or Gabelli;

(vi) the purchase of a “tail” policy of directors and officers or errors and omissions insurance (“D&O Insurance”) covering the Independent Trustees for a time period of not less than three (3) years following the closing of the Transaction for or with respect to all actions taken or omitted (or allegedly taken or omitted) by any of them prior to the closing of the Transaction, net of any refund resulting from the cancellation of the existing policy of D&O Insurance; and

(vii) any other reasonable out-of-pocket expenses reasonably incurred by any Trustee or by either Fund in connection with the Transaction or the Approval Consideration.

(b) For the avoidance of doubt, reimbursable Costs include those incurred before or after the date hereof.

3. Representations and Warranties of Dinsmore Capital.

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(a) Dinsmore Capital hereby represents and warrants to and with each of the Funds that each of the representations and warranties made by Dinsmore Capital in the Transaction Agreement is true and correct on the date hereof.

(b) Dinsmore Capital hereby represents and warrants to and with each of the Funds as follows:

There are no claims, actions, suits, complaints, demands, litigations, arbitrations, prosecutions, contests, hearings, inquiries, investigations, inquests, audits or other proceedings of any nature, civil, criminal, regulatory or otherwise, in law or in equity, by or before any Governmental Authority (collectively, "Proceedings") that (A) are pending or, to the Knowledge of Dinsmore Capital, threatened against Dinsmore Capital or any of its Affiliates that would, (i) individually or in the aggregate, reasonably be expected to have a material adverse effect on Dinsmore Capital, (B) individually or in the aggregate, would reasonably be expected to have a material adverse effect on the ability of Dinsmore Capital to consummate the transactions contemplated by this Agreement or the Transaction Agreement or to comply with its obligations hereunder or thereunder in a timely manner, or (C) as of the date hereof, challenge the validity of any of the transactions contemplated by this Agreement or the Transaction Agreement.

Dinsmore Capital has implemented one or more codes of ethics, insider trading policies, personal trading policies, and other material policies as required by Applicable Law (including Rule 204A-1 and Rule 206(4)-7 promulgated (ii) under the Advisers Act), true and complete copies of which have been provided or made available to the Funds prior to the date hereof. Such codes of ethics, insider trading policies, personal trading policies, and other material policies comply in all material respects with Applicable Law.

Since January 1, 2012, Dinsmore Capital and each of its Affiliates has timely filed on its own behalf and on behalf of the Funds all Governmental Documents that were required to be filed with any Governmental Authority, other (iii) than such failures to file on a timely basis that would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Dinsmore Capital or the Funds. As of their respective dates, all such Governmental Documents have complied in all material respects with Applicable Law as in effect at the time each such Governmental Document was filed.

Dinsmore Capital, at all times required by the Advisers Act, has been duly registered as an investment adviser under the Advisers Act. Dinsmore Capital is, and at all times required by Applicable Law (other than the Advisers Act) during the past five (5) years has been, duly registered, licensed, or qualified as an investment adviser, or has (iv) made required notice filings, in each state or any other jurisdiction where the conduct of its business required such registration, licensing, qualification, or notice filing, except where the failure to be so licensed or qualified would not, individually or in the aggregate, reasonably be expected to have a material adverse effect on Dinsmore Capital or the Funds.

Total stockholders' equity of Dinsmore Capital at June 30, 2015 as set forth on the financial statements of Dinsmore (v) Capital prepared in accordance with accounting principles generally accepted in the United States of America was not less than Five Hundred Thousand Dollars (\$500,000), subject only to year-end audit adjustments.

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	(vi) \$	13,254	\$	10,275
Supplemental disclosures of cash paid				
Interest paid	\$5,035		\$4,306	
Income taxes paid	\$815		\$1,030	
Non-cash investing and financing activities				
Transfers from loans to other real estate owned through foreclosure	\$227		\$99	
Consideration received for exchange of securities available for sale (see page 34)	\$526		\$0	

See Notes to Consolidated Financial Statements

NOTE 1. BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Peoples Financial Services Corp. (the “Corporation” or the “Company”) and its wholly owned subsidiaries, Peoples National Bank (the “Bank”), Peoples Advisors, LLC (“Advisors”), and Peoples Financial Capital Corporation. The Bank has two wholly owned subsidiaries, Peoples Financial Leasing, LLC and Peoples Investment Holdings, LLC. All material inter-company accounts and transactions have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information as well as with instructions for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the six-month period ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. For further information, refer to the consolidated financial statements and footnotes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

Effective April 1, 2009, the Company adopted Statement of Financial Accounting Standards (“SFAS”) No. 165, Subsequent Events. SFAS No. 165 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. SFAS No. 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition in the financial statements, identifies the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures that should be made about events or transactions that occur after the balance sheet date. In preparing these consolidated financial statements, the Company evaluated the events and transactions that occurred between June 30, 2009 through August 10, 2009, the date these consolidated financial statements were issued.

NOTE 2. EARNINGS PER SHARE

The following table sets forth the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Net income applicable to common stock	\$1,253,000	\$1,704,000	\$2,774,000	\$3,119,000
Weighted average common shares outstanding	3,133,480	3,126,855	3,132,353	3,125,284
Effect of dilutive securities, stock options	120	5,139	274	6,058
Weighted average common shares outstanding used to calculate diluted earnings per share	3,133,600	3,131,994	3,132,627	3,131,342
Basic earnings per share	\$0.40	\$0.54	\$0.89	\$1.00
Diluted earnings per share	\$0.40	\$0.54	\$0.89	\$1.00

Stock options for 23,429 and 11,959 shares of common stock were not considered in computing diluted earnings per share for the three and six months ended June 30, 2009 and for the three and six months ended June 30, 2008, respectively because they are antidilutive.

NOTE 3. SECURITIES AVAILABLE FOR SALE

At June 30, 2009 and December 31, 2008, the amortized cost and fair values of securities available-for-sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(In Thousands)		
June 30, 2009:				
U.S. Government agencies and corporations	\$15,239	\$45	\$(351)	\$14,933
Obligations of state and political subdivisions	52,718	170	(2,769)	50,119
Taxable obligations of state and political subdivisions	5,759	24	(214)	5,569
Corporate debt securities	20,827	18	(3,839)	17,006
Mortgage-backed securities	11,422	239	(45)	11,616
Preferred equity securities	78	0	(36)	42
Common equity securities	4,618	13	(567)	4,064
Total	\$110,661	\$509	\$(7,821)	\$103,349
December 31, 2008:				
U.S. Government agencies and corporations	\$7,891	\$67	\$0	\$7,958
Obligations of state and political subdivisions	47,914	120	(3,319)	44,715
Taxable obligations of state and political subdivisions	3,166	0	(106)	3,060
Corporate debt securities	20,828	40	(3,898)	16,970
Mortgage-backed securities	32,487	325	(47)	32,765
Preferred equity securities	78	0	(58)	20
Common equity securities	5,086	0	(327)	4,759
Total	\$117,450	\$552	\$(7,755)	\$110,247

The amortized cost and fair value of securities as of June 30, 2009, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to prepay obligations with or without any penalties.

	Amortized Cost	Fair Value
	(In Thousands)	
Due in one year or less	\$ 1,321	\$ 1,324
Due after one year through five years	6,689	5,844
Due after five years through ten years	29,970	27,115
Due after ten years	56,563	53,344
	94,543	87,627
Mortgage-backed securities	11,422	11,616
Equity securities	4,696	4,106
	\$ 110,661	\$ 103,349

Proceeds from sale of available-for-sale securities during the six months ended June 30, 2009 and 2008 and the year ended December 31, 2008 were \$27,804,000, \$46,018,000, and \$57,997,000, respectively. Gross gains realized on these sales were \$280,000, \$298,000, and \$412,000, respectively. Gross losses on these sales were \$9,000, \$268,000, and \$284,000, respectively.

Securities with a carrying value of \$42,493,000 and \$44,313,000 at June 30, 2009 and December 31, 2008, respectively, were pledged to secure public deposits and repurchase agreements as required or permitted by law.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2009 and December 31, 2008 (in thousands):

June 30, 2009:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies and corporations	\$11,953	\$(351)	\$0	\$0	\$11,953	\$(351)
Obligations of state and political subdivisions	15,754	(338)	25,393	(2,431)	41,147	(2,769)
Taxable obligations of state and political subdivisions	3,085	(82)	866	(132)	3,951	(214)
Corporate debt securities	734	(23)	14,512	(3,816)	15,246	(3,838)
Mortgage-backed securities	4,275	(44)	158	(1)	4,433	(45)
Preferred equity securities	42	(36)	0	0	42	(36)
Common equity securities	37	(113)	588	(454)	625	(567)
Total Temporarily Impaired Securities	\$35,880	\$(987)	\$41,517	\$(6,834)	\$77,397	\$(7,821)

December 31, 2008:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of state and political subdivisions	\$34,301	\$(2,376)	\$2,570	\$(943)	\$36,871	\$(3,319)
Taxable obligations of state and political subdivisions	3,060	(106)	0	0	3,060	(106)
Corporate debt securities	8,752	(2,878)	7,420	(1,020)	16,172	(3,898)
Mortgage-backed securities	11,242	(41)	1,305	(6)	12,547	(47)
Preferred equity securities	20	(58)	0	0	20	(58)
Common equity securities	166	(37)	687	(290)	853	(327)
Total Temporarily Impaired Securities	\$57,541	\$(5,496)	\$11,982	\$(2,259)	\$69,523	\$(7,755)

As of June 30, 2009 the Company had 8 (all less than 12 months) U.S. Government Agency securities, 80 (46 less than 12 months, 34 greater than 12 months) obligations of state and political subdivisions, 11 (1 less than 12 months, 10 greater than 12 months) corporate debt securities, 6 (3 less than 12 months, 3 greater than 12 months) mortgage-backed securities, 2 (both less than 12 months) preferred equity securities and 17 (1 less than 12 months, 16 greater than 12 months) common equity securities in an unrealized loss position. The majority of the unrealized losses reflect changes in interest rates subsequent to the acquisition of the specific securities and management believes that these unrealized losses represent a temporary impairment of those securities. As long-term rates increase, the underlying value of securities owned by the Company decreases, creating an unrealized loss.

The Company recorded other than temporary impairments of \$136,000 for the six months ended June 30, 2009. These impairments were the result of writing down two separate common equity securities. These write-downs were measured based on public market prices. In reaching the determination to record these impairments, management reviewed the facts and circumstances available surrounding the securities, including the duration and amount of the unrealized loss, the financial condition of the issuer and the prospects for a change in market value within a reasonable period of time. Based on its assessment, management determined that the impairment was other-than-temporary and that a charge was appropriate for these securities.

Management evaluates securities for other-than-temporary impairment (“OTTI”) at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. All of the Company’s investment securities classified as available-for-sale are evaluated for OTTI under SFAS 115, Accounting for Certain Investments in Debt and Equity Securities.

In determining OTTI under the SFAS 115 model, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on information available to management at a point in time. An OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

When an OTTI occurs under the model, the amount of the OTTI recognized in earnings depends on whether an entity intends to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss. If an entity intends to sell or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the OTTI shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the OTTI shall be separated into the amount representing the credit loss and the amount related to all other factors. The amount of the total OTTI related to the credit loss is determined based on the present value of cash flows expected to be collected and is recognized in earnings. The amount of the total OTTI related to other factors shall be recognized in other comprehensive income, net of applicable tax benefit. The previous amortized cost basis less the OTTI recognized in earnings shall become the new amortized cost basis of the investment. As of June 30, 2009 the Company has the intent and ability to hold such securities until maturity or market price recovery. Management believes that the unrealized losses represent temporary impairment of the securities.

As a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"), the Company is required to purchase and hold stock in the FHLB to satisfy membership and borrowing requirements. This stock is restricted in that it can only be sold to the FHLB or to another member institution, and all sales of FHLB stock must be at par. As a result of these restrictions, FHLB stock is unlike other investment securities insofar as there is no trading market for FHLB stock and the transfer price is determined by FHLB membership rules and not by market participants. As of June 30, 2009 and December 31, 2008, our FHLB stock totaled \$2.771 million and \$2.559 million, respectively.

In December 2008, the FHLB voluntarily suspended dividend payments on its stock, as well as the repurchase of excess stock from members. The FHLB cited a significant reduction in the level of core earnings resulting from lower short-term interest rates, the increased cost of liquidity, and constrained access to the debt markets at attractive rates and maturities as the main reasons for the decision to suspend dividends and the repurchase of excess capital stock. The FHLB last paid a dividend in the third quarter of 2008.

FHLB stock is held as a long-term investment and its value is determined based on the ultimate recoverability of the par value. The Company evaluates impairment quarterly. The decision of whether impairment exists is a matter of judgment that reflects our view of the FHLB's long-term performance, which includes factors such as the following:

- its operating performance;
- the severity and duration of declines in the fair value of its net assets related to its capital stock amount;
- its commitment to make payments required by law or regulation and the level of such payments in relation to its operating performance;
- the impact of legislative and regulatory changes on the FHLB, and accordingly, on the members of FHLB; and
- its liquidity and funding position.

After evaluating all of these considerations, the Company concluded that the par value of its investment in FHLB stock will be recovered. Accordingly, no impairment charge was recorded on these securities for the six and three months ended June 30, 2009. Our evaluation of the factors described above in future periods could result in the recognition of impairment charges on FHLB stock.

NOTE 4. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income (loss) and related tax effects for the six months and three months ended June 30, 2009 and 2008 are as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Unrealized holding gains (losses) on available for sale securities	\$ 1,644	\$ (2,259)	\$ 275	\$ (4,100)
Less: Reclassification adjustment for (gains) losses realized in net income	(339)	10	(518)	(16)
Less: Reclassification adjustment for other than temporary impairment	60	83	136	265
Net unrealized gains (losses)	1,365	(2,166)	(107)	(3,851)
Tax effect	465	736	(36)	(1,309)
Other comprehensive income (loss)	\$ 900	\$ (1,430)	\$ (71)	\$ (2,542)

NOTE 5. STOCK-BASED COMPENSATION

As of June 30, 2009, all stock options were fully vested and there are no unrecognized compensation costs related to stock options. For the six month periods ending June 30, 2009 and 2008, respectively, there were no stock options granted.

NOTE 6. GUARANTEES

The Company does not issue any guarantees that would require liability recognition or disclosure, other than standby letters of credit. Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for standby letters of credit is represented by the contractual amount of those instruments. The Company had \$11.443 million of standby letters of credit as of June 30, 2009. The Bank uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments.

The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at June 30, 2009 was \$11.443 million and the approximate value of underlying collateral upon liquidation, that would be expected to cover this maximum potential exposure, was \$10.368 million.

NOTE 7. NEW ACCOUNTING STANDARDS

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4). FASB Statement 157, Fair Value Measurements, defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. FSP FAS 157-4 provides additional guidance on determining when the volume and level of activity for the asset or liability has significantly decreased. The FSP also includes guidance on identifying circumstances when a transaction may not be considered orderly.

FSP FAS 157-4 provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with Statement 157.

This FSP clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The FSP provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted this FSP for the quarter ended June 30, 2009. This FSP had no impact on the Company's consolidated financial statements upon adoption, although additional disclosures were required and are included in Note 8.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 clarifies the interaction of the factors that should be considered when determining whether a debt security is other-than-temporarily impaired. For debt securities, management must assess whether (a) it has the intent to sell the security and (b) it is more likely than not that it will be required to sell the security prior to its anticipated recovery. These steps are done before assessing whether the entity will recover the cost basis of the investment. Previously, this assessment required management to assert it has both the intent and the ability to hold a security for a period of time sufficient to allow for an anticipated recovery in fair value to avoid recognizing an other-than-temporary impairment. This change does not affect the need to forecast recovery of the value of the security through either cash flows or market price.

In instances when a determination is made that an other-than-temporary impairment exists but the investor does not intend to sell the debt security and it is not more likely than not that it will be required to sell the debt security prior to its anticipated recovery, FSP FAS 115-2 and FAS 124-2 changes the presentation and amount of the other-than-temporary impairment recognized in the income statement. The other-than-temporary impairment is separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted this FSP for the quarter ended June 30, 2009. This FSP had no impact on the Company's consolidated financial statements upon adoption.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, Disclosures about Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods.

This FSP is effective for interim and annual reporting periods ending after June 15, 2009. The Company adopted this FSP for the quarter ended June 30, 2009. This FSP had no impact on the Company's consolidated financial statements upon adoption, although additional disclosures were required and are included in Note 8.

In June 2009, the FASB issued SFAS No. 166, Accounting for Transfers of Financial Assets, an amendment of FASB Statement No. 140. This statement prescribes the information that a reporting entity must provide in its financial reports about a transfer of financial assets; the effects of a transfer on its financial position, financial performance and cash flows; and a transferor's continuing involvement in transferred financial assets. Specifically, among other aspects, SFAS 166 amends Statement of Financial Standard No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, or SFAS 140, by removing the concept of a qualifying special-purpose entity from SFAS 140 and removes the exception from applying FIN 46(R) to variable interest entities that are qualifying special-purpose entities. It also modifies the financial-components approach used in SFAS 140. SFAS 166 is effective for fiscal years beginning after November 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This statement amends FASB Interpretation No. 46, Consolidation of Variable Interest Entities (revised December 2003) — an interpretation of ARB No. 51, or FIN 46(R), to require an enterprise to determine whether it's variable interest or interests give it a controlling financial interest in a variable interest entity. The primary beneficiary of a variable interest entity is the enterprise that has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity that could potentially be significant to the variable interest entity or the right to receive benefits from the entity that could potentially be significant to the variable interest entity. SFAS 167 also amends FIN 46(R) to require ongoing reassessments of whether an enterprise is the primary beneficiary of a variable interest entity. SFAS 167 is effective for fiscal years beginning after November 15, 2009. The Company is currently reviewing the effect this new pronouncement will have on its consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles, a replacement of FASB Statement No. 162. SFAS 168 replaces SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles, to establish the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in preparation of financial statements in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. We do not expect the adoption of this standard to have an impact on our financial position or results of operations.

NOTE 8. FAIR VALUE MEASUREMENTS

In September 2006, the Financial Accounting Standards Board (“FASB”) issued Statement No. 157, Fair Value Measurements (“SFAS 157”), which defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements. The Company adopted SFAS 157 effective for its fiscal years beginning January 1, 2008.

In December 2007, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (“FSP 157-2”). FSP 157-2 delays the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years. As such, the Company only partially adopted the provisions of SFAS 157 in 2008 and began to account and report for non-financial assets and liabilities in 2009. In October 2008, the FASB issued FASB Staff Position 157-3, Determining the Fair Value of a Financial Asset When the Market for that Asset is Not Active (“FSP 157-3”), to clarify the application of the provisions of SFAS 157 in an inactive market and how an entity would determine fair value in an inactive market. The adoption of SFAS 157 and FSP 157-3 had no impact on the amounts reported in the consolidated financial statements.

SFAS 157 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset’s or liability’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2009 and December 31, 2008 are as follows:

Description (In Thousands)	(Level 1) Quoted Prices in Active Markets for Identical Assets		(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
	June 30, 2009 Securities available for sale	\$ 103,349	\$ 1,194	\$ 102,155
	\$ 110,247	\$ 1,010	\$ 108,146	\$ 1,091

December 31, 2008 Securities available
for sale

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The following table presents a roll forward of the securities available for sale measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the six months ended June 30, 2009:

(In Thousands)

Beginning balance, January 1	\$	1,091
Exchange of common stock available for sale security		(1,091)
Ending balance, June 30	\$	0

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at June 30, 2009 and December 31, 2008 are as follows:

Description (In Thousands)	(Level 1) Quoted Prices in Active Markets for Identical Assets				(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs		
	June 30, 2009 Impaired loans	\$	2,137	\$	0	\$	0	\$
June 30, 2009 Other real estate owned	\$	5,440	\$	0	\$	0	\$	5,440
December 31, 2008 Impaired loans	\$	2,168	\$	0	\$	0	\$	2,168
December 31, 2008 Other real estate owned	\$	5,171	\$	0	\$	0	\$	5,171

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at June 30, 2009:

Cash and Cash Equivalents (Carried at Cost)

The carrying amounts reported in the balance sheet for cash and short-term instruments approximate those assets' fair values.

Securities

The fair value of securities available for sale (carried at fair value) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted market prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. For certain securities which are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence (Level 3). In the absence of such evidence, management's best estimate is used. Management's best estimate consists of both internal and external support on certain Level 3 investments. Internal cash flow models using a present value formula that includes assumptions market participants would use along with indicative exit pricing obtained from broker/dealers (where available) were used to support fair values of certain Level 3 investments.

Loans Receivable (Carried at Cost)

The fair values of loans are estimated using discounted cash flow analyses, using market rates at the balance sheet date that reflect the credit and interest rate-risk inherent in the loans. Projected future cash flows are calculated based upon contractual maturity or call dates, projected repayments and prepayments of principal. Generally, for variable rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values.

Impaired Loans (Generally Carried at Fair Value)

Impaired loans are those that are accounted for under FASB Statement No. 114, Accounting by Creditors for Impairment of a Loan ("SFAS 114"), in which the Bank has measured impairment generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are included as Level 3 fair values, based upon the lowest level of input that is significant to the fair value measurements. The fair value consists of the loan balances of \$2,369,000, net of a valuation allowance of \$232,000 recorded during the six months ended June 30, 2009. There was a net decrease in the provision for loan losses of \$392,000.

Other Real Estate Owned

Other real estate owned is recorded at fair value, net of estimated selling costs, at the date of foreclosure. Subsequent declines in the recorded value of the property prior to its disposal is included in other expense.

Servicing Rights (Carried at Lower of Cost or Fair Value)

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporation assumptions that market participants would use in estimating future net servicing income. The Company is able to compare the valuation model inputs and results to widely available published industry data for reasonableness. Mortgage servicing rights of \$242,802 are included in other assets as of June 30, 2009.

Restricted Investment in Bank Stock (Carried at Cost)

The carrying amount of restricted investment in bank stock approximates fair value, and considers the limited marketability of such securities.

Accrued Interest Receivable and Payable (Carried at Cost)

The carrying amount of accrued interest receivable and accrued interest payable approximates its fair value.

Deposit Liabilities (Carried at Cost)

The fair values disclosed for demand deposits (e.g., interest and noninterest checking, passbook savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered in the market on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-Term Borrowings (Carried at Cost)

The carrying amounts of short-term borrowings approximate their fair values.

Long-Term Debt (Carried at Cost)

Fair values of FHLB advances are estimated using discounted cash flow analysis, based on quoted prices for new FHLB advances with similar credit risk characteristics, terms and remaining maturity. These prices obtained from this active market represent a market value that is deemed to represent the transfer price if the liability were assumed by a third party.

Off-Balance Sheet Financial Instruments (Disclosed at Cost)

Fair values for the Company's off-balance sheet financial instruments (lending commitments and letters of credit) are based on fees currently charged in the market to enter into similar agreements, taking into account, the remaining terms of the agreements and the counterparties' credit standing.

The estimated fair values of the Company's financial instruments were as follows at June 30, 2009 (in thousands):

	June 30, 2009	
	Carrying Amount	Fair Value
Financial assets:		
Cash and cash equivalents	\$ 13,254	\$ 13,254
Securities available-for-sale	103,349	103,349
Loans receivable, net of allowance	315,641	344,305
Accrued interest receivable	2,733	2,733
Financial liabilities:		
Deposits	360,376	361,269
Short-term borrowings	20,022	20,022
Long-term borrowings	39,191	39,675
Accrued interest payable	438	438
Off-balance sheet items:		
Commitments to giant loans	-	-
Unfunded commitments under lines of credit	-	-
Standby letters of credit	-	-

NOTE 9. EMERGENCY ECONOMIC STABILIZATION ACT OF 2008

In response to recent unprecedented market turmoil, the Emergency Economic Stabilization Act ("EESA") was enacted on October 3, 2008. EESA authorizes the Secretary of the Treasury to purchase up to \$700 billion in troubled assets from financial institutions under the Troubled Asset Relief Program or TARP. Troubled assets include residential or commercial mortgages and related instruments originated prior to March 14, 2008 and any other financial instrument that the Secretary determines, after consultation with the Chairman of the Board of Governors of the Federal Reserve System, the purchase of which is necessary to promote financial stability. If the Secretary exercises his authority under TARP, EESA directs the Secretary of Treasury to establish a program to guarantee troubled assets originated or issued prior to March 14, 2008. The Secretary is authorized to purchase up to \$250 billion in troubled assets immediately and up to \$350 billion upon certification by the President that such authority is needed. The Secretary's authority will be increased to \$700 billion if the President submits a written report to Congress detailing the Secretary's plans to use such authority unless Congress passes a joint resolution disapproving such amount within 15 days after receipt of the report. The Secretary's authority under TARP expires on December 31, 2009 unless the Secretary certifies to Congress that extension is necessary provided that his authority may not be extended beyond October 3, 2010.

Institutions selling assets under TARP will be required to issue warrants for common or preferred stock or senior debt to the Secretary. If the Secretary purchases troubled assets directly from an institution without a bidding process and acquires a meaningful equity or debt position in the institution as a result or acquires more than \$300 million in troubled assets from an institution regardless of method, the institution will be required to meet certain standards for executive compensation and corporate governance, including a prohibition against incentives to take unnecessary and excessive risks, recovery of bonuses paid to senior executives based on materially inaccurate earnings or other statements and a prohibition against agreements for the payment of golden parachutes. Institutions that sell more than \$300 million in assets under TARP auctions will not be entitled to a tax deduction for compensation in excess of \$500,000 paid to its chief executive or chief financial official or any its other three most highly compensated officers. In addition, any severance paid to such officers for involuntary termination or termination in connection with a bankruptcy or receivership will be subject to the golden parachute rules under the Internal Revenue Code.

EESA increases the maximum deposit insurance amount up to \$250,000 until December 31, 2009 and removes the statutory limits on the FDIC's ability to borrow from the Treasury during this period. The FDIC may not take the temporary increase in deposit insurance coverage into account when setting assessments. EESA allows financial institutions to treat any loss on the preferred stock of the Federal National Mortgage Association or Federal Home Loan Mortgage Corporation as an ordinary loss for tax purposes.

Pursuant to his authority under EESA, the Secretary of the Treasury has created the TARP Capital Purchase Plan under which the Treasury Department will invest up to \$250 billion in senior preferred stock of U.S. banks and savings associations or their holding companies. Qualifying financial institutions may issue senior preferred stock with a value equal to not less than 1% of risk-weighted assets and not more than the lesser of \$25 billion or 3% of risk-weighted assets. The senior preferred stock will pay dividends at the rate of 5% per annum until the fifth anniversary of the investment and thereafter at the rate of 9% per annum. The senior preferred stock may not be redeemed for three years except with the proceeds from an offering of common stock or preferred stock qualifying as Tier 1 capital in an amount equal to not less than 25% of the amount of the senior preferred. After three years, the senior preferred may be redeemed at any time in whole or in part by the financial institution. No dividends may be paid on common stock unless dividends have been paid on the senior preferred stock.

Until the third anniversary of the issuance of the senior preferred, the consent of the U.S. Treasury will be required for any increase in the dividends on the common stock or for any stock repurchases unless the senior preferred has been redeemed in its entirety or the Treasury has transferred the senior preferred to third parties. The senior preferred will not have voting rights other than the right to vote as a class on the issuance of any preferred stock ranking senior, any change in its terms or any merger, exchange or similar transaction that would adversely affect its rights. The senior preferred will also have the right to elect two directors if dividends have not been paid for six periods. The senior preferred will be freely transferable and participating institutions will be required to file a shelf registration statement covering the senior preferred. The issuing institution must grant the Treasury piggyback registration rights. Prior to issuance, the financial institution and its senior executive officers must modify or terminate all benefit plans and arrangements to comply with EESA. Senior executives must also waive any claims against the Department of Treasury.

In connection with the issuance of the senior preferred, participating institutions must issue to the Secretary immediately exercisable 10-year warrants to purchase common stock with an aggregate market price equal to 15% of the amount of senior preferred. The exercise price of the warrants will equal the market price of the common stock on the date of the investment. The Secretary may only exercise or transfer one-half of the warrants prior to the earlier of December 31, 2009 or the date the issuing financial institution has received proceeds equal to the senior preferred investment from one or more offerings of common or preferred stock qualifying as Tier 1 capital. The Secretary will not exercise voting rights with respect to any shares of common stock acquired through exercise of the warrants. The financial institution must file a shelf registration statement covering the warrants and underlying common stock as soon as practicable after issuance and grant piggyback registration rights. The number of warrants will be reduced by one-half if the financial institution raises capital equal to the amount of the senior preferred through one or more offerings of common stock or preferred stock qualifying a Tier 1 capital. If the financial institution does not have sufficient authorized shares of common stock available to satisfy the warrants or their issuance otherwise requires shareholder approval, the financial institution must call a meeting of shareholders for that purpose as soon as practicable after the date of investment. The exercise price of the warrants will be reduced by 15% for each six months that lapse before shareholder approval subject to a maximum reduction of 45%.

The Company had a filing deadline of November 14, 2008 to participate in the Capital Purchase Plan. The Company elected not to participate in the plan.

NOTE 10. FEDERAL DEPOSIT INSURANCE

The Company has experienced significant increases in the cost of federal deposit insurance from previous year's levels of five to seven basis points. The FDIC has recently increased the assessment rate for the most highly rated institutions to between 12 and 16 basis points starting with the first quarter of 2009 and to between 10 and 14 basis points thereafter. The result is an assessment rate being paid by the Bank of just under 14 basis points. Assessment rates could be further increased if an institution's FHLB advances exceed 15% of deposits. The FDIC has also established a program under which it fully guarantees all non-interest bearing transaction accounts and senior unsecured debt of a bank or its holding company. Institutions that did not opt out of the program by November 14, 2008 have been assessed ten basis points for non-interest bearing transaction account balances in excess of \$250,000 with the first quarter assessments for 2009 and 75 basis points of the amount of debt issued. Lastly, the FDIC has issued a final rule regarding the special assessment for June 30, 2009. The special assessment will be 5 basis points applied to the Bank's assets, net of Tier 1 capital. The assessment is for all insured institutions. The special assessment is payable September 30, 2009. The Company has accrued \$210,000 related to this special assessment for the quarter ending June 30, 2009.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of the consolidated financial statements of the Corporation is presented to provide insight into management's assessment of financial results. The Corporation's subsidiaries, Peoples National Bank and Peoples Advisors, LLC, provide financial services to individuals and businesses within the Bank's primary market area made up of Susquehanna, Wyoming and Northern Lackawanna Counties in Pennsylvania, and Broome County in New York. The Bank is a member of the Federal Reserve System and subject to regulation, supervision, and examination by the Office of the Comptroller of the Currency. Advisors is a member of the National Association of Securities Dealers (NASD), which also acts as the primary regulator for Advisors. Peoples Financial Leasing, LLC is a subsidiary of the Bank and provides employee leasing services to the Bank. Peoples Investment Holdings, LLC is also a subsidiary of the Bank and its main activities are the maintenance and management of its intangible investments and the collection and distribution of the income from such investments or from tangible investments located outside of Delaware. Likewise, Peoples Financial Capital Corporation is a subsidiary of the Company and its main activities are the maintenance and management of its intangible investments and the collection and distribution of the income from such investments or from tangible investments located outside of Delaware.

CAUTIONARY STATEMENT CONCERNING FORWARD LOOKING INFORMATION

Except for historical information, this Report may be deemed to contain "forward looking" information. Examples of forward looking information may include, but are not limited to, (a) projections of or statements regarding future earnings, interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure and other financial terms, (b) statements of plans and objectives of management or the Board of Directors, (c) statements of future economic performance, and (d) statements of assumptions, such as economic conditions in the market areas served by the Corporation and the Bank, underlying other statements and statements about the Corporation and the Bank or their respective businesses. Such forward looking information can be identified by the use of forward looking terminology such as "believes," "expects," "may," "intends," "will," "should," "anticipates," or the use of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy. No assurance can be given that the future results covered by the forward looking information will be achieved. Such statements are subject to risks, uncertainties, and other factors which could cause actual results to differ materially from future results expressed or implied by such forward looking information. Important factors that could impact operating results include, but are not limited to, (i) the effects of changing economic conditions in both the market areas served by the Corporation and the Bank and nationally, (ii) credit risks of commercial, real estate, consumer and other lending activities, (iii) significant changes in interest rates, (iv) changes in federal and state banking laws and regulations which could affect operations, (v) funding costs, and (vi) other external developments which could materially affect business and operations.

CRITICAL ACCOUNTING POLICIES

Disclosure of the Company's significant accounting policies is included in Note 1 to the consolidated financial statements of the Company's Annual Report on Form 10-K for the year ended December 31, 2008. Some of these policies are particularly sensitive requiring significant judgments, estimates and assumptions to be made by Management. Additional information is contained on page 32 of this report for the provision and allowance for loan losses.

OVERVIEW

Net income for the six months ended June 30, 2009 decreased 11.06% to \$2.774 million as compared to \$3.119 million for the same period in 2008. Diluted earnings per share decreased 11.00% to \$0.89 per share for the first half of 2009 from \$1.00 per share in the same six month period in 2008. At June 30, 2009, the Company had total assets of \$462.606 million, net loans of \$315.641 million, and total deposits of \$360.376 million.

FINANCIAL CONDITION

Cash and Cash Equivalents:

At June 30, 2009, cash, federal funds sold, and deposits with other banks totaled \$13.254 million as compared to \$18.533 million on December 31, 2008. The decrease over the first six months of 2009 has been directly attributable to the decrease in federal funds sold. As total deposit balances have decreased by \$10.892 million in the first half of 2009, federal funds sold have decreased \$4.980 million.

Management believes the liquidity needs of the Corporation are satisfied by the current balance of cash and cash equivalents, readily available access to traditional funding sources, and the portion of the securities and loan portfolios that mature within one year. The current sources of funds will enable the Corporation to meet all its cash obligations as they come due.

Securities:

Securities totaled \$103.349 million on June 30, 2009, decreasing by \$6.898 million, or 6.26% from the December 31, 2008 total of \$110.247 million.

The total securities portfolio is held as available for sale. This strategy was implemented in 1995 to provide more flexibility in using the investment portfolio for liquidity purposes as well as providing more flexibility in selling when market opportunities occur.

Securities available for sale are accounted for at fair value, with unrealized gains or losses net of deferred income taxes reported in the accumulated other comprehensive income component of stockholders' equity. The carrying value of securities, as of June 30, 2009, included an unrealized loss of \$7.312 million reflected as accumulated other comprehensive loss of \$4.826 million in stockholders' equity, net of deferred income taxes of \$2.486 million. This compares to an unrealized loss of \$7.205 million at December 31, 2008 reflected as accumulated other comprehensive loss of \$4.755 million, net of deferred income taxes of \$2.450 million. The majority of the unrealized losses reflect changes in interest rates subsequent to the acquisition of specific securities and management believes that these unrealized losses represent a temporary impairment of those securities. As long term rates increase, the underlying value of securities owned by the Company decrease, creating an unrealized loss. The Company does not intend to sell these securities nor is it likely they will be required to sell the security before recovery of its amortized cost basis. The Company has the intent and ability to hold such securities until maturity or market price recovery. Management

believes that the unrealized losses represent temporary impairment of the securities.

Management monitors the earnings performance and effectiveness of liquidity of the securities portfolio on a monthly basis through the Asset/Liability Committee (“ALCO”). The ALCO also reviews and manages interest rate risk for the Corporation. Through active balance sheet management and analysis of the securities portfolio, the Corporation maintains sufficient liquidity to satisfy depositor requirements and various credit needs of its customers.

Loans:

Net loans increased \$2.035 million, or 0.65%, to \$315.641 million as of June 30, 2009 from \$313.606 million as of December 31, 2008. Of the loan growth experienced in the second quarter of 2009, the most significant increase was in commercial loans at \$3.083 million, or 1.73%, to \$181.425 million as of June 30, 2009 compared to \$178.342 million at year-end December 31, 2008. Residential real estate mortgages decreased \$2.250 million, or 1.86%, to \$118.563 million as of June 30, 2009 compared to \$120.813 million as of December 31, 2008. Consumer loans increased the most in percentage terms at 6.55%, or \$1.112 million, to \$18.100 million as of June 30, 2009 compared to \$16.988 million at year-end December 31, 2008.

Maintaining the loan to deposit ratio is a goal of the Bank, but loan quality is always considered in this effort. Management has continued its efforts to create good underwriting standards for both commercial and consumer credit. Most commercial lending is done primarily with locally owned small businesses.

Deposits:

Deposits are attracted from within the Bank’s primary market area through the offering of various deposit instruments including NOW accounts, money market accounts, savings accounts, certificates of deposit, and IRA’s. During the six month period ended June 30, 2009, total deposits decreased by \$10.892 million, or 2.93%, to \$360.376 million compared to \$371.268 million as of December 31, 2008. Time deposits decreased by \$72.885 million, or 44.36%, to \$91.420 million when compared to year end December 31, 2008 at \$164.305 million. Other core deposit relationships increased or decreased as follows; demand deposits were up \$9.836 million, or 17.78%, to \$65.160 million when compared to \$55.324 million at December 31, 2008. Interest-bearing checking deposits were also up \$3.933 million, or 12.99%, to \$34.209 million compared to \$30.276 million as of December 31, 2008. Money market deposit accounts were down \$2.477 million, or 7.23%, to \$31.780 million compared to \$34.257 million as of December 31, 2008. And finally, savings deposits were up \$50.701 million, or 58.21%, to \$137.807 million when compared to \$87.106 million at December 31, 2008.

The trend in the first half of 2009 is expected due to the nature of those deposits affected. The current economic climate has induced consumers to seek safe alternatives in which to invest their money. Short term and core deposit rates have remained flat while at the same time rates offered on certificates of deposit have decreased compared to the same time period in 2008. As such, savings deposits offer consumers a competitive interest rate while at the same time offering the relative safety offered by a commercial bank and the expanded \$250,000 FDIC insurance.

Borrowings:

The Bank utilizes borrowings as a source of funds for its asset/liability management. Advances are available from the Federal Home Loan Bank (FHLB) provided certain standards related to credit worthiness have been met. Repurchase and term agreements are also available from the FHLB.

Total short-term borrowings at June 30, 2009 were \$20.022 million as compared to \$18.432 million as of December 31, 2008, an increase of \$1.590 million, or 8.63%. Long-term borrowings were \$39.191 million as of June 30, 2009 compared to \$39.691 million as of December 31, 2008, a decrease of \$500 thousand, or 1.26%. The decrease in long-term borrowings includes the contractual principal payments to the FHLB.

Accrued Interest Payable:

Accrued interest payable decreased \$1.211 million, or 73.44%, from December 31, 2008 to June 30, 2009 due to the decrease in the balance of interest bearing deposits as well as the offered rates on deposits. Also, the cost of borrowings decreased significantly over the same period. See the interest rates and interest differential table on page 31.

Capital:

The adequacy of the Company's capital is reviewed on an ongoing basis with reference to the size, composition and quality of the Company's resources and regulatory guidelines. Management seeks to maintain a level of capital sufficient to support existing assets and anticipated asset growth, maintain favorable access to capital markets, and preserve high quality credit ratings. As of June 30, 2009, regulatory capital to total average assets was 8.97% as compared to 8.45% on December 31, 2008. The Company repurchases its stock in the open market, or from individuals as warranted, to leverage the capital account and to provide stock for its stock option plan and dividend reinvestment plan. In the six months ended June 30, 2009 however, the Company did not purchase any additional shares for the treasury.

The Company has complied with the standards of capital adequacy mandated by the banking regulators. The bank regulators have established "risk-based" capital requirements designed to measure capital adequacy. Risk-based capital ratios reflect the relative risks of various assets the banks hold in their portfolios. A weight category of either 0% (lowest risk asset), 20%, 50%, or 100% (highest risk assets) is assigned to each asset on the balance sheet. Capital is being maintained in compliance with risk-based capital guidelines. The Company's Tier 1 capital to risk weighted asset ratio was 11.49% and the total capital ratio to risk weighted asset ratio was 12.31% at June 30, 2009. The Company is deemed to be well-capitalized under regulatory standards.

Liquidity:

Liquidity measures an organization's ability to meet cash obligations as they come due. The consolidated statements of cash flows presented in the accompanying consolidated financial statements included in Part I of this Form 10-Q provide analysis of the Company's cash and cash equivalents. Additionally, management considers that portion of the loan and investment portfolio that matures within one year as part of the Company's liquid assets.

The liquidity of the Company is reflected in its capacity to have sufficient amounts of cash available to fund the needs of customer withdrawal requests, accommodate loan demand, and maintain regulatory reserve requirements; that is to conduct banking business. Additional liquidity is obtained by either increasing liabilities or by decreasing assets. The primary source for increasing liabilities is the generation of additional deposit accounts, which are managed through our system of branches. In addition, payments on existing loans or securities available-for-sale can generate additional liquidity. Other sources include income from operations, decreases in federal funds sold or interest-bearing deposits in other banks, securities sold under agreements to repurchase, and borrowings from the Federal Home Loan Bank (FHLB). As of June 30, 2009, the Bank had a borrowing capacity from the Federal Home Loan Bank of approximately \$153,100,000. In 2008, significant increases in deposits limited the Company's dependence on overnight borrowings at the FHLB and provided the majority of additional cash with operating activities also contributing to liquidity. The additional deposits were used primarily to grant loans to customers. In 2009, overall deposits have decreased as many of the certificates of deposits that contributed to the dramatic deposit growth in 2008 have not renewed. This decrease however has not resulted in an increased reliance on the FHLB for funding needs.

The Company feels that it offers a variety of attractive deposit products at competitive rates that will mitigate significant runoff in deposits from occurring. One such product is the certificate of savings product which acts as a hybrid between a core savings product and a short term certificate of deposit. This deposit product offers an interest rate that far outweighs any comparable savings product on the market and a quarterly limit placed on customer withdrawals which provide stability in funding to the Company. This account has proven to be a deposit leader in the past and the Company will rely on it to provide a source of funds. Beyond its own product line up, the Company also has available to it open lines of credit at the FHLB with current availability of approximately \$93,887,000, Atlantic Central Bankers Bank (ACBB) in the amount of \$7,000,000 and the Federal Reserve Bank of Philadelphia (FRB) that amount to \$16,700,000. While the FHLB has been an inexpensive source of funds in the past, liquidity concerns surrounding the FHLB have prompted the Company to explore additional funding options at the FRB. Collateral standards of the FRB make it feasible to increase available lines and open the Company up to yet another source of funding liquidity. This will be investigated further and implemented in 2009.

The ALCO addresses the liquidity needs of the Bank to see that sufficient funds are available to meet credit demands and deposit withdrawals, as well as to the placement of available funds in the investment portfolio. In assessing liquidity requirements, equal consideration is given to the current position as well as the future outlook.

Off-Balance Sheet Arrangements:

The Company's consolidated financial statements do not reflect various commitments that are made in the normal course of business, which may involve some liquidity risk. These commitments consist primarily of commitments to grant new loans, unfunded commitments of existing loans and letters of credit made under the same standards as on-balance sheet instruments. Unused commitments on June 30, 2009 totaled \$52.927 million, which consisted of \$32.514 million in unfunded commitments of existing loans, \$8.970 million to grant new loans and \$11.443 million in letters of credit. Due to fixed maturity dates and specified conditions within these instruments, many will expire without being drawn upon. Management believes that amounts actually drawn upon can be funded in the normal course of operations and therefore, do not represent a significant liquidity risk to the Company.

Interest Rate Sensitivity:

The management of interest rate sensitivity seeks to avoid fluctuating net interest margins and to provide consistent net interest income through periods of changing interest rates.

The Company's risk of loss arising from adverse changes in the fair value of financial instruments, or market risk, is composed primarily of interest rate risk. The primary objective of the Company's asset/liability management activities is to maximize net interest income while maintaining acceptable levels of interest rate risk. The Company's ALCO is responsible for establishing policies to limit exposure to interest rate risk, and to ensure procedures are established to monitor compliance with those policies. The guidelines established by ALCO are reviewed by the Company's Board of Directors.

The tools used to monitor sensitivity are the Statement of Interest Sensitivity Gap and the Interest Rate Shock Analysis. The Bank uses a software model to measure and to keep track. In addition, an outside source does a quarterly analysis to make sure our internal analysis is current and correct. The Statement of Interest Sensitivity Gap is a good assessment of current position and is a very useful tool for the ALCO in performing its job. This report is monitored in an effort to "match" maturities or re-pricing opportunities of assets and liabilities, in order to attain the maximum interest within risk tolerance policy guidelines. The Statement does, although, have inherent limitations in that certain assets and liabilities may react to changes in interest rates in different ways, with some categories reacting in advance of changes and some lagging behind the changes. In addition, there are estimates used in determining the actual propensity to change of certain items, such as deposits without maturities.

The following table sets forth the Company's interest sensitivity analysis as of June 30, 2009:

INTEREST RATE SENSITIVITY ANALYSIS

(Dollars in thousands)	Maturity or Re-pricing In:				
	3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years
RATE SENSITIVE ASSETS					
Interest bearing deposits in other banks	\$769	\$0	\$0	\$0	\$0
Federal funds sold	5,597	0	0	0	0
Securities	4,628	3,534	5,736	20,327	69,124
Loans	39,838	19,716	44,560	161,458	50,069
Total rate sensitive assets	50,832	23,250	50,296	181,785	119,193
Cumulative rate sensitive assets	\$50,832	\$74,082	\$124,378	\$306,163	\$425,356
RATE SENSITIVE LIABILITIES					
Interest bearing checking	\$34,209	\$0	\$0	\$0	\$0
Money market deposits	31,780	0	0	0	0
Regular savings	137,807	0	0	0	0
CDs and IRAs	29,816	16,455	11,637	32,029	1,483
Short-term borrowings	20,022	0	0	0	0
Long-term borrowings	219	222	3,181	23,782	11,787
Total rate sensitive liabilities	253,853	16,677	14,818	55,811	13,270
Cumulative rate sensitive liabilities	\$253,853	\$270,530	\$285,348	\$341,159	\$354,429
Period gap	\$(203,021)	\$6,573	\$35,478	\$125,974	\$105,923
Cumulative gap	\$(203,021)	\$(196,448)	\$(160,670)	\$(34,996)	\$70,927
Cumulative RSA to RSL	20.15 %	27.50 %	43.70 %	89.84 %	120.10 %
Cumulative gap to total assets	(43.82)%	(42.40)%	(34.73)%	(7.50)%	15.40 %

RESULTS OF OPERATIONS

Net Interest Income:

For the three months ended June 30, 2009, total interest income decreased by \$200 thousand, or 3.17%, to \$6.108 million as compared to \$6.308 million for the three months ended June 30, 2008. This decrease was primarily due to lower rates. The yield earned on loans for the three months ended June 30, 2009 was 6.29% compared to a 6.82% yield on loans for the quarter ended June 30, 2008. Conversely, average earning assets increased to \$426.965 million for the three months ended June 30, 2009 as compared to \$408.926 million for the three months ended June 30, 2008 while average loans increased to \$319.052 million for the quarter ended June 30, 2009 as compared to \$298.412 million for the same period in 2008. This would indicate the reduction in interest was interest rate driven when comparing the two periods. The resulting interest earned on loans was \$4.880 million for the three month period ended June 30, 2009 compared to \$4.927 million for the same period in 2008, a decrease of \$47 thousand, or 0.95%. The overall yield on earning assets, on a fully tax equivalent basis, decreased for the three months ended June 30, 2009 to 6.10% as compared to 6.53% for the three months ended June 30, 2008. This has been due to lower market yields available for investment.

For the six months ended June 30, 2009, total interest income decreased by \$427 thousand, or 3.36%, to \$12.292 million as compared to \$12.719 million for the six months ended June 30, 2008. This decrease was also primarily due to lower rates. The yield earned on loans for the six months ended June 30, 2009 was 6.31% compared to a 6.96% yield on loans for the six months ended June 30, 2008. As with the quarterly discussion, average earning assets increased for the six months ended June 30, 2009 to \$432.313 million as compared to \$407.354 million for the six months ended June 30, 2008. Average total loans increased to \$318.438 million for the six months ended June 30, 2009 as compared to \$295.169 million for the six months ended June 30, 2008. The resulting interest earned on loans was \$9.724 million for the six-month period ended June 30, 2009 compared to \$9.949 million for the same period in 2008, a decrease of \$225 thousand, or 2.26%. The overall yield on earning assets, on a tax equivalent basis, decreased for the six months ended June 30, 2009 to 6.09% as compared to 6.61% for the six months ended June 30, 2008.

Total interest expense decreased by \$455 thousand, or 21.18%, to \$1.693 million for the three months ended June 30, 2009 from \$2.148 million for the three months ended June 30, 2008. This decrease was attributable to the decrease in the cost of funds. The cost of funds decreased to 1.92% for the three months ended June 30, 2009 as compared to 2.56% for the second quarter of 2008. Average interest bearing liabilities on the other hand increased to \$353.129 million for the three months ended June 30, 2009 as compared to \$337.383 million for the three months ended June 30, 2008. This increase was due to the increase in average savings deposits. Average savings deposits increased to \$127.190 million for the three month period ended June 30, 2009 as compared to \$96.542 million for the same period in 2008. This increase occurred at the same time that average time deposit balances were decreasing. Average time deposits decreased to \$99.834 million for the three month period ended June 30, 2009 as compared to \$119.247 million for the same period in 2008. This was due to the low rate environment and the resulting rates offered for time deposits.

Total interest expense decreased by \$758 thousand, or 16.54%, to \$3.824 million for the six months ended June 30, 2009 from \$4.582 million for the six months ended June 30, 2008. As with the quarterly interest expense, this decrease was primarily attributable to the decrease in the cost of funds, which decreased to 2.14% for the six month period ended June 30, 2009 as compared to 2.74% for the same period in 2008. Offsetting the decrease in the cost of funds was the increase to average interest bearing liabilities to \$360.477 million for the six months ended June 30, 2009 as compared to \$335.757 million for the six months ended June 30, 2008. The year-to-date increase in average interest bearing liabilities was also due to the increase in average savings deposits. Average savings deposits increased to \$112.037 million for the six month period ended June 30, 2009 when compared to \$97.048 million for the six month period ended June 30, 2008.

Net interest income increased by \$255 thousand, or 6.13%, to \$4.415 million for the three months ended June 30, 2009 from \$4.160 million for the three months ended June 30, 2008. The Bank's net interest spread increased to 4.18% for the three months ended June 30, 2009 from 3.97% for the three months ended June 30, 2008 on a fully tax equivalent basis. The net interest margin increased to 4.51% for the three month period ended June 30, 2009 from 4.42% for the three month period ended June 30, 2008 on a fully tax equivalent basis. The yield curve has become increasingly steep since the Federal Reserve began their process of injecting liquidity into the financial markets through the implementation of lower overnight and discount rates as well as the treasury purchases aimed at keeping borrowing rates low. The effect this has had on short-term rates is that overnight federal funds rates are near 0%. The preceding discussion is an indication of the results of how lower funding costs have affected the company. As deposit liability rates are affected by the short end of the yield curve and loan and securities rates tend to follow the long end of the yield curve, the result has been an increase in net interest margin between the two periods compared.

Net interest income increased by \$331 thousand, or 4.07%, to \$8.468 million for the six months ended June 30, 2009 from \$8.137 million for the six months ended June 30, 2008. The Bank's net interest spread increased to 3.95% for the six months ended June 30, 2009 from 3.87% for the six months ended June 30, 2008 on a fully tax equivalent basis. The net interest margin actually has shown a slight decrease to 4.30% for the six month period ended June 30, 2009 from 4.35% for the six month period ended June 30, 2008 on a fully tax equivalent basis. The increase in net interest spread for the six months ended June 30, 2009 when compared to the six months ended June 30, 2008 is due to the steep yield curve discussed with the quarterly results.

Below are the tables which set forth average balances and corresponding yields for the three-month and six-month periods ended June 30, 2009, and June 30, 2008:

Distribution of Assets, Liabilities and Stockholders' Equity;
Interest Rates and Interest Differential (quarter to date)

(Dollars in thousands)	June 2009		Three months ended		June 2008			
	Average Balance	Interest	(2) Yield/ Rate	Average Balance	Interest	(2) Yield/ Rate		
ASSETS								
Loans								
Real estate	\$ 119,998	\$ 1,834	6.13	% \$ 116,271	\$ 1,841	6.37	%	
Installment	17,500	268	6.14	% 17,087	323	7.60	%	
Commercial	159,096	2,533	6.39	% 140,940	2,493	7.11	%	
Tax exempt (1)	21,966	235	6.50	% 23,652	259	6.67	%	
Other loans	492	10	8.15	% 462	11	9.58	%	
Total loans (1)	319,052	4,880	6.29	% 298,412	4,927	6.82	%	
Investment securities (AFS)								
Taxable	51,885	693	5.36	% 69,525	974	5.63	%	
Non-taxable (1)	52,624	530	6.12	% 39,807	401	6.13	%	
Total securities (1)	104,509	1,223	5.74	% 109,332	1,375	5.82	%	
Time deposits with other banks	1,535	4	1.05	% 819	4	1.96	%	
Fed funds sold	1,869	1	0.21	% 363	2	2.22	%	
Total earning assets (1)	426,965	6,108	6.10	% 408,926	6,308	6.53	%	
Less: allowance for loan losses	(2,841)		(2,517)			
Cash and due from banks	5,991			6,946				
Premises and equipment, net	6,342			6,016				
Other assets	22,476			18,926				
Total assets	\$ 458,933			\$ 438,297				
LIABILITIES AND STOCKHOLDERS' EQUITY								
Deposits								
Interest bearing demand	\$ 32,913	69	0.84	% \$ 29,322	72	0.99	%	
Regular savings	127,190	415	1.31	% 96,542	298	1.24	%	
Money market savings	32,588	85	1.05	% 34,997	148	1.70	%	
Time	99,834	635	2.55	% 119,247	1,113	3.75	%	
Total interest bearing deposits	292,525	1,204	1.65	% 280,108	1,631	2.34	%	
Borrowings	60,604	489	3.24	% 57,275	517	3.63	%	
Total interest bearing	353,129	1,693	1.92	% 337,383	2,148	2.56	%	
Liabilities								
Net interest income (1)		\$ 4,415	4.18	%		\$ 4,160	3.97	%
Non-interest bearing								
Demand deposits	64,658			56,327				
Accrued expenses and								
Other liabilities	2,614			3,023				
Stockholders' equity	38,532			41,564				
Total liabilities and								
Stockholders' equity	\$ 458,933			\$ 438,297				

Interest income/earning assets				
(1)	6.10	%	6.53	%
Interest expense/earning assets	1.59	%	2.11	%
Net interest margin (1)	4.51	%	4.42	%

(1) Yields on tax exempt assets have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.

(2) Yields and costs are based on a 365/91 annualization method.

Distribution of Assets, Liabilities and Stockholders' Equity;
Interest Rates and Interest Differential (year to date)

(Dollars in thousands)	June 2009		Six months ended		June 2008			
	Average Balance	Interest	(2) Yield/ Rate		Average Balance	Interest	(2) Yield/ Rate	
ASSETS								
Loans								
Real estate	\$120,716	\$3,674	6.14	%	\$116,685	\$3,763	6.49	%
Installment	17,292	557	6.50	%	17,159	682	7.99	%
Commercial	158,075	5,007	6.39	%	137,134	4,960	7.27	%
Tax exempt (1)	21,873	466	6.51	%	23,725	521	6.69	%
Other loans	482	20	8.37	%	466	23	9.93	%
Total loans (1)	318,438	9,724	6.31	%	295,169	9,949	6.96	%
Investment securities (AFS)								
Taxable	55,595	1,517	5.50	%	70,514	1,940	5.53	%
Non-taxable (1)	51,149	1,031	6.16	%	40,680	818	6.12	%
Total securities (1)	106,744	2,548	5.82	%	111,194	2,758	5.75	%
Time deposits with other banks	1,753	12	1.38	%	809	10	2.49	%
Fed funds sold	5,378	8	0.30	%	182	2	2.21	%
Total earning assets (1)	432,313	12,292	6.09	%	407,354	12,719	6.61	%
Less: allowance for loan losses	(2,935)			(2,481)		
Cash and due from banks	5,859				6,477			
Premises and equipment, net	6,757				5,855			
Other assets	22,110				18,335			
Total assets	\$464,104				\$435,540			
LIABILITIES AND STOCKHOLDERS' EQUITY								
Deposits								
Interest bearing demand	\$31,614	132	0.84	%	\$27,483	137	1.00	%
Regular savings	112,037	680	1.22	%	97,048	713	1.48	%
Money market savings	32,601	168	1.04	%	34,631	346	2.01	%
Time	125,151	1,886	3.04	%	116,998	2,295	3.94	%
Total interest bearing deposits	301,403	2,866	1.92	%	276,160	3,491	2.54	%
Borrowings	59,074	958	3.27	%	59,597	1,091	3.68	%
Total interest bearing	360,477	3,824	2.14	%	335,757	4,582	2.74	%
Liabilities								
Net interest income (1)		\$8,468	3.95	%		\$8,137	3.87	%
Non-interest bearing								
Demand deposits	61,712				54,007			
Accrued expenses and								
Other liabilities	3,206				3,097			
Stockholders' equity	38,709				42,679			
Total liabilities and								
Stockholders' equity	\$464,104				\$435,540			
Interest income/earning assets								
(1)			6.09	%			6.61	%
Interest expense/earning assets								
			1.78	%			2.26	%

Net interest margin (1)	4.31	%	4.35	%
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(1) Yields on tax exempt assets have been calculated on a fully tax equivalent basis assuming a tax rate of 34%.

(2) Yields and costs are based on a 365/181 annualization method.

The following table shows the net interest income on a fully-tax-equivalent basis for the six month and three month periods ended June 30, 2009 and June 30, 2008.

NET INTEREST INCOME

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Total Interest Income	\$6,108	\$6,308	\$12,292	\$12,719
Tax Exempt Loans	121	133	240	268
Non-Taxable Securities	273	206	531	421
	6,502	6,647	13,063	13,408
Total Interest Expense	1,693	2,148	3,824	4,582
Net Interest Income (Fully Tax Equivalent Basis)	\$4,809	\$4,499	\$9,239	\$8,826

Provision for Loan Losses:

The provision for loan losses for the three months ended June 30, 2009 was \$1.040 million, an increase of \$905 thousand, or 670.37% over the same period in 2008. The increase in the provision for the second quarter of 2009 was due to a large commercial credit which had deteriorated to the point where the ultimate satisfaction of the credit was doubtful. The Company felt it prudent to charge the reserve and maintain satisfactory reserve levels.

The provision for loan losses for the six months ended June 30, 2009 was \$1.205 million, an increase of \$950 thousand, or 372.55% over the same period in 2008. This too was the result of the charge to reserves for the doubtful commercial credit discussed within the quarterly results. One of the Bank's main goals is to increase the loan to deposit ratio without jeopardizing loan quality. To reach its goal, management has continued its efforts to create strong underwriting standards for both commercial and consumer credit. The Bank's lending consists primarily of retail lending which includes single family residential mortgages and other consumer lending and commercial lending primarily to locally owned small businesses. The Bank has not participated in any sub-prime lending activity.

In the three month period ended June 30, 2009, charge-offs totaled \$1.294 million while net charge-offs totaled \$1.241 million as compared to \$11 thousand and \$2 thousand, respectively, for the same three month period in 2008.

In the six month period ended June 30, 2009, charge-offs totaled \$1.383 million while net charge-offs totaled \$1.279 million as compared to \$130 thousand and \$104 thousand, respectively, for the same six month period in 2008.

The variance between periods is due to the eventual charge off which was experienced in relation to the commercial credit discussed with the provision for loan loss. The charge off of this credit and increase in provisioning levels has allowed the Company to maintain adequate reserves.

Monthly, senior management uses a detailed analysis of the loan portfolio to determine loan loss reserve adequacy. The process considers all “problem loans” including classified, criticized, and monitored loans. Prior loan loss history and current market trends, both nationally and locally, are taken into consideration. A watch list of potential problem loans is maintained and monitored on a monthly basis by the Board of Directors. The Bank has not had, nor presently has, any foreign loans. Based upon this analysis, senior management has concluded that the allowance of loan losses is adequate.

Non-performing loans:

(Dollars in Thousands)	June 30, 2009	December 31, 2008		
Non-accrual and restructured	\$ 2,196	\$	4,871	
Loans past due 90 or more days, accruing interest	173		245	
Total nonperforming loans	2,369		5,116	
Foreclosed assets	5,440		5,171	
Total nonperforming assets	\$ 7,809	\$	10,287	
Nonperforming loans to total loans at period-end	0.74	%	1.62	%
Nonperforming assets to period end loans and foreclosed assets	2.41	%	3.20	%

Other Income:

Service charges and fees decreased 5.89%, or \$30 thousand, to \$479 thousand in the three months ended June 30, 2009, from \$509 thousand in the three months ended June 30, 2008. Net overdraft fees were \$263 thousand for the three months ended June 30, 2009 compared to \$311 thousand for the same period in 2008. This is a decrease of \$48,000, or 15.43% and it more than accounts for the variance in customer service fees between periods.

Service charges and fees decreased 5.01%, or \$49 thousand, to \$929 thousand in the six months ended June 30, 2009, from \$978 thousand in the six months ended June 30, 2008. Net overdraft fees were \$529 thousand for the six months ended June 30, 2009 compared to \$603 thousand for the same period in 2008. This is a decrease of \$74,000, or 12.27% and it more than accounts for the variance in customer service fees between periods.

Investment division income was \$119 thousand for the three month period ended June 30, 2009, an increase of \$43 thousand, or 56.58%, from \$76 thousand for the same period in 2008. The increase is expected under normal operating conditions as the investment division grows.

Investment division income was \$225 thousand for the six month period ended June 30, 2009, an increase of \$65 thousand, or 40.63%, from \$160 thousand for the same period in 2008. See previous discussion included in the quarterly results.

Earnings on investment in life insurance (BOLI) was \$82 thousand for the three month period ended June 30, 2009, compared to \$76 thousand for the three month period ended June 30, 2008, an increase of \$6 thousand, or 7.89%. This increase is not considered to be material.

Earnings on investment in life insurance (BOLI) were \$170 thousand for the six month period ended June 30, 2009, an increase of \$15 thousand, or 9.68%, when compared to \$155 thousand for the six month period ended June 30, 2008. Rate variances in the amount of \$7 thousand were recorded in January 2009 for the period ended December 31, 2008. This remaining variance is considered immaterial.

Other income was \$330 thousand for the three months ended June 30, 2009, an increase of \$189 thousand, or 134.04% from \$141 thousand for the comparable period in 2008. The most significant increases were in fees and premiums recognized on mortgage sales for the quarter. With long rates being at historical lows, this activity has picked up in the current year. Income recognized through mortgage sales is up \$138 thousand, or 336.59% at \$179 thousand when comparing the second quarter of 2009 to the same period in 2008, which came in at \$41 thousand.

Other income was \$494 thousand for the six months ended June 30, 2009, an increase of \$231 thousand, or 87.45%, from \$263 thousand for the comparable period in 2008. As with the quarterly results, the most significant increases were in fees and premiums recognized on mortgage sales for the quarter which are up \$161 thousand, or 240.30% at \$227 thousand when comparing the first six months of 2009 to the same period in 2008, which came in at \$66 thousand.

Gains on security sales were \$339 thousand for the three months ended June 30, 2009 compared to losses of \$10 thousand for the comparable period in 2008, an increase of \$349 thousand. This variance is the result of market opportunities to sell higher yielding securities at a gain as well as an exchange of one of the Company's common stock available for sale securities for common stock available for sale security in another entity. The transaction was structured so that 60% of the resulting company shares were recognized in cash and 40% were exchanged for shares in the new company. The result of this transaction was the realization of a \$248 thousand gain in the second quarter of 2009. As market rates have remained low, gains in the securities portfolio have become more common and the Company has taken advantage of these opportunities to continue the liquidation of securities that did not necessarily fit the desired security portfolio mix.

Gains on security sales were \$518 thousand for the six months ended June 30, 2009 compared to gains of \$16 thousand for the comparable period in 2008, an increase of \$502 thousand. The increase is due to opportunities provided by market conditions to sell some securities at gains as well as the merger transaction discussed with the quarterly results.

As previously mentioned in the discussion of securities, management evaluates securities for other than temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As such, a determination was made in the first half of 2009 to record other than temporary impairment charges in relation to two equity positions held by the Company. The amount of impairment charged against income for the six months ended June 30, 2009 was \$136 thousand as compared to similar charges for the period ended June 30, 2008 of \$265 thousand. The amount of impairment charged against income for the quarter ended June 30, 2009 was \$60 thousand as compared to similar charges for the quarter ended June 30, 2008 of \$83 thousand. These securities will be monitored in future quarters for any further deterioration.

Other Operating Expenses:

Total other expenses increased 28.00%, or \$704 thousand, to \$3.218 million during the three months ended June 30, 2009 compared to \$2.514 million for the comparable period in 2008.

Total other expenses increased 18.63%, or \$964 thousand, to \$6.139 million during the six months ended June 30, 2009 compared to \$5.175 million for the comparable period in 2008.

Components of other expenses are as follows:

Salaries and benefits increased 20.80%, or \$235 thousand, to \$1.365 million for the three months ended June 30, 2009 compared to \$1.130 million for the same period in 2008. A partial contributor to the increase is additional branch staff in the current period when compared to the comparable period in 2008. The Glenburn Township branch location was opened in the fourth quarter of 2008 and thus the employment costs associated with this office would not have been incurred in this same period for 2008. Salaries and benefits are within the second quarter 2009 budgeted amounts.

Salaries and benefits increased 15.64%, or \$366 thousand, to \$2.706 million for the six months ended June 30, 2009 compared to \$2.340 million for the same period in 2008, also as a result of additional branch staff between the two periods as well as the addition of other support staff as the Company continues to grow. The full-time equivalent number of employees was 125 as of June 30, 2009 compared to 112 as of June 30, 2008.

Occupancy expenses increased \$26 thousand, or 14.94%, for the three month period ended June 30, 2009, to \$200 thousand, compared to \$174 thousand for the same period in 2008. This is considered to be in line, and actually below budgeted expectations.

Occupancy expense also increased \$67 thousand, or 18.01%, for the six month period ended June 30, 2009, to \$439 thousand, compared to \$372 thousand for the six month period ended June 30, 2008. Higher costs associated with winter maintenance of buildings (snow removal, salting, etc.), as well as the fact that one additional property in Glenburn Township is now being maintained accounts for the variance in this expense category for 2009.

Equipment expense increased \$17 thousand, or 14.91%, for the three month period ended June 30, 2009, to \$131 thousand, compared to \$114 thousand for the same period in 2008. Increased depreciation expense in relation to new office equipment and computer equipment accounts for \$13 thousand of the difference between periods. This variance is considered to be immaterial and is within budget expectations.

Equipment expense increased \$36 thousand, or 15.06%, for the six month period ended June 30, 2009, to \$275 thousand, compared to \$239 thousand for the six month period ended June 30, 2008. Again, increased depreciation expense in relation to new office equipment and computer equipment accounts for \$27 thousand of the difference between periods. The year to date variance is considered to be immaterial and is also within budget expectations.

FDIC insurance and assessments were up to \$453 thousand for the three months ended June 30, 2009 when compared to \$38 thousand for the same period in 2008. The increases in FDIC assessments for 2009 as well as the special assessment that has been levied on all insured financial institutions were previously discussed in Note 10 to the consolidated financial statements as included in this document.

Increases to FDIC insurance and assessments also had a significant effect on the year to date figure which increased to \$544 thousand for the six months ended June 30, 2009 when compared to \$75 thousand for the same period in 2008.

Professional fees and outside services increased \$23 thousand, or 20.00%, in the three months ended June 30, 2009 to \$138 thousand, compared to \$115 thousand for the three month period ended June 30, 2008. Professional services related to mortgage processing in the second quarter of 2009 in the amount of \$28 thousand account for the variance between periods. The Company did not incur similar costs in the second quarter of 2008.

Professional fees and outside services decreased \$9 thousand, or 3.16%, in the six months ended June 30, 2009 to \$276 thousand, compared to \$285 thousand for the same six month period ended June 30, 2008. This decrease is considered immaterial and is in line with budget expectations as decreases were projected for 2009.

Computer services and supplies increased \$49 thousand, or 21.30%, for the three months ended June 30, 2009, to \$279 thousand, compared to \$230 thousand for the comparable period in 2008. This increase is slightly ahead of budget expectations as the Company works to implement new technologies to its information technologies department. Increases projected for the quarter ended June 30, 2009 were \$35 thousand.

Computer services and supplies increased \$65 thousand, or 14.10%, for the six months ended June 30, 2009, to \$526 thousand, compared to \$461 thousand for the comparable period in 2008. This increase too is considered to be line with budget expectations, and is in fact slightly below projections for the second quarter of 2009. Increases were expected as the Company works to implement new technologies to its information technologies department.

Taxes, other than payroll and income, increased \$27 thousand, or 31.03%, to \$114 thousand for the three months ended June 30, 2009 compared to \$87 thousand for the same period in 2008. The increase is due to shares tax paid by the Company. The basis for this tax, among other criteria, is the asset base of the Company. As significant growth was experienced in loans and deposits between periods, the corresponding shares tax also increased. The shares tax accounts for \$26 thousand of this variance.

Taxes, other than payroll and income, increased \$33 thousand, or 18.64%, to \$210 thousand for the six months ended June 30, 2009 compared to \$177 thousand for the same period in 2008. The increase for the six months ended June 30, 2009 is also due to shares tax paid by the Company. The shares tax accounts for a \$35 thousand variance when comparing the six months ended June 30, 2009 and 2008.

Amortization expense-deposit acquisition premiums remained flat at \$64 thousand for the three months ended June 30, 2009 compared to the same period in 2008.

Amortization expense-deposit acquisition premiums also remained flat at \$129 thousand for the six months ended June 30, 2009 when compared to the same period in 2008.

Stationary and printing supplies increased \$1 thousand, or 1.09%, to \$93 thousand for the three months ended June 30, 2009 compared to \$92 thousand for the same period in 2008. This variance was within budget expectations.

Stationary and printing supplies increased \$13 thousand, or 7.65%, to \$183 thousand for the six months ended June 30, 2009 compared to \$170 thousand for the same period in 2008. This variance was within budget expectations.

All other operating expenses decreased \$89 thousand, or 18.94%, to \$381 thousand in the three months ended June 30, 2009, compared to \$470 thousand for the same three month period in 2008. The decrease is due to the elimination in 2009 of costs incurred in 2008 related to a commercial property in which a deed in lieu of foreclosure was taken. Overall costs associated with other real estate owned by the Company decreased for the quarter ended June 30, 2009 by \$90 thousand when compared to the same period in 2008.

All other operating expenses decreased \$76 thousand, or 8.20%, to \$851 thousand for the six month period ended June 30, 2009, compared to \$927 thousand for the same six month period in 2008. The decrease is also due to the elimination in 2009 of costs incurred in 2008 related to a commercial property in which a deed in lieu of foreclosure was taken. Overall costs associated with other real estate owned by the Company decreased for the six months ended June 30, 2009 by \$210 thousand when compared to the same period in 2008. The favorable variance was offset by an increase to marketing expenses which increased \$108 thousand for the six months ended June 30, 2009 when compared to the same period in 2008.

Income Tax Provision:

The Corporation recorded an income tax provision of \$193 thousand, or 13.35% of income, and \$516 thousand, or 23.24% of income, for the quarters ended June 30, 2009 and 2008, respectively.

The Corporation recorded an income tax provision of \$550 thousand, or 16.55% of income, and \$895 thousand, or 22.30% of income, for the six months ended June 30, 2009 and 2008, respectively. Decreases in the effective tax rate for the quarter ended, and year-to-date period ended June 30, 2009 is due to increased tax-exempt income in relation to total income.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

The Federal Reserve has now decreased the overnight borrowing rate to a range of 0% to 0.25% since they began their process of injecting liquidity into the financial markets through the implementation of lower overnight and discount rates. The Federal Reserve and Treasury Department have also acted in concert to drive longer term rates to historic lows as well as operating as a backstop to the financial industry through direct infusions of capital. The current environment could persist until such a time that credit markets are operating freely and/or inflation becomes a threat. As such, the Company is operating within a steep, albeit low rate yield curve environment which has allowed the Company to maintain a strong net interest margin. As of June 30, 2009, the Bank is currently showing more sensitivity to an upward rate shift scenario. The results of the latest financial simulation follow. The simulation shows a possible decrease in net interest income of 13.93%, or \$2.514 million, in a +200 basis point rate shock scenario over a one-year period. An increase of 4.27% or \$771 thousand is shown in the model at a -200 basis point rate shock scenario. The net interest income risk position of the Bank is within the guidelines established by the Bank's asset/liability policy for interest rate sensitivity testing. The variances are also within policy guidelines when tested over two full years. The percentage variances show a net interest income decrease of 10.49% when tested up 200 basis points and a decrease of 0.93% when tested down 200 basis points. The Bank continuously monitors this rate sensitivity and acts accordingly to minimize its risk to the overall asset liability position of the Company.

Equity value at risk is monitored regularly and is also within established policy limits. Please refer to the Annual Report on Form 10-K filed with the Securities and Exchange Commission for December 31, 2008, for further discussion of this matter.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures.

The Company's management, including the Company's Chief Executive Officer and Principal Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended) as of June 30, 2009. Based upon that evaluation, the Chief Executive Officer and Principal Financial Officer concluded that, as of the Evaluation Date, the Company's disclosure controls and procedures were effective in timely alerting them to any material information relating to the Company and its subsidiaries required to be included in the Company's periodic SEC filings.

(b) Changes in internal controls.

There were no changes made in the Company's internal controls over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Although as stated above, we have not made any significant changes in our internal controls over financial reporting in the most recent fiscal quarter, based on our documentation and testing to date, we have made improvements in the documentation, design and effectiveness of internal controls over financial reporting, including the purchase of internal control software that allows upper management to view reports and to understand the risks and controls within the entire organization or specific areas of the organization. These reports provide up to date information at all times.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

The nature of the Company's business generates a certain amount of litigation involving matters arising out of the ordinary course of business. In the opinion of management, there are no legal proceedings that might have a material effect on the consolidated results of operations, liquidity, or the financial position of the Company at this time.

Item 1A. Risk Factors

No changes from those previously disclosed.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

MONTH	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number of shares that may yet be purchased under the plans or programs (1)
April 1, 2009 – April 30, 2009	0	\$ 0	0	65,751
May 1, 2009 – May 31, 2009	0	\$ 0	0	65,751
June 1, 2009 – June 30, 2009	0	\$ 0	0	65,751
TOTAL	0	\$ 0	0	

(1) On July 2, 2001, the Board of Directors authorized the repurchase of an additional 5%, or 158,931 shares of the Corporation's common stock outstanding.

Item 3. Defaults upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

At the Annual Meeting of Shareholders held on April 25, 2009, Meeting Chairman, William E. Aubrey, reported that the Judge of Election and Proxies had completed the voting tabulations. On the basis of their report, he declared that Russell D. Shurtleff was elected for a three-year term.

I. Election of Class III Director

NAME	FOR	WITHHOLD AUTHORITY
Russell D. Shurtleff	1,942,796	18,788

Class II Director whose terms will expire in 2010

William E. Aubrey II

Class I Directors whose terms will expire in 2011

George H. Stover, Jr.

Richard S. Lochen, Jr.

Ronald G. Kukuchka

Item 5. Other Information

None.

Item 6. Exhibits

- (3.1)Articles of Incorporation of Peoples Financial Services Corp. (1);
 - (3.2)Bylaws of Peoples Financial Services Corp. as amended (2);
 - (10.4)Termination Agreement dated January 1, 1997, between Debra E. Dissinger and Peoples Financial Services Corp.(1);
 - (10.6)Supplemental Executive Retirement Plan Agreement, dated December 3, 2004, for Debra E. Dissinger (3);
 - (10.7)Supplemental Director Retirement Plan Agreement, dated December 3, 2004, for all Non-Employee Directors of the Company (3);
 - (10.9)Amendment to Supplemental Executive Retirement Plan Agreement, dated December 30, 2005, for Debra E. Dissinger (4);
 - (10.10)Amendment to Supplemental Director Retirement Plan Agreement, dated December 30, 2005, for all Non-Employee Directors of the Company (4);
 - (10.11)Termination Agreement dated January 1, 2007, between Stephen N. Lawrenson and Peoples Financial Services Corp. (6);
 - (10.12)Termination Agreement dated January 1, 2007, between Joseph M. Ferretti and Peoples Financial Services Corp. (6);
 - (10.13)Employment Agreement dated February, 2007, between Richard S. Lochen, Jr. and Peoples Financial Services Corp. (5);
 - (11)The statement regarding computation of per-share earnings required by this exhibit is contained in Note 1 to the consolidated financial statements captioned “Earnings Per Share”;
 - (14)Code of Ethics, as amended (8);
 - (21)Subsidiaries of Peoples Financial Services Corp. (7);
 - (31.1)Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a), filed herewith;
 - (31.2)Certification of Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a), filed herewith;
 - (32.1)Certification of Chief Executive Officer pursuant to Section 1350 of Sarbanes-Oxley Act of 2002, filed herewith; and
 - (32.2)Certification of Principal Financial Officer pursuant to Section 1350 of Sarbanes-Oxley Act of 2002, filed herewith.
- (1)Incorporated by reference to the Corporation’s Registration Statement on Form 10 as filed with the U.S. Securities and Exchange Commission on March 4, 1998.
 - (2)Incorporated by reference to the Corporation’s Exhibit 3.2 on Form 10-Q filed with the U.S. Securities and Exchange Commission on November 8, 2004.
 - (3)Incorporated by reference to the Corporation’s Exhibits 10.6 and 10.7 on Form 10-K filed with the U.S. Securities and Exchange Commission on March 15, 2005.
 - (4)Incorporated by reference to the Corporation’s Exhibits 10.9, and 10.10 on Form 10-K filed with the U.S. Securities and Exchange Commission on March 15, 2006.
 - (5)Incorporated by reference to the Corporation’s Exhibit 10.13 on Form 8-K filed with the U.S. Securities and Exchange Commission on February 16, 2007.
 - (6)Incorporated by reference to the Corporation’s Exhibits 10.11 and 10.12 on Form 10-Q filed with the U.S. Securities and Exchange Commission on May 10, 2007.
 - (7)Incorporated by reference to the Corporation’s Exhibit 21 on Form 10-Q filed with the U.S. Securities and Exchange Commission on August 9,

2007.

(8) Incorporated by reference to the Corporation's Exhibit 14 as filed on Form 10-Q with the U.S. Securities and Exchange Commission on August 11, 2008.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PEOPLES FINANCIAL SERVICES CORP.

By/s/ Richard S. Lochen, Jr.
Richard S. Lochen, Jr.,
President

Date: August 10, 2009

By/s/ Frederick J. Malloy
Frederick J. Malloy, VP/Controller/Principal Accounting Officer

Date: August 10, 2009

