GABELLI CONVERTIBLE & INCOME SECURITIES FUND INC
Form N-2/A
March 13, 2003

As filed with the Securities and Exchange Commission on March 13, 2003
Securities Act File No. 333-102494
Investment Company Act File No. 811-05715

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

[X] Registration Statement under the Securities Act of 1933
[X] Pre-Effective Amendment No. 4
[ ] Post-Effective Amendment No.

and/or

[X] Registration Statement under the Investment Company Act of 1940
[X] Amendment No. 10
(Check Appropriate Box or Boxes)

THE GABELLI CONVERTIBLE AND INCOME SECURITIES FUND INC.
(Exact Name of Registrant as Specified in Charter)

One Corporate Center
Rye, New York 10580-1434
(Address of Principal Executive Offices)

Registrant's Telephone Number, Including Area Code: (800) 422-3554

Bruce N. Alpert
The Gabelli Convertible and Income Securities Fund Inc.
One Corporate Center
Rye, New York 10580-1422
(914) 921-5100 (Name and Address of Agent for Service)

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Approximate date of proposed public offering: As soon as practicable after the effective date of this Registration Statement.

If any securities being registered on this form will be offered on a delayed or continuous basis in reliance on Rule 415 under the Securities Act of 1933, as amended, other than securities offered in connection with a dividend reinvestment plan, check the following box. [ ]

It is proposed that this filing will become effective (check appropriate box)

[X] When declared effective pursuant to section 8(c).

If appropriate, check the following box:

[ ] This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].

[ ] This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is .

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price (1)	Amount of Registration Fee(2)
Series B __% Cumulative Preferred Stock	1,000,000 Shares	$25	$25,000,000	$0.00
Series C Auction Rate Preferred Stock	1,000 Shares	$25,000	$25,000,000	$0.00

(1) Estimated solely for the purpose of calculating the registration fee.
(2) $4,045 previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said section 8(a), may determine.

CROSS-REFERENCE SHEET

N-2 Item Number	Location in Part A (Caption)
PART A	
1. Outside Front Cover..........	Outside Front Cover Page
2. Inside Front and Outside Back Cover Page.................	Outside Front Cover Page; Inside Front Cover Page
3. Fee Table and Synopsis........	Not Applicable
4. Financial Highlights..........	Financial Highlights
5. Plan of Distribution..........	Outside Front Cover Page; Summary; Underwriting
6. Selling Shareholders..........	Not Applicable
7. Use of Proceeds..............	Use of Proceeds; Investment Objective and Policies
8. General Description of the Registrant.................	Outside Front Cover Page; Summary; The Fund; Investment Objective and Policies; Risk Factors & Special Considerations; How the Fund Manages Risk; Description of Series B Preferred and Series C Auction Rate Preferred; Anti-takeover Provisions of the Charter and By-Laws
9. Management..................	Outside Front Cover Page; Summary; Management of the Fund; Custodian, Transfer Agent, Auction Agent and Dividend-Disbursing Agent
10. Capital Stock, Long-Term Debt, and Other Securities........	Outside Front Cover Page; Summary; Investment Objective and Policies; Description of Series B Preferred and Series C Auction Rate Preferred; Description of Capital Stock and Other Securities; Taxation
11. Defaults and Arrears on Senior Securities.................	Not Applicable
12. Legal Proceedings............	Not Applicable
13. Table of Contents of the Statement of Additional Information................	Table of Contents of the Statement of Additional Information

PART B	Location in Statement of Additional Information

14. Cover Page....................	Outside Front Cover Page
15. Table of Contents.............	Outside Front Cover Page
16. General Information and History.....................	The Fund
17. Investment Objective and Policies....................	Investment Objective and Policies; Investment Restrictions
18. Management....................	Management of the Fund
19. Control Persons and Principal Holders of Securities.......	Management of the Fund; Beneficial Owners
20. Investment Advisory and Other Services....................	Management of the Fund
21. Brokerage Allocation and Other Practices...................	Portfolio Transactions
22. Tax Status....................	Taxation
23. Financial Statements..........	Financial Statements

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED March 13, 2003

PROSPECTUS [GABELLI LOGO]

The Gabelli
Convertible and Income Securities Fund Inc.

1,000,000 Shares, Series B   % Cumulative Preferred Stock
(Liquidation Preference $25 per Share)

1,000 Shares, Series C Auction Rate Cumulative Preferred Stock
(Liquidation Preference $25,000 per Share)

The Gabelli Convertible and Income Securities Fund Inc., or the Fund, is a diversified, closed-end management investment company that has an investment objective of a high level of total return on its assets. The Fund's investments are selected by its Investment Adviser, Gabelli Funds, LLC. The Fund seeks to achieve its investment objective through a combination of current income and capital appreciation. Under normal circumstances the Fund will invest at least 80% of its total assets in securities that are convertible into or represent the right to acquire common stock, and in other debt or equity securities that are expected to periodically accrue or generate income for their holders.

This prospectus describes shares of the Fund's Series B % Cumulative Preferred Stock (the "Series B Preferred"), liquidation preference $25 per share. Dividends on shares of Series B Preferred issued within 30 days of the original Series B Preferred issue date are cumulative from such original issue date at the annual rate of % of the liquidation preference of $25 per share and are payable quarterly on March 26, June 26, September 26 and December 26 in each year, commencing on , 2003.

This prospectus also describes shares of the Fund's Series C Auction Rate Cumulative Preferred Stock (the "Series C Auction Rate Preferred"), liquidation preference $25,000 per share. The dividend rate for the Series C Auction Rate Preferred will vary from dividend period to dividend period. The annual dividend rate for the initial dividend period for the Series C Auction Rate Preferred will be % of the liquidation preference of $25,000 per share. The initial dividend period is from the date of issuance through , 2003. For subsequent dividend periods, the Series C Auction Rate Preferred will pay dividends based on a rate set at auction, usually held weekly.

The Fund offers by this prospectus, in the aggregate, $50 million of preferred stock of either Series B Preferred, or Series C Auction Rate Preferred, or a combination of both series.

Investing in our Series B Preferred or Series C Auction Rate Preferred involves risks. See "Risk Factors and Special Considerations" beginning on page 34.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share of Series B Preferred	Total	Per Share of Series Auction Rate Preferred	Total
Public Offering Price(1)	$	$	$	$
Underwriting Discount(2)	$	$	$	$
Proceeds to the Fund (before expenses)(3)	$	$	$	$

(1) Plus accumulated dividends, if any, from .
(2) The Fund and the Investment Adviser have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
(3) Offering expenses payable by the Fund are estimated at $.

The shares of Series B Preferred and/or Series C Auction Rate Preferred being offered by this prospectus are being offered by the underwriters listed in this prospectus, subject to prior sale, when, as and if accepted by them and subject to certain conditions. The Fund expects that delivery of any shares of Series B Preferred or Series C Auction Rate Preferred will be made in book-entry form through the facilities of The Depository Trust Company on or about , 2003.

Salomon Smith Barney

Gabelli & Company, Inc.

, 2003

(Continued from previous page)

Application has been made to list the Series B Preferred on the New York Stock Exchange. If offered, trading of the Series B Preferred on the New York Stock Exchange is expected to commence within 30 days of the date of this prospectus. Prior to this offering, there has been no public market for the Series B Preferred. See "Underwriting."

The Series C Auction Rate Preferred will not be listed on an exchange. Investors may only buy or sell Series C Auction Rate Preferred through an order placed at an auction with or through a broker-dealer in accordance with the procedures specified in this prospectus or in a secondary market maintained by certain broker-dealers should those broker-dealers decide to maintain a secondary market. Broker-dealers are not required to maintain a secondary market in the Series C Auction Rate Preferred and a secondary market may not provide you with liquidity.

The net proceeds of the offering, which are expected to be , will be invested in accordance with the Fund's investment objective and policies. See "Investment Objective and Polices" beginning on page 25.

The Fund expects that dividends paid on the Series B Preferred and Series C Auction Rate Preferred will consist of long-term capital gains (consisting of 20% federal tax rate capital gains from the sale of assets held longer than 12 months), ordinary income (including net investment income and short-term capital gains), and, in certain circumstances, a return of capital. Over the past one, three and five fiscal years ending December 31, 2002, the distributions of taxable income by the Fund consisted of 0.00%, 31.37%, and 31.75% long-term capital gains. No assurance can be given, however, as to what percentage, if any, of the dividends paid on the Series B Preferred or Series C Auction Rate Preferred will consist of long-term capital gains, which are taxed at lower rates for individuals than ordinary income.

Neither the Series B Preferred nor the Series C Auction Rate Preferred may be issued unless it is rated Aaa by Moody's Investors Service, Inc. ("Moody's"). In addition, the Series C Auction Rate Preferred may not be issued unless it is also rated AAA by Fitch, Inc. ("Fitch"). In order to keep these ratings, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series B Preferred and Series C Auction Rate Preferred under guidelines established by each of Moody's and Fitch. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Rating Agency Guidelines." The Fund is also required to maintain a minimum asset coverage by the Investment Company Act of 1940, as amended (the "1940 Act"). If the Fund fails to maintain any of these minimum asset coverage requirements, the Fund can require, at its option, consistent with its Charter and the requirements of the 1940 Act, that some or all of its outstanding preferred stock, including the Series B Preferred or Series C Auction Rate Preferred, be sold back to it (redeemed). Otherwise, prior to , 2008 the Series B Preferred will be redeemable at the option of the Fund only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. Subject to certain notice and other requirements (including those set forth in Section 23(c) of the 1940 Act), the Fund, at its option, may redeem (i) the Series B Preferred beginning on , 2008 and (ii) the Series C Auction Rate Preferred following the initial dividend period (so long as the Fund has not designated a non-call period). In the event the Fund redeems Series B Preferred such redemption will be for cash at a redemption price equal to $25 per share plus accumulated but unpaid dividends (whether or not earned or declared). In the event the Fund redeems Series C Auction Rate Preferred, such redemptions will be for cash, generally at a redemption price equal to $25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared), though in limited circumstances the Fund's board of directors may also declare a redemption premium.

This prospectus concisely sets forth important information about the Fund that you should know before deciding whether to invest in Series B Preferred or Series C Auction Rate Preferred. You should read this prospectus and retain it for future reference.

The Fund has also filed with the Securities Exchange Commission a Statement of Additional Information, dated March, 2003 (the "SAI"), which contains additional information about the Fund. The SAI is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI on page 75 of this prospectus. You may request a free copy of the SAI by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or calling the Fund toll-free at (800) 422-3554. You may also obtain the SAI on the Securities and Exchange Commission's web site (http://www.sec.gov).

Certain persons participating in the offering of Series B Preferred, in the event they are offered, may engage in transactions that stabilize, maintain or otherwise affect the market price of the Series B Preferred, including the entry of stabilizing bids, syndicate covering transactions or the imposition of penalty bids. For a description of these activities, see "Underwriting."

You should rely only on the information contained in or incorporated by reference into this prospectus. Neither the Fund nor the underwriters have authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither the Fund nor the underwriters are making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus is accurate as of the date on the front cover of this prospectus only.

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SUMMARY

This is only a summary. You should review the more detailed information contained in this prospectus and the SAI.

The Fund................	The Fund is a closed-end, diversified, management investment company. Prior to March 31, 1995, the Fund operated as an open-end, diversified, management investment company. The Fund was incorporated in Maryland on December 19, 1988. The Fund's outstanding shares of common stock, par value $.001 per share, are listed and traded on the NYSE. As of December 31, 2002, the sum of the net assets of the Fund plus the liquidation value of the Fund's outstanding preferred stock ($15 million) was approximately $108.8 million. As of December 31, 2002, the Fund had outstanding 11,113,431 shares of common stock and 600,000 shares of 8% Cumulative Preferred Stock, liquida tion preference $25 per share (the "Series A Preferred"). The Fund redeemed all of its outstanding Series A Preferred on February 11, 2003.
The Offering...........	The Fund offers by this prospectus, in the aggregate, $50 million of preferred stock of either Series B Preferred or Series C Auction Rate Preferred, or a combination of both such series. The Series B Preferred and/or Series C Auction Rate Preferred are being offered by Salomon Smith Barney Inc. and Gabelli & Company, Inc. as underwriters. Upon issuance, the Series B Preferred and the Series C Auction Rate Preferred will have equal seniority with respect to dividends and liquidation prefer ence. Series B Preferred. The Fund is offering 1,000,000 shares of % Series B Cumulative Preferred, par value $.001 per share, liquidation preference $25 per

share, at a purchase price of $25 per share. Dividends on the shares of Series B Preferred will accumulate from the date on which such shares are issued; provided, however, that any shares of Series B Preferred issued within 30 days of the original issue date of the series will accumulate dividends from the series' original date of issue. Appli cation has been made to list the Series B Preferred on the New York Stock Exchange.

Series C Auction Rate Preferred. The Fund is offering 1,000 shares of Series C Auction Rate Cumulative Preferred, par value $.001 per share, liquidation preference $25,000 per share, at a purchase price of $25,000 per share plus dividends, if any, that have accumulated from the commencement date of the dividend period during which such Series C Auction Rate Preferred is issued.

The Series C Auction Rate Preferred will not be listed on an exchange. Instead, investors may buy or sell Series C Auction Rate Preferred in an auction by submitting orders to broker-dealers that have entered into an agreement with the auction agent and the Fund.

Generally, investors in Series B Preferred or Series C Auction Rate Preferred will not receive certificates representing ownership of their shares. The securities depository (The Depository Trust Company or any successor) or its nominee for the account of the investor's broker-dealer will maintain record ownership of the preferred stock shares in book-entry form. An investor's broker-dealer, in turn, will maintain records of that investor's beneficial ownership of preferred stock.

Investment Objective.... The investment objective of the Fund is to seek a high level of total return on its assets. The Fund will seek to achieve this objective through a combination of current income and capital appreciation by investing primarily in convertible and other income producing securities. Under normal circumstances the Fund will invest at least 80% of the value of its total assets (taken at current value) in "convertible securities," i.e., securities (bonds, debentures, notes, stocks and other similar securities) that are convertible into common stock or other equity securities, and "income securities," i.e., nonconvertible debt or equity securities having a history of regular payments or accrual of income to holders. No assurance can be given that the Fund will achieve its investment objective. See "Investment Objective and Policies."

Dividends and Distributions....... Series B Preferred. Dividends on the Series B Preferred, at the annual rate of % of its $25 per share liquidation preference, are cumulative from the Series B Preferred's original issue date for any shares issued within 30 days of such original issue date and are payable, when, as and if declared by the Board of Directors of the Fund, out of funds legally available therefor, quarterly on March 26, June 26, September 26 and December 26 in each year, commencing on , 2003. Any Series B Preferred issued later than 30 days following the original issue date will accumulate dividends from the date such shares are issued.

Series C Auction Rate Preferred. The holders of Series C Auction Rate Preferred are entitled to receive cash dividends stated at annual rates of its $25,000 per share liquidation preference, that will vary from dividend period to dividend period. The table below shows the dividend rate, the dividend payment date and the number of days for the initial dividend period on the Series C Auction Rate Preferred.

	Initial Dividend Rate	Dividend Payment Date for Initial Dividend Period	Number of Days of Initial Dividend Period
Series C Auction Rate Preferred.....	%	, 2003	

For subsequent dividend periods, the Series C Auction Rate Preferred will pay dividends based on a rate set at auctions, normally held weekly. In most instances, dividends are payable weekly, on the first business day following the end of the dividend period. If the day on which dividends otherwise would be paid is not a business day, then dividends will be paid on the first business day that falls after the end of the dividend period. The Fund may, subject to certain conditions, designate special dividend periods of more (or less) than seven days. The dividend payment date for any such special dividend period will be set out in the notice designating a special dividend period. Dividends on shares of Series C Auction Rate Preferred will be cumulative from the date such shares are issued and will be paid out of legally available funds.

In no event will the dividend rate set at auction for the Series C Auction Rate Preferred exceed the then-maximum rate. The maximum rate means (i) in the case of a dividend period of 184 days or less, the applicable percentage of the "AA" Financial Composite Commercial Paper Rate on the date of such auction determined as set forth in the following chart based on the lower of the credit ratings assigned to the Series C Auction Rate Preferred by Moody's and Fitch or (ii) in the case of a dividend period of longer than 184 days, the applicable percentage of the Treasury Index Rate.

Moody's Credit Rating	Fitch Credit Rating	Applicable Percentage
Aa3 or higher	AA- or higher	150%

A3 to A1	A- to A+	175%
Baa3 to Baa1	BBB- to BBB+	250%
Below Baa3	Below BBB-	275%

See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Dividends on the Series C Auction Rate Preferred -- Maximum Rate." For example, calculated as of September 30, 2002 and December 31, 2002, respectively, the maximum rate for the Series C Auction Rate Preferred (assuming a rating of Aa3 or above by Moody's and AA- or above by Fitch) would have been approximately 2.57% and 1.92%, for dividend periods of 90 days, and approximately 2.90% and 2.57% for dividend periods of two years.* There is no minimum applicable rate with respect to any dividend period.

Any designation of a special dividend period will be effective only if, among other things, proper notice has been given, the auction immediately preceding the special dividend period was not a failed auction and the Fund has confirmed that it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount (as defined in the applicable rating agency guidelines). See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Dividends on the Series C Auction Rate Preferred" and "The Auction of Series C Auction Rate Preferred."

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* Dividend periods presented for illustrative purposes only. Actual dividend periods may be of greater or lesser duration.

Preferred Stock Dividends. Under current law, all preferred stock of the Fund must have the same seniority as to the payment of dividends. Accordingly, no full dividend will be declared or paid on any series of preferred stock of the Fund for any dividend period, or part thereof, unless full cumulative dividends due through the most recent dividend payment dates therefor for all series of outstanding preferred stock of the Fund are declared and paid. If full cumulative dividends due have not been declared and paid on all outstanding shares of preferred stock of the Fund ranking on a parity with the Series B Preferred and/or Series C Auction Rate Preferred as to the payment of dividends, any dividends being paid on the shares of such preferred stock (including any outstanding Series B Preferred and Series C Auction Rate Preferred) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends accumulated but unpaid on each such series of preferred stock on the relevant dividend payment date.

In the event that for any calendar year the total distributions on shares of the Fund's preferred stock exceed the Fund's net investment income and net capital gain allocable to those shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the stockholder's tax basis in his or her shares). The amount treated as a tax-free return of capital will reduce a stockholder's adjusted basis in his or her shares of preferred stock, thereby increasing the stockholder's potential gain or reducing his or her potential loss on the sale of the shares.

Common Stock. In order to allow its holders of common stock to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a policy, which may be modified at any time by its Board of Directors, of paying distributions on its common stock of 8% of average quarter-end net assets attributable to common stock. For the fiscal year ending December 31, 2002, 64% of the distributions paid by the Fund with respect to its common stock consisted of a return of capital. The Fund had not previously returned capital as part of distributions on its common stock since 1995, the year the Fund began operating as a closed-end fund. The Fund's Board of Directors monitors and reviews the Fund's common stock distribution policy on a regular basis. See "Dividends and Distributions."

Auction Procedures...... You may buy, sell or hold Series C Auction Rate Preferred in the auction. The following is a brief summary of the auction procedures, which are described in more detail elsewhere in this prospectus and in the SAI. These auction procedures are complicated, and there are exceptions to these procedures. Many of the terms in this section have a special meaning as set forth in this prospectus or the SAI.

The auctions determine the dividend rate for the Series C Auc tion Rate Preferred, but each dividend rate will not be higher than the then-maximum rate. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Dividends on the Series C Auction Rate Preferred."

If you own shares of Series C Auction Rate Preferred, you may instruct your broker-dealer to enter one of three kinds of order in the auction with respect to your shares: sell, bid and hold.

If you enter a sell order, you indicate that you want to sell Series C Auction Rate Preferred at $25,000 per share, no matter what the next dividend period's rate will be.

If you enter a bid (or "hold at a rate") order, which must specify a dividend rate, you indicate that you want to sell Series C Auction Rate Preferred only if the next dividend period's rate is less than the rate you specify.

If you enter a hold order you indicate that you want to continue to own Series C Auction Rate Preferred, no matter what the next dividend period's rate will be.

You may enter different types of orders for different portions of your Series C Auction Rate Preferred. You may also enter an order to buy additional Series C Auction Rate Preferred. All orders must be for whole shares. All orders you submit are irrevocable. There is a fixed number of Series C Auction Rate Preferred shares and the dividend rate likely will vary from auction to auction depending on the number of bidders, the number of shares the bidders seek to buy, the rating of the Series C Auction Rate Preferred and general economic conditions including current interest rates. If you own Series C Auction Rate Preferred and submit a bid for them higher than the then-maximum rate, your bid will be treated as a sell order. If you do not enter an order, the broker-dealer will assume that you want to continue to hold Series C Auction Rate Preferred, but if you fail to submit an order and the dividend period is longer than 28 days, the broker-dealer will treat your failure to submit a bid as a sell order.

If you do not then own Series C Auction Rate Preferred, or want to buy more shares, you may instruct a broker-dealer to enter a bid order to buy shares in an auction at $25,000 per share at or above the dividend rate you specify. If you bid for shares you do not already own at a rate higher than the then-maximum rate, your bid will not be considered.

Broker-dealers will submit orders from existing and potential holders of Series C Auction Rate Preferred to the auction agent. Neither the Fund nor the auction agent will be responsible for a broker-dealer's failure to submit orders from existing or potential holders of Series C Auction Rate Preferred. A broker-dealer's failure to submit orders for Series C Auction Rate Preferred held by it or its customers will be treated in the same manner as a holder's failure to submit an order to the broker-dealer. A broker-dealer may submit orders to the auction agent for its own account. The Fund may not submit an order in any auction.

The auction agent after each auction for the Series C Auction Rate Preferred will pay to each broker-dealer, from funds provided by the Fund, a service charge equal to, in the case of any auction immediately preceding a dividend period of less than one year, the product of (i) a fraction, the numerator of which is the number of days in such dividend period and the denominator of which is 365, times (ii) 1/4 of 1%, times (iii) $25,000, times (iv) the aggregate number of Series C Auction Rate Preferred shares placed by such broker-dealer at such auction or, in the case of any auction immediately preceding a dividend period of one year or longer, a percentage of the purchase price of the Series C Auction Rate Preferred placed by the broker-dealers at the auction agreed to by the Fund and the broker-dealers.

If the number of Series C Auction Rate Preferred shares subject to bid orders by potential holders with a dividend rate equal to or lower than the then-maximum rate is at least equal to the number of Series C Auction Rate Preferred shares subject to sell orders, then the dividend rate for the next dividend period will be the lowest rate submitted which, taking into account that rate and all lower rates submitted in order from existing and potential hold ers, would result in existing and potential holders owning all the Series C Auction Rate Preferred available for purchase in the auction.

If the number of Series C Auction Rate Preferred shares subject to bid orders by potential holders with a dividend rate equal to or lower than the then-maximum rate is less than the number of Series C Auction Rate Preferred shares subject to sell orders, then the auction is considered to be a failed auction, and the dividend rate will be the maximum rate. In that event, existing holders that have submitted sell orders (or are treated as having submitted sell orders) may not be able to sell any or all of the Series C Auction Rate Preferred for which they submitted sell orders.

The auction agent will not consider a bid above the then-maximum rate. The purpose of the maximum rate is to place an upper limit on dividends with respect to the Series C Auction Rate Preferred and in so doing to help protect the earnings available to pay dividends on common shares, and to serve as the dividend rate in the event of a failed auction (that is, an auction where there are more Series C Auction Rate Preferred offered for sale than there are buyers for those shares).

If broker-dealers submit or are deemed to submit hold orders for all outstanding Series C Auction Rate Preferred, the auction is considered an "all hold" auction and the dividend rate for the next dividend period will be the "all hold rate," which is 80% of the then-current "AA" Financial Composite Commercial Paper Rate.

The auction procedures include a pro rata allocation of Series C Auction Rate Preferred shares for purchase and sale. This allocation process may result in an existing holder selling, or a potential holder buying, fewer shares than the number of Series C Auction Rate Preferred shares in its order. If this happens, broker-dealers that have designated themselves as existing holders or potential holders in respect of customer orders will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next business day (which also is a dividend payment date) after the auction date through The Depository Trust Company. Purchasers will pay for their Series C Auction Rate Preferred through broker-dealers in same-day funds to The Depository Trust Company against delivery to the broker-dealers. The Depository Trust Company will make payment to the sellers' broker-dealers in accordance with its normal procedures, which require broker-dealers to make payment against delivery in same-day funds. As used in this prospectus, a business day is a day on which the NYSE is open for trading, and which is not a Saturday, Sunday or any other day on which banks in New York City are authorized or obligated by law to close.

The first auction for Series C Auction Rate Preferred will be held on , 2003, the business day preceding the dividend payment date for the initial dividend period. Thereafter, except during special dividend periods, auctions for Series C Auction Rate Preferred normally will be held every Tuesday (or the next preceding business day if Tuesday is a holiday), and each subsequent dividend period for the Series C Auction Rate Preferred normally will begin on the following Wednesday.

If an auction is not held because an unforeseen event or unforeseen events cause a day that otherwise would have been an auction date not to be a business day, then the length of the then-current dividend period will be extended by seven days (or a multiple thereof if necessary because of such unforeseen event or events), the applicable rate for such period will be the applicable rate for the then-current dividend period so extended and the dividend payment date for such dividend period will be the first business day immediately succeeding the end of such period. See "The Auction of Series C Auction Rate Preferred."

Potential Tax Benefit to Certain Investors.... Most individuals pay federal income tax at a lower rate on long term capital gains than on ordinary income and short-term capital gains. For individuals in the highest tax brackets this differ ential currently can be as great as 18.6%, the difference between 38.6% on ordinary income and short-term capital gains and 20.0% on long-term capital gains. In accordance with the current view of the Internal Revenue Service, the Fund intends to allocate its net long-term capital gain and ordinary income (including net short-term capital gain and investment income) proportionately between its common stock and preferred stock. Over the past one, three and five fiscal years ending December 31, 2002, the distributions of taxable income by the Fund consisted of 0.00%, 31.37%, and 31.75% long-term capital gains. If the Fund is able in future years to pay a portion of its distribu tions in the form of long-term capital gain distributions, most individual investors will accordingly realize a tax benefit and pay a lower rate of federal income tax on their Series B Preferred and/or Series C Auction Rate Preferred dividends than if the Fund did not distribute long-term capital gains. See "Tax Attributes of Preferred Stock Dividends." No assurance can be given as to what, if any, portion of the Fund's dividends in future years will consist of long-term capital gains.

Rating and Asset Coverage Requirements...	Series B Preferred. Before it can be issued, the Series B Preferred must receive a rating of Aaa from Moody's Investors Service, Inc. The Fund's Articles Supplementary, setting forth the rights and preferences of the Series B Preferred, contain certain tests that the Fund must satisfy to obtain and maintain a rating of Aaa from Moody's on the Series B Preferred. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Rating Agency Guidelines."

Series C Auction Rate Preferred. Before it can be issued, the Series C Auction Rate Preferred must receive both a rating of Aaa from Moody's and a rating of AAA from Fitch. As with the Series B Preferred, the Articles Supplementary of the Fund setting forth the rights and preferences of the Series C Auction Rate Preferred contain certain tests that the Fund must satisfy to obtain and maintain a rating of Aaa from Moody's and AAA from Fitch. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Rating Agency Guidelines."

Asset Coverage Requirements. Under the asset coverage tests to which each of the Series B Preferred and/or Series C Auction Rate Preferred is subject, the Fund is required to maintain (i) assets having in the aggregate a discounted value greater than or equal to a Basic Maintenance Amount (as defined under "Description of the Series B Preferred and Series C Auction Rate Preferred -- Rating Agency Guidelines") for each such series calculated pursuant to the applicable rating agency guidelines and (ii) an asset coverage of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding preferred stock of the Fund, including the Series B Preferred and the Series C Auction Rate Preferred. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Asset Maintenance Requirements."

The Fund estimates that if the shares offered hereby had been issued and sold as of February 14, 2003, the asset coverage under the 1940 Act would have been approximately 290% immediately following such issuance and sale (after giving effect to the deduction of the underwriting discounts and estimated offering expenses for such shares of $1,500,000). The asset coverage would have been computed as follows:

value of Fund assets less liabilities not constituting senior secu rities ($144,898,943) / senior securities representing indebted ness plus liquidation preference of each class of preferred stock ($50,000,000), expressed as a percentage = 290%.

The Articles Supplementary for each of the Series B Preferred and the Series C Auction Rate Preferred, which contain the technical provisions of the various components of the asset coverage tests, have been filed as exhibits to this registration statement and may be obtained through the web site of the SEC (http://www.sec.gov).

Mandatory Redemption.............. The Series B Preferred and the Series C Auction Rate Preferred may be subject to mandatory redemption by the Fund to the extent the Fund fails to maintain the asset coverage requirements in accordance with the rating agency guidelines or the 1940 Act described above and does not cure such failure by the applicable cure date. If the Fund redeems preferred stock mandatorily, it may, but is not required to, redeem a sufficient number of shares of preferred stock so that after the redemption the Fund exceeds the asset coverage required by each of the applicable rating agency guidelines and the 1940 Act by 10%.

With respect to the Series B Preferred, any such redemption will be made for cash at a redemption price equal to $25 per share plus accumulated and unpaid dividends (whether or not earned or declared) to the redemption date.

With respect to the Series C Auction Rate Preferred, any such redemption will be made for cash at a redemption price equal to $25,000 per share, plus an amount equal to accumulated but unpaid dividends (whether or not earned or declared) to the date fixed for redemption, plus, in the case of Series C Auction Rate Preferred having a dividend period of more than one year, any applicable redemption premium determined by the Board of Directors. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Redemption -- Mandatory Redemption."

In the event of a mandatory redemption, such redemption will be made from the Series B Preferred, the Series C Auction Rate Preferred or other preferred stock of the Fund in such proportions as the Fund may determine, subject to the limitations of the 1940 Act and Maryland law.

Optional Redemption..... Subject to the limitations of the 1940 Act and Maryland law, the Fund may, at its option, redeem the Series B Preferred and/or the Series C Auction Rate Preferred as follows:

Series B Preferred. Commencing on , 2008 and at any time thereafter, the Fund at its option may redeem the Series B Preferred, in whole or in part, for cash at a redemption price per share equal to $25 plus accumulated and unpaid dividends (whether or not earned or declared) to the redemption date. If fewer than all of the shares of the Series B Preferred are to be redeemed, any such redemption of Series B Preferred shares will be made pro rata in accordance with the number of such shares held. Prior to , 2008 the Series B Preferred will be subject to optional redemption by the Fund at the redemption price only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Redemption -- Optional Redemption of the Series B Preferred."

Series C Auction Rate Preferred. The Fund generally may redeem Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Fund may declare a non-call period during a dividend period of more than seven days. If fewer than all of the shares of the Series C Auction Rate Preferred are to be redeemed, any such redemption of Series C Auction Rate Preferred shares will be made pro rata in accordance with the number of such shares held. See "Descrip tion of the Series B Preferred and Series C Auction Rate Preferred -- Redemption -- Optional Redemption of the Series C Auction Rate Preferred."

The redemption price per Series C Auction Rate Preferred share will equal $25,000 plus an amount equal to any accumulated but unpaid dividends thereon (whether or not earned or declared) to the redemption date, plus, in the case of Series C Auction Rate Preferred having a dividend period of more than one year, any redemption premium applicable during such dividend period. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Redemption -- Optional Redemption of the Series C Auction Rate Preferred."

Voting Rights........... At all times, holders of shares of the Fund's preferred stock outstanding (including the Series B Preferred and/or Series C Auction Rate Preferred), voting as a single class, will be entitled to elect two members of the Fund's Board of Directors, and holders of the preferred stock and common stock, voting as a single class, will elect the remaining directors. However, upon a failure by the Fund to pay dividends on any of its preferred stock in an amount equal to two full years' dividends, holders of the preferred stock, voting as a single class, will have the right to elect the smallest number of directors that would then constitute a majority of the directors until all cumulative dividends on all shares of preferred stock have been paid or provided for. Holders of outstanding shares of Series B

Preferred, Series C Auction Rate Preferred and any other preferred stock will vote separately as a class on certain other matters, as required under the applicable Articles Supplementary, the 1940 Act and Maryland law. Except as otherwise indicated in this prospectus and as otherwise required by applicable law, holders of Series B Preferred and/or Series C Auction Rate Preferred will be entitled to one vote per share on each matter submitted to a vote of stockholders and will vote together with holders of shares of common stock and any other preferred stock as a single class. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Voting Rights."

Liquidation Preference.............. The liquidation preference of each share of Series B Preferred is $25. The liquidation preference of the Series C Auction Rate Preferred is $25,000 per share. Upon liquidation, preferred stock shareholders will be entitled to receive the liquidation preference with respect to their shares of preferred stock plus an amount equal to accumulated but unpaid dividends with respect to such shares (whether or not earned or declared) to the date of distribution. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Liquidation Rights."

Use of Proceeds......... The Fund will use the net proceeds from the offering to purchase additional portfolio securities in accordance with its investment objective and policies. See "Use of Proceeds."

Listing of the Series B Preferred.............. Prior to its being offered, there has been no public market for the Series B Preferred. Following its issuance (if issued), the Series B Preferred is expected to be listed on the New York Stock Exchange. However, during an initial period which is not expected to exceed 30 days after the date of its initial issuance, the Series B Preferred will not be listed on any securities exchange.

Limitation on Secondary Market Trading of the Series C Auction Rate Preferred.............. The Series C Auction Rate Preferred will not be listed on an exchange. Broker-dealers may, but are not obliged to, maintain a secondary trading market in Series C Auction Rate Preferred outside of auctions. There can be no assurance that a secondary market will provide owners with liquidity. You may transfer Series C Auction Rate Preferred outside of auctions only to or through a broker-dealer that has entered into an agreement with the auction agent and the Fund, or other persons as the Fund permits.

Special Characteristics and Risks.............. Risk is inherent in all investing. Therefore, before investing in Series B Preferred or Series C Auction Rate Preferred you should consider the risks carefully.

Series B Preferred. Primary risks associated with an investment in the Series B Preferred include:

The market price for the Series B Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series B Preferred and other factors.

During an initial period which is not expected to exceed 30 days after the date of its issuance, the Series B Preferred will not be listed on any securities exchange. During such period, the underwriters intend to make a market in the Series B Preferred; however, they have no obligation to do so. Consequently, the Series B Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series B Preferred being liquid at any time.

Series C Auction Rate Preferred. Primary risks associated with an investment in Series C Auction Rate Preferred, include:

If an auction fails, you may not be able to sell some or all of your Series C Auction Rate Preferred. The Fund is not obliged to redeem your Series C Auction Rate Preferred if an auction fails. The underwriters are not required to make a market in the Series C Auction Rate Preferred. No broker-dealer is obligated to maintain a secondary market for the Series C Auction Rate Preferred apart from the auctions.

You may receive less than the price you paid for your Series C Auction Rate Preferred if you sell them outside of the auction, especially when market interest rates are rising.

In connection with the sale of the Series C Auction Rate Pre ferred, the Fund may enter into interest rate swap or cap transactions in order to reduce the impact of changes in the dividend rate of the Series C Auction Rate Preferred or obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred that is lower than the Fund would have to pay if it issued fixed rate preferred shares. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. See "How the Fund Manages Risk -- Interest Rate Transactions."

Both the Series B Preferred and Series C Auction Rate Pre ferred. An investment in either the Series B Preferred or Series C Auction Rate Preferred also includes the following primary risks:

A rating agency could downgrade or withdraw the rating assigned to the Series B Preferred and/or Series C Auction Rate Preferred, which would likely have an adverse effect on the liquidity and market value of these preferred shares. The present credit rating does not eliminate or mitigate the risks of investing in these preferred shares.

The Fund may mandatorily redeem your Series B Preferred and/or Series C Auction Rate Preferred to meet regulatory or rating agency requirements or may voluntarily redeem your Series B Preferred and/or Series C Auction Rate Preferred. Subject to such redemptions, these preferred shares are perpetual.

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to pay dividends on the Series B Preferred and/or Series C Auction Rate Preferred.

The Series B Preferred and/or Series C Auction Rate Preferred are not obligations of the Fund. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series B Preferred and/or Series C Auction Rate Preferred for the full redemption price.

The value of the Fund's investment portfolio may decline, reducing the asset coverage for the Series B Preferred and/or Series C Auction Rate Preferred. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer's preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and/or asset value of the Fund's investment portfolio.

The Fund invests a significant portion of its assets in convertible securities. Many convertible securities are not investment grade, that is, not rated within the four highest categories by Moody's and Standard & Poor's Ratings Services. To the extent that the convertible securities and any other fixed income securities owned by the Fund are rated lower than investment grade, or are not rated, there would be a greater risk as to the timely repayment of the principal of, and timely payment of interest or dividends on, those securities. Convertible debt securities (which generally are rated lower than investment grade) and fixed income securities that are rated lower than investment grade, or not rated but of similar quality, are commonly described as "junk bonds." See "Risk Factors and Special Considerations -- Asset Class Risks."

The Fund may invest up to 25% of its total assets in securities of foreign issuers. The Fund may also purchase sponsored American Depository Receipts or U.S. denominated securities of foreign issuers, which will not be included in the Fund's 25% foreign securities limitation. Investing in securities of foreign companies and foreign governments, which are generally denominated in foreign currencies, may involve certain risks and opportunities not typically associated with investing in domestic companies and could cause the Fund to be affected favorably or unfavorably by changes in currency exchange rates and revaluation of currencies. See "Risk Factors and Special Consider ations -- Foreign Securities."

The Investment Adviser (as hereinafter defined) is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See "Risk Factors and Special Considerations -- Dependence on Key Personnel."

Federal Income Tax Considerations.......... The Fund has qualified and intends to remain qualified for federal income tax purposes as a regulated investment company. Qualification requires, among other things, compliance by the Fund with certain distribution requirements. Statutory limita tions on distributions on the common stock if the Fund fails to satisfy the 1940 Act's asset coverage requirements could jeopardize the Fund's ability to meet the distribution requirements. The Fund presently intends, however, to purchase or redeem preferred stock to the extent necessary in order to maintain compliance with such asset coverage requirements. See "Taxation" for a more complete discussion of these and other federal income tax considerations.

Management and Fees................ Gabelli Funds, LLC serves as the Fund's investment adviser and is compensated for its services and its related expenses at an annual rate of 1.00% of the Fund's average weekly net assets. The Investment Adviser is responsible for administration of the Fund and currently utilizes and pays the fees of a third party administrator. Notwithstanding the foregoing, the Investment Adviser will waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of the Fund's outstanding Series B Pre ferred or Series C Auction Rate Preferred, as the case may be, for any calendar year in which the net asset value total return of the Fund allocable to the common stock, including distributions and the advisory fee subject to potential waiver, is less than (i) in the case of the Series B Preferred, the stated annual dividend rate of such series and (ii) in the case of the

Series C Auction Rate Preferred, the dividend rate for the Series C Auction Rate Preferred at the beginning of such year (including the anticipated cost of a swap or cap if the Fund hedges its Series C Auction Rate Preferred dividend obligations), in every case prorated during the year such series is issued and the final year such series is outstanding. See "Management of the Fund."

Repurchase of Common Stock and Anti-takeover Provisions............. The Fund is authorized to repurchase up to 500,000 shares of its common stock in the open market when the common stock is trading at a discount of 10% or more (or such other percentage as the Fund's Board of Directors may determine from time to time) from net asset value. Such repurchases are subject to certain notice and other requirements including those set forth in Rule 23c-1 under the 1940 Act. See "Description of Capital Stock and Other Securities - Common Stock." Through December 31, 2002, the Fund has repurchased in the open market 305,200 shares of its common stock under this authorization. See "Description of Capital Stock and Other Securities -- Common Stock." Certain provisions of the Fund's charter (the "Charter") and the Fund's by-laws (the "By-Laws") may be regarded as "anti-takeover" provisions. Pursuant to these provisions, only one of three classes of directors is elected each year, and the affirmative vote of the holders of 75% of the outstanding shares of the Fund and the vote of a majority (as defined in the 1940 Act) of the holders of preferred shares, voting as a single class, are necessary to authorize the conversion of the Fund from a closed-end to an open-end investment company. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal stockholder. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium to the prevailing market price. See "Anti-takeover Provisions of the Charter and By-Laws."

Custodian, Transfer Agent, Auction Agent and Dividend-Disbursing Agent........ State Street Bank and Trust Company (the "Custodian"), located at 150 Royall Street, Canton, MA 02021, serves as the custodian of the Fund's assets pursuant to a custody agreement. Under the custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian will receive a monthly fee based upon the average weekly value of the total assets of the Fund, plus certain charges for securities transactions.

EquiServe Trust Company, N.A., located at P.O. Box 43025, Providence, RI 02940-3025, serves as the Fund's dividend disbursing agent, as agent under the Fund's automatic dividend reinvestment and voluntary cash purchase plan, and as transfer agent and registrar with respect to the common stock of the Fund.

Series B Preferred. EquiServe will also serve as the transfer agent, registrar, dividend and paying agent and redemption agent with respect to the Series B Preferred.

Series C Auction Rate Preferred. The Bank of New York will serve as the auction agent, transfer agent, registrar, dividend paying agent and redemption agent with respect to the Series C Auction Rate Preferred.

Interest Rate Transactions............ In connection with the sale of the Series C Auction Rate Preferred, the Fund may enter into interest rate swap or cap transactions in order to reduce the impact of changes in the dividend rate of the Series C Auction Rate Preferred or obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred that is lower than the Fund would have to pay if it issued fixed rate preferred shares. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the Series C Auction Rate Preferred. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, the Fund would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock dividends when due in accordance with the Articles Supplementary even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend payments on the Series C Auction Rate Preferred. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on the Series C Auction Rate Preferred. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. If the Fund fails to maintain the required asset coverage on its outstanding preferred stock or fails to comply with other covenants, the Fund may, at its option, consistent with its Charter and the requirements of the 1940 Act, and in certain circumstances will be required to, mandatorily redeem some or all of these shares (including the Series C Auction Rate Preferred). Such redemption likely would result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could require the Fund to make a termination payment to the counterparty. The Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund does not presently intend to enter into interest rate swap or cap transactions relating to the Series C Auction Rate Preferred in a notional amount in excess of the outstanding amount of the Series C Auction Rate Preferred. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements. See "How the Fund Manages Risk -- Interest Rate Transactions" for additional information.

TAX ATTRIBUTES OF PREFERRED STOCK DIVIDENDS

The Fund intends to distribute to its stockholders substantially all of its net capital gains and net investment income (including short-term capital gain). The Fund operates as a regulated investment company under the Internal Revenue Code of 1986, as amended, (the "Code") and distributions by a regulated investment company generally retain their character as capital gain or ordinary income when received by individual investors who hold its preferred or common stock. Thus, dividends paid by the Fund to holders of the Series B Preferred or Series C Auction Rate Preferred may, for federal income tax purposes, consist of varying proportions of long-term capital gain, ordinary income and/or returns of capital.

Capital gain on assets held longer than 12 months generally is currently taxable to individuals at a maximum rate of 20.0% (or 18.0% for capital assets that have been held for more than five years, the holding period of which began after December 31, 2000). Net investment income, which includes short-term capital gain of the Fund, is currently taxable to individuals at a maximum rate of 38.6%.

Although the Fund is not managed using a tax-focused investment strategy and does not seek to achieve any particular distribution composition, individual investors in the Series B Preferred or Series C Auction Rate Preferred would, under current federal income tax law, realize a tax advantage on their investment to the extent that distributions by the Fund to its stockholders are composed of long-term capital gain which is taxed at a lower rate than ordinary income. In contrast, preferred stock dividends distributed by corporations that are not regulated investment companies are generally taxed, for federal income tax purposes, as ordinary income.

Over the past one, three and five fiscal years ending December 31, 2002, the distributions of taxable income by the Fund consisted of 0.00%, 31.37%, and 31.75% long-term capital gains. The fiscal year ending December 31, 2002 was the first year since the Fund's reorganization in 1995 as a closed-end fund for which its distributions of taxable income failed to include a portion of long-term capital gain. Given current market conditions, there is no assurance that over the next several years the percentage of its taxable distributions that consist of long-term capital gain will again approach historical levels. An investment by an individual in the common stock or preferred stock of a regulated investment company whose dividends consist of a larger percentage of long-term capital gain would be expected to realize a proportionately higher tax advantage as compared to dividends on the Series B Preferred or Series C Auction Rate Preferred.

Corporate taxpayers are subject to a 35% tax on capital gain and ordinary income dividends. In addition, corporate taxpayers that are eligible for the dividends received deduction on dividends that constitute ordinary income will not be able to utilize that deduction with respect to Fund dividends that constitute long-term capital gain, and so may incur a tax disadvantage by holding stock in the Fund.

The Bush Administration has announced a proposal to reduce or eliminate the tax on dividends; however, many details of the proposal (including how the proposal would apply to dividends paid by a regulated investment company) have not been specified. Moreover, the prospects for this proposal are unclear. Accordingly, it is not possible to evaluate how this proposal might affect the taxation of the Fund's stockholders.

The federal income tax characteristics of the Fund and the taxation of its stockholders are described more fully under "Taxation."

The following tables show examples of the pure ordinary income equivalent yield that would be generated by the stated dividend rate on the Series B Preferred and Series C Auction Rate Preferred, respectively, assuming distributions for federal income tax purposes consisting of different proportions of long-term capital gain and ordinary income (including short-term capital gain) for an individual in the 38.6% and 30.0% federal marginal income tax brackets. In reading these tables, you should understand that a number of factors could affect the actual composition for federal income tax purposes of the Fund's distributions each year. Such factors include (i) the Fund's investment performance for any particular year, which may result in distributions of varying proportions of long-term capital gain, ordinary income and/or return of capital and (ii) revocation or revision of the Internal Revenue Service revenue ruling requiring the proportionate allocation of types of income among the holders of various classes of a regulated investment company's capital stock.

These tables are for illustrative purposes only and cannot be taken as an indication of the actual composition for federal income tax purposes of the Fund's future distributions.

	Series B Preferred	
	Series B Preferred Illustrative Annual Dividend Rate	Series B Preferred Illustrative Annual Dividend Rate

Percentage of Series B Preferred Stated Annual Dividend Comprised of		Tax Equivalent Yield for an Individual in the 38.6% federal Income Tax Bracket1		Tax Equivalent Yie Individual in th federal Income Tax	
		5.75%	6.25%	5.75%	6.25
Long-Term Capital Gains	Ordinary Income				
33.3%	66.7%	6.33%	6.88%	6.02%	6.5
30.0%	70.0%	6.27%	6.82%	6.00%	6.5
20.0%	80.0%	6.10%	6.63%	5.91%	6.4
10.0%	90.0%	5.92%	6.44%	5.83%	6.3
0.0%	100.0%	5.75%	6.25%	5.75%	6.2

Series C Auction Rate Preferred

Percentage of Series C Auction Rate Preferred Share Illustrative Annual Dividend Comprised of		Series C Auction Rate Preferred Illustrative Annual Dividend Rate*		Series C Auction Preferred Illustrati Dividend Ra
		1.00%	1.50%	1.00%
		Tax Equivalent Yield for an Individual in the 38.6% federal Income Tax Bracket1		Tax Equivalent Yie an Individual in th federal Income Bracket1
Long-Term Capital Gains	Ordinary Income			
33.3%	66.7%	1.10%	1.65%	1.05%
30.0%	70.0%	1.09%	1.64%	1.04%
20.0%	80.0%	1.06%	1.59%	1.03%
10.0%	90.0%	1.03%	1.55%	1.01%
0.0%	100.0%	1.00%	1.50%	1.00%

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* Actual dividend rates for the Series C Auction Rate Preferred will be determined based upon the results of periodic auctions. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Dividends on the Series C Auction Rate Preferred."

(1) Annual taxable income levels for individuals corresponding to the 2003 federal marginal tax brackets are as follows:

2003 Federal Income Tax Bracket+	Single	Joint

38.6%	over $311,950	over $311,950
35.0%	over $143,500 - $311,950	over $174,700 - $311,950
30.0%	over $68,800 - $143,500	over $114,650 - $174,700
27.0%	over $28,400 - $68,800	over $47,450 - $114,650
15.0%	over $6,000 - $28,400	over $12,000 - $47,450
10.0%	up to and including $6,000	up to and including $6,000

Your federal marginal income tax rates may exceed the rates shown in the above tables due to the reduction, or possible elimination, of the personal exemption deduction for high-income taxpayers and an overall limit on itemized deductions. Income may be subject to certain state, local and foreign taxes. If you pay alternative minimum tax, or AMT, equivalent yields may be lower than those shown above. The tax rates shown above do not apply to corporate taxpayers.

+ The Economic Growth and Tax Relief Reconciliation Act of 2001 creates a new 10 percent income tax bracket and reduces the tax rates applicable to ordinary income over a six year phase-in period. Beginning in the taxable year 2006, ordinary income will be subject to a 35% maximum rate, with approximately proportionate reductions in the other ordinary rates.

FINANCIAL HIGHLIGHTS

The selected data below sets forth the per share operating performance and ratios for the periods presented. The financial information was derived from and should be read in conjunction with the Financial Statements of the Fund and Notes thereto, which are incorporated by reference into this prospectus and the SAI. The financial information for each of the five years ended December 31, 2002 has been audited by PricewaterhouseCoopers LLP, independent accountants, whose unqualified report on such Financial Statements is incorporated by reference into the SAI.

Selected data for a Fund common share outstanding throughout each period:	Year Ended December 31, 2002	2001	2000	1999
Operating performance:				
Net asset value, beginning of period................	$9.92	$10.02	$11.40	$11.45
Net investment income...............................	0.49	0.68	0.72	0.51
Net realized and unrealized gain (loss) on investments.......................................	(0.76)	0.32	(0.52)	0.77
Total from investment operations....................	(0.27)	1.00	0.20	1.28
Distributions to preferred stock shareholders:				
Net investment income...............................	(0.28)	(0.18)	(0.13)	(0.11)
Net realized gain on investments....................	--	(0.12)	(0.17)	(0.19)
Total distributions to preferred stock				

shareholders	(0.28)	(0.30)	(0.30)	(0.30)
Net increase (decrease) in net assets attributable to common stock shareholders resulting from operations	(0.55)	0.70	(0.10)	0.98
Distributions to common stock shareholders:				
Net investment income	(0.27)	(0.48)	(0.57)	(0.39)
Net realized gain on investments	--	(0.33)	(0.73)	(0.64)
Paid in capital	(0.48)	--	--	--
Total distributions to common stock shareholders	(0.75)	(0.81)	(1.30)	(1.03)
Capital share transactions:				
Increase in net asset value from common share transactions	0.02	0.01	0.02	--
Decrease in net asset value from shares issued in rights offering	(0.20)	--	--	--
Preferred share offering costs charged to paid-in capital	0.00	--	--	--
Total capital share transactions	(0.18)	0.01	0.02	0.00
Net asset value attributable to common stock shareholders, end of period	$8.44	$9.92	$10.02	$11.40
Net asset value total return(+)	(7.0)%	7.0%	0.0%	9.4%
Market value, end of period	$8.55	$10.90	$ 9.13	10.56
Total investment return(++)	(14.2)%	29.1%	(1.7)%	3.2%
Ratios and supplemental data:				
Net assets including liquidation value of preferred shares, end of period (in 000's)	$108,774	$110,074	$108,066	$120,179
Net assets attributable to common shares, end of period (in 000's)	$ 93,774	$ 80,074	$ 78,066	$ 90,179
Ratio of net investment income to average net assets attributable to common shares*	5.32%	6.58%	6.49%	4.35%
Ratio of operating expenses to average net assets attributable to common shares* (a)	1.58%	1.46%	1.48%	1.80%
Ratio of operating expenses to average total net assets including liquidation value of preferred shares (c)	1.15%	1.07%	1.10%	1.36%
Portfolio turnover rate	56%	59%	169%	175%
Cumulative Preferred Stock:				
8.00% Cumulative Preferred Stock Liquidation value, end of period (in 000's)	$ 15,000	$ 30,000	$ 30,000	$ 30,000
Total shares outstanding (in 000's)	600	1,200	1,200	1,200
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Average market value (b)	$ 25.83	$ 25.80	$ 24.31	$ 25.36
Asset coverage	725%	367%	360%	401%
Asset coverage per share	$ 181.29	$ 91.72	$ 90.05	$ 100.15

See footnotes on following page.

Year Ended December 31,

	1996+	1995+
Operating Performance:		
Net asset value, beginning of period	$ 11.01	$ 10.60
Net investment income	0.49	0.53
Net realized and unrealized gain (loss) on securities	0.31	1.03
Total from investment operations	0.80	1.56
Distributions to common stock shareholders:		
Net investment income	(0.49)	(0.53)
Net realized gain on investments	(0.24)	(0.56)
Distributions in excess of net investment income	--	(0.02)
Distributions in excess of net realized gains	--	(0.01)
Paid-in capital	--	(0.03)
Total distributions	(0.73)	(1.15)
Net asset value, end of period	$ 11.08	$ 11.01
Total Net Asset Value Return ++ (d)	8.4%	15.0%
Market value, end of period	$ 9.25	$ 10.75
Total Investment Return ++(e)	(7.3)%	12.3%
Ratios and supplemental data:		
Net assets, end of period (in thousands)	$ 89,659	$ 89,137
Ratio of operating expenses to average net assets (f)	1.45%	1.56%
Ratio of net investment income (loss) to average net assets	4.33%	4.60%
Portfolio turnover rate	114%	140%

+ Based on net asset value per share, adjusted for reinvestment of distributions.

++ Based on market value per share, adjusted for reinvestment of distributions.

+ No preferred stock outstanding during this period.

++ Total return is calculated assuming a purchase of shares on the first day and a sale on the last day of each period reported and includes reinvestment of distributions.

* The expense ratio and net investment income ratio do not reflect the effect of dividend payments to preferred shareholders.

(a) The ratio of operating expenses to average net assets attributable to common stock for the fiscal year ended December 31, 1997 does not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including the custodian fee credit, the ratio of operating expenses to average net assets attributable to common stock for the year would have been 1.67%.

(b) Based on weekly prices.

(c) Amounts are attributable to both common and preferred stock assets.

(d) Based on net asset value per share, adjusted for reinvestment of all distributions.

(e) Based on net asset value per share through March 31, 1995, the date of conversion of the Fund to closed-end status, and market value thereafter, adjusted for reinvestment of all distributions.

(f) Includes, for 1995, a current period expense associated with the conversion of the Fund to closed-end Status. Without the conversion expense, this ratio would have been 1.28% in 1995.

The following table provides information about the Fund's Series A Preferred since its issuance in May 1997. The Fund redeemed all of its outstanding shares of Series A Preferred on February 11, 2003. The information has been audited by PricewaterhouseCoopers LLP, independent accountants.

Year ended December 31,	Shares Outstanding	Asset Coverage Per Share	Involuntary Liquidation Preference Per Share	Average Market Value Per Share
2002	600,000	$181.29	$25.00	$25.83
2001	1,200,000	$91.72	$25.00	$25.80
2000	1,200,000	$90.05	$25.00	$24.31
1999	1,200,000	$100.15	$25.00	$25.36
1998	1,200,000	$100.60	$25.00	$26.84
1997	1,200,000	$101.99	$25.00	$25.69

For purposes of the foregoing table, the Asset Coverage Per Share is calculated by dividing the total value of the Fund's assets on December 31 of the relevant year by the number of shares of Series A Preferred outstanding on that date. Involuntary Liquidation Preference Per Share refers to the amount holders of Series A Preferred are entitled to receive per share in the event of liquidation of the Fund prior to the holders of common stock being entitled to receive any amounts in respect of the assets of the Fund. The Average Market Value Per Share is the average of the weekly closing prices of the Series A Preferred on the NYSE each week during the relevant year.

USE OF PROCEEDS

The net proceeds of the offering are estimated at $ after deduction of the underwriting discounts and estimated offering expenses payable by the Fund. The Investment Adviser expects that it will initially invest the proceeds of the offering in high quality short-term income securities in accor dance with the Fund's investment guidelines. Thereafter, the Fund intends to reallocate all or a portion of the offering proceeds to other long-term income or convertible securities in accordance with the Fund's investment guidelines as suitable investment opportunities become available.

THE FUND

The Fund was incorporated in Maryland on December 19, 1988 as an open-end, diversified, management investment company. The Fund converted to closed-end status after receiving stockholder approval of its Charter on February 21, 1995 and filing of the Charter in Maryland on March 31, 1995. The Fund's common stock is traded on the New York Stock Exchange under the symbol

"GCV." The Fund's Series A Preferred, all of which was redeemed by the Fund on February 11, 2003, previously traded on the New York Stock Exchange under the symbol "GCV Pr."

CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of February 14, 2003, and its adjusted capitalization assuming the Series B Preferred and/or Series C Auction Rate Preferred offered in this prospectus had been issued as of that date.

	As of Febru Actual (Unaudit
Preferred stock, $0.001 par value, 1,000,000,000 shares authorized.* (The "Actual" column reflects the Fund's outstanding capitalization as of February 14, 2003; the "As Adjusted" column assumes the issuance of an additional 1,000,000 shares of Series B Preferred, liquidation preference $25 per share, and 1,000 shares of Series C Auction Rate Preferred, liquidation preference $25,000 per share)	$ 0
Common stock, $.001 par value per share; 1,000,000,000 shares authorized*, 11,113,431 shares outstanding................	11,113
Paid-in surplus**..	104,240,469
Undistributed net investment income..........................	171,637
Accumulated net realized loss from investment transactions..	(1,280,802)
Net unrealized depreciation..................................	(6,743,474)
Net assets applicable to common shareholders.................	$96,398,943
Net assets, plus liquidation preference of preferred stock....	$96,398,943

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* The total number of shares of capital stock of all classes authorized. The Board of Directors is authorized to classify or reclassify these one billion shares.

** As adjusted paid-in surplus reflects a reduction for the sales load and estimated offering cost of the Series B Preferred and/or Series C Auction Rate Preferred issuance of $1,500,000.

As used in this prospectus, unless otherwise noted, the Fund's "managed assets" include the aggregate net asset value of the common shares plus assets attributable to outstanding shares of its preferred stock, with no deduction for the liquidation preference of such shares of preferred stock. For financial reporting purposes, however, the Fund is required to deduct the liquidation preference of its outstanding preferred stock from "managed assets," so long as the preferred stock has redemption features that are not solely within the control of the Fund. For all regulatory purposes, the Fund's preferred stock will be treated as stock (rather than as indebtedness).

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to seek a high level of total return on its assets. The Fund seeks to achieve its investment objective through a combination of current income and capital appreciation. There is no assurance that this objective will be achieved. It is, however, a fundamental policy of the Fund and cannot be changed without stockholder approval. Under normal circumstances the Fund will invest at least 80% of the value of its total assets (taken at current value) in "convertible securities," i.e., securities (bonds, debentures, notes, stocks and other similar securities) that are convertible into common stock or other equity securities, and "income securities," i.e., nonconvertible debt or equity securities having a history of regular payments or accrual of income to holders. Securities received upon conversion of a convertible security will not be included in the calculation of the percentage of Fund assets invested in convertible securities but may be retained in the Fund's portfolio to permit orderly disposition or to establish long-term holding periods for federal income tax purposes. The Fund expects to continue its practice of focusing on convertible securities to the extent attractive opportunities are available.

The Fund may invest up to 20% of its total assets (taken at current value and subject to any restrictions appearing elsewhere in this Registration Statement) in any combination and quantity of securities that do not generate any income, such as common stocks that do not pay dividends. In selecting any of the foregoing securities for investment, the factors that will be considered by the Investment Adviser include the Investment Adviser's evaluation of the underlying value of the assets and business of the issuers of the securities, the potential for capital appreciation, the price of the securities, the issuer's balance sheet characteristics and the perceived skills and integrity of the issuer's management.

During periods when it is deemed necessary for temporary defensive purposes, the Fund may invest without limit in high quality money market instruments, including commercial paper of domestic and foreign corporations, certificates of deposit, bankers' acceptances and other obligations of domestic and foreign banks and obligations issued or guaranteed by the United States government, its instrumentalities or agencies and, subject to statutory limitations, unaffiliated money market mutual funds, unless an exemptive order permits the Fund to invest in affiliated money market funds. The yield on these securities will, as a general matter, tend to be lower than the yield on other securities to be purchased by the Fund. See " -- Investment Practices -- Temporary Defensive Investments."

Investment Methodology of the Fund

In selecting securities for the Fund, the Investment Adviser normally will consider the following factors, among others:

- the Investment Adviser's own evaluations of the private market value, cash flow, earnings per share and other fundamental aspects of the underlying assets and business of the company;
- the interest or dividend income generated by the securities;
- the potential for capital appreciation of the securities and any underlying common stocks;
- the prices of the securities relative to any underlying common stock;
- the prices of the securities relative to other comparable securities;

- whether the securities are entitled to the benefits of sinking funds or other protective conditions or covenants;

- the existence of any anti-dilution protections or guarantees of the security; and

- the diversification of the Fund's portfolio as to issuers.

The Investment Adviser's investment philosophy with respect to debt and equity securities seeks to identify assets that are selling in the public market at a discount to their private market value. The Investment Adviser defines private market value as the value informed purchasers are willing to pay to acquire assets with similar characteristics. The Investment Adviser also normally evaluates the issuers' free cash flow and long-term earnings trends. Finally, the Investment Adviser looks for a catalyst, something indigenous to the company, its industry or country that will surface additional value.

Investment Practices

Convertible Securities. A convertible security is a bond, debenture, note, stock or other similar security that may be converted into or exchanged for a prescribed amount of common stock or other equity security of the same or a different issuer within a particular period of time at a specified price or formula. Before conversion, convertible securities have characteristics similar to nonconvertible debt securities in that they ordinarily provide a stream of income with generally higher yields than those of common stock of the same or similar issuers. Convertible securities are senior in rank to common stock in a corporation's capital structure and, therefore, generally entail less risk than the corporation's common stock, although the extent to which such risk is reduced depends in large measure upon the degree to which the convertible security sells above its value as a fixed income security.

The Fund believes that the characteristics of convertible securities make them appropriate investments for an investment company seeking a high level of total return on its assets. These characteristics include the potential for capital appreciation if the value of the underlying common stock increases, the relatively high yield received from dividend or interest payments as compared to common stock dividends and decreased risks of decline in value, relative to the underlying common stock due to their fixed income nature. As a result of the conversion feature, however, the interest rate or dividend preference on a convertible security is generally less than would be the case if the securities were not convertible. During periods of rising interest rates, it is possible that the potential for capital gain on a convertible security may be less than that of a common stock equivalent if the yield on the convertible security is at a level that causes it to sell at a discount.

Every convertible security may be valued, on a theoretical basis, as if it did not have a conversion privilege. This theoretical value is determined by the yield it provides in comparison with the yields of other securities of comparable character and quality that do not have a conversion privilege. This theoretical value, which may change with prevailing interest rates, the credit rating of the issuer and other pertinent factors, often referred to as the "investment value," represents the security's theoretical price support level.

"Conversion value" is the amount a convertible security would be worth in market value if it were to be exchanged for the underlying equity security pursuant to its conversion privilege. Conversion value fluctuates directly with the price of the underlying equity security, usually common stock. If, because of low prices for the common stock, the conversion value is substantially below the investment value, the price of the convertible security is governed principally by the factors described in the preceding paragraph. If the conversion value rises near or above its investment value, the price of the convertible security generally will rise above its investment value and, in addition, will sell at some premium over its conversion value. This premium represents the price investors are willing to pay for the privilege of purchasing a fixed-income security with a possibility of capital appreciation due to the conversion privilege. Accordingly, the conversion value of a convertible security is subject to equity risk, that is, the risk that the price of an equity security will fall due to general market and economic conditions, perceptions regarding the industry in which the issuer participates or the issuing company's particular circumstances. If the appreciation potential of a convertible security is not realized, its conversion value premium may not be recovered.

In its selection of convertible securities for the Fund, the Investment Adviser will not emphasize either investment value or conversion value, but will consider both in light of the Fund's overall investment objective. See "Convertible Securities" in the Statement of Additional Information. The Fund may convert a convertible security that it holds:

- when necessary to permit orderly disposition of the investment when a convertible security approaches maturity or has been called for redemption;

- to facilitate a sale of the position;

- if the dividend rate on the underlying common stock increases above the yield on the convertible security; or

- whenever the Investment Adviser believes it is otherwise in the best interests of the Fund.

Convertible securities are generally not investment grade, that is, not rated within the four highest categories by S&P and Moody's. To the extent that such convertible securities and other nonconvertible debt securities, which are acquired by the Fund consistent with the factors considered by the Investment Adviser as described in this prospectus, are rated lower than investment grade or are not rated, there would be a greater risk as to the timely repayment of the principal of, and timely payment of interest or dividends on, those securities. It is expected that not more than 50% of the Fund's portfolio will consist of securities rated CCC or lower by S&P or Caa or lower by Moody's or, if unrated, are of comparable quality as determined by the Investment Adviser. Those securities and securities rated BB or lower by S&P or Ba or lower by Moody's are often referred to in the financial press as "junk bonds" and may include securities of issuers in default. "Junk bonds" are considered by the rating agencies to be predominantly speculative and may involve major risk exposure to adverse conditions. See "Risk Factors and Special Considerations -- Asset Class Risks." Securities rated BBB by S&P or Baa by Moody's, in the opinion of the rating agencies, also have speculative characteristics. Securities need not meet a minimum rating standard in order to be acceptable for investment by the Fund. See "Appendix A -- Description of Corporate Bond Ratings."

The Fund's investments in securities of issuers in default will be limited to not more than 5% of the total assets of the Fund. Further, the Fund will invest in securities of issuers in default only when the Investment Adviser believes that such issuers will emerge from bankruptcy and the value of such securities will appreciate. By investing in securities of issuers in default the Fund bears the risk that such issuers will not emerge from bankruptcy or that the value of such securities will not appreciate.

The Fund has no independent limit on the amount of its net assets it may invest in unregistered and otherwise illiquid securities and other investments. The current intention of the Investment Adviser is not to invest in excess of 15% of the Fund's net assets in illiquid convertible securities or income securities. Common stockholders will be notified if the Investment Adviser changes its intention. Investments in unregistered or otherwise illiquid securities entail certain risks related to the fact that they cannot be sold publicly in the United States without registration under the Securities Act. See "Risk Factors and Special Considerations -- Asset Class Risks."

Income Securities. Although it is the Fund's policy to invest in convertible securities to the extent attractive opportunities are available, the Fund may also invest in income securities other than convertible securities that are expected to periodically accrue or generate income for their holders. Such income securities, which as of the date of this Prospectus constitute approximately 35% of the Fund's portfolio, include (i) fixed income securities such as bonds, debentures, notes, stock, short-term discounted Treasury Bills or certain securities of the U.S. government sponsored instrumentalities, as well as money market mutual funds that invest in those securities, which, in the absence of an applicable exemptive order, will not be affiliated with the Investment Adviser, and (ii) common stocks of issuers that have historically paid periodic dividends. Fixed income securities obligate the issuer to pay to the holder of the security a specified return, which may be either fixed or reset periodically in accordance with the terms of the security. Fixed income securities generally are senior to an issuer's common stock and their holders generally are entitled to receive amounts due before any distributions are made to common stockholders. Common stocks, on the other hand, generally do not obligate an issuer to make periodic distributions to holders.

The market value of fixed income securities, especially those that provide a fixed rate of return, may be expected to rise and fall inversely with interest rates and in general is affected by the credit rating of the issuer, the issuer's performance and perceptions of the issuer in the market place. The market value of callable or redeemable fixed income securities may also be affected by the issuer's call and redemption rights. In addition, it is possible that the issuer of fixed income securities may not be able to meet its interest or principal obligations to holders. Further, holders of non-convertible fixed income securities do not participate in any capital appreciation of the issuer.

The Fund may also invest in obligations of government sponsored instrumentalities. Unlike non-U.S. government securities, obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the "full faith and credit" of the U.S. government; others, such as those of the Export-Import Bank of the U.S., are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government sponsored instrumentalities if it is not obligated to do so by law.

The Fund also may invest in common stock of issuers that have historically paid periodic dividends or otherwise made distributions to common stockholders. Unlike fixed income securities, dividend payments generally are not guaranteed and so may be discontinued by the issuer at its discretion or because of the issuer's inability to satisfy its liabilities. Further, an issuer's history of paying dividends does not guarantee that it will continue to pay dividends in the future. In addition to dividends, under certain circumstances the holders of common stock may benefit from the capital appreciation of the issuer.

Special Investment Methods.

Options. On behalf of the Fund, the Investment Adviser may, subject to guidelines of the Board of Directors, purchase or sell (i.e., write) options on securities, securities indices and foreign currencies that are listed on a national securities exchange or in the U.S. over-the-counter ("OTC") markets as a means of achieving additional return or of hedging the value of the Fund's portfolio. The Fund may write covered call options on common stock that it owns or has an immediate right to acquire through conversion or exchange of other securities in an amount not to exceed 25% of total assets or invest up to 10% of its total assets in the purchase of put options on common stocks that the Fund owns or may acquire through the conversion or exchange of other securities that it owns. The Fund may not write covered call options in an amount exceeding 25% of the value of its total assets. The Fund's investment in OTC options is limited to 5% of its total assets.

A call option is a contract that gives the holder of the option the right, in return for a premium paid, to buy from the writer (seller) of the call option the security underlying the option at a specified exercise price at any time during the term of the option. The writer of the call option has the obligation upon exercise of the option to deliver the underlying security upon payment of the exercise price during the option period.

A put option is a contract that gives the holder of the option the right, in return for the premium paid, to sell to the writer (seller) of the put option the underlying security at a specified price during the term of the option. The writer of the put, who receives the premium, has the obligation to buy the underlying security upon exercise, at the exercise price during the option period.

If the Fund has written an option, it may terminate its obligation by effecting a closing purchase transaction. This is accomplished by purchasing an option of the same series as the option previously written. There can be no assurance that a closing purchase transaction can be effected when the Fund so desires.

An exchange traded option may be closed out only on an exchange that provides a secondary market for an option of the same series. Although the Fund will generally purchase or write only those options for which there appears to be an active secondary market, there is no assurance that a liquid secondary market on an exchange will exist for any particular option.

The Fund will not purchase options if, as a result, the aggregate cost of all outstanding options exceeds 10% of the Fund's total assets. See "Investment Practices -- Derivative Instruments" in the SAI.

Futures Contracts and Options Thereon. On behalf of the Fund, the Investment Adviser may, subject to guidelines of the Board of Directors, purchase and sell financial futures contracts and options thereon which are traded on a commodities exchange or board of trade for certain hedging, yield enhancement and risk management purposes, in accordance with regulations of the Commodity Futures Trading Commission ("CFTC"). These futures contracts and related options may be on debt securities, financial indices, securities indices, U.S. government securities and foreign currencies. A financial futures contract is an agreement to purchase or sell an agreed amount of securities or currencies at a set price for delivery in the future.

Under the CFTC regulations, the Investment Adviser on behalf of the Fund

(i) may purchase and sell futures contracts and options thereon for bona fide hedging purposes, as defined under CFTC regulations, without regard to the percentage of the Fund's assets committed to margin and option premiums, and (ii) may enter into non-hedging transactions, provided that, immediately thereafter, the sum of the amount of the initial margin deposits on the Fund's existing futures positions and option premiums does not exceed 5% of the market value of the Fund's total assets.

Forward Currency Exchange Contracts. Subject to guidelines of the Board of Directors, the Fund may enter into forward foreign currency exchange contracts to protect the value of its portfolio against future changes in the level of currency exchange rates. The Fund may enter into such contracts on a spot, i.e., cash, basis at the rate then prevailing in the currency exchange market or on a forward basis, by entering into a forward contract to purchase or sell currency. A forward contract on foreign currency is an obligation to purchase or sell a specific currency at a future date, which may be any fixed number of days agreed upon by the parties from the date of the contract at a price set on the date of the contract. The Fund's dealings in forward contracts will be limited to hedging involving either specific transactions or portfolio positions, and the amount the Fund may invest in forward currency contracts is limited to the amount of its aggregate investments in foreign currencies. The Fund will only enter into forward currency contracts with parties that it believes to be creditworthy.

Short Sales Against the Box. The Fund may from time to time make short sales of securities it owns or has the right to acquire through conversion or exchange of other securities it owns. A short sale is "against the box" to the extent that the Fund contemporaneously owns or has the right to obtain at no added cost securities identical to those sold short. In a short sale, the Fund does not immediately deliver the securities sold or receive the proceeds from the sale. The Fund may not make short sales or maintain a short position if it would cause more than 25% of the Fund's total assets, taken at market value, to be held as collateral for such sales.

To secure its obligations to deliver the securities sold short, the Fund will deposit in escrow in a separate account with its custodian an equal amount to the securities sold short or securities convertible into, or exchangeable for, such securities. The Fund may close out a short position by purchasing and delivering an equal amount of the securities sold short, rather than by delivering securities already held by the Fund, because the Fund may want to continue to receive interest and dividend payments on securities in its portfolio that are convertible into the securities sold short.

The Fund may make a short sale in order to hedge against market risks when it believes that the price of a security may decline, causing a decline in the value of a security owned by the Fund or a security convertible into, or exchangeable for, such security, or when the Fund does not want to sell the security it owns. Such short sale transactions may be subject to special tax rules, one of the effects of which may be to accelerate income to the Fund. Additionally, the Fund may use short sales in conjunction with the purchase of a convertible security when it is determined that a convertible security can be bought at a small conversion premium and has a yield advantage relative to the underlying common stock sold short.

Repurchase Agreements. The Fund may enter into repurchase agreements with primary government securities dealers recognized by the Federal Reserve Bank of New York and member banks of the Federal Reserve System that furnish collateral at least equal in value or market price to the amount of their repurchase obligation. In a repurchase agreement, the Fund purchases a debt security from a seller that undertakes to repurchase the security at a specified resale price on an agreed future date. Repurchase agreements are generally for one business day but may have a duration of up to a week.

Repurchase agreements may be seen to be loans by the Fund collateralized by the underlying debt obligation. This arrangement results in a fixed rate of return that is not subject to market fluctuations during the holding period. The value of the underlying securities will be at least equal to all times to the total amount of the repurchase obligation, including interest. The Fund bears a risk of loss in the event that the other party to a repurchase agreement defaults on its obligations and the Fund is delayed in or prevented from exercising its rights to dispose of the collateral securities, including the risk of a possible decline in the value of the underlying securities during the period in which it seeks to assert these rights. In the event of a default or bankruptcy by a seller, the Fund will promptly seek to liquidate the collateral. The Board of Directors will monitor the creditworthiness of the contra party to the repurchase agreements.

If the financial institution that is a party to the repurchase agreement petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss.

Loans of Portfolio Securities. To increase income, the Fund may lend its portfolio securities to securities broker-dealers or financial institutions if (i) the loan is collateralized in accordance with applicable regulatory requirements and (ii) no loan will cause the value of all loaned securities to exceed 33% of the value of the Fund's total assets.

If the borrower fails to maintain the requisite amount of collateral, the loan automatically terminates and the Fund could use the collateral to replace the securities while holding the borrower liable for any excess of replacement cost over the value of the collateral. As with any extension of credit, there are risks of delay in recovery and in some cases even loss of rights in collateral should the borrower of the securities fail financially. While these loans of portfolio securities will be made in accordance with guidelines approved by the Board of Directors, there can be no assurance that borrowers will not fail financially. On termination of the loan, the borrower is required to return the securities to the Fund, and any gain or loss in the market price during the loan would inure to the Fund. If the other party to the loan petitions for bankruptcy or becomes subject to the United States Bankruptcy Code, the law regarding the rights of the Fund is unsettled. As a result, under extreme circumstances, there may be a restriction on the Fund's ability to sell the collateral and the Fund would suffer a loss. See "Special Investment Methods -- Loans of Portfolio Securities" in the SAI.

Leverage. As provided in the 1940 Act and subject to compliance with the Fund's investment objective, policies and restrictions, the Fund is permitted to issue additional preferred stock or debt so long as the Fund's total assets immediately after such issuance, less certain ordinary course liabilities, exceed 300% of the amount of the debt outstanding and exceed 200% of the sum of the amount of preferred stock and debt outstanding. Such debt or preferred stock may be convertible in accordance with SEC staff guidelines that may permit the Fund to obtain leverage at attractive rates. The Fund currently has authorized the issuance of 2,000,000 shares of preferred stock. The Fund redeemed all of its outstanding preferred stock on February 11, 2003, and currently has no shares of preferred stock outstanding. The Fund does not currently intend to offer shares of preferred stock or senior securities representing indebtedness in addition to the Series B Preferred and/or Series C Auction Rate Preferred described by this prospectus. However, the Fund will consider from time to time whether to do so and may issue additional such securities were the Board of Directors to conclude that such an offering would be consistent with the Fund's Charter and applicable law, and in the best interest of existing common stockholders.

Corporate Reorganizations. The Fund may invest without limit in securities of companies for which a tender or exchange offer has been made or announced and in securities of companies for which a merger, consolidation, liquidation or similar reorganization proposal has been announced if, in the judgment of the Investment Adviser, there is a reasonable prospect of capital appreciation significantly greater than the added portfolio turnover expenses inherent in the short term nature of such transactions. The principal risk is that such offers or proposals may not be consummated within the time and under the terms contemplated at the time of the investment, in which case, unless such offers or proposals are replaced by equivalent or increased offers or proposals that are consummated, the Fund may sustain a loss.

Warrants and Rights. The Fund may invest without limit in warrants or rights (other than those acquired in units or attached to other securities) that entitle the holder to buy equity securities at a specific price for a specific period of time but will do so only if such equity securities are deemed appropriate by the Investment Adviser for inclusion in the Fund's portfolio.

Other Investment Companies. The Fund may invest up to 5% of its total assets in no more than 3% of the securities of any one investment company including small business investment companies and may invest up to 10% of its total assets in the securities of other investment companies in the aggregate. The purchase of securities in investment companies will result indirectly in the payment of duplicative management fees by the Fund. The Fund will not purchase the securities of affiliated investment companies.

Foreign Securities. The Fund may invest up to 25% of its total assets in securities of foreign issuers, which are generally denominated in foreign currencies. See "Risk Factors and Other Considerations -- Foreign Securities."

The Fund may purchase sponsored American Depository Receipts ("ADRs") or U.S. denominated securities of foreign issuers, which will not be included in this foreign securities limitation. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets.

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

Securities purchased under a forward commitment are subject to market fluctuation, and no interest (or dividends) accrues to the Fund prior to the settlement date. The Fund will maintain a segregated account of cash or liquid high-grade debt securities with the Fund's custodian in an aggregate amount at least equal to the amount of its forward commitments as long as the obligation to purchase continues.

Temporary Defensive Investments. During temporary defensive periods and during periods when the Fund's normal asset allocation is not optimal, the Fund may invest more heavily in securities of U.S. government sponsored instrumentalities and in money market mutual funds that invest in those securities, which, in the absence of an exemptive order, are not affiliated with the Investment Adviser. Obligations of certain agencies and instrumentalities of the U.S. government, such as the Government National Mortgage Association, are supported by the "full faith and credit" of the U.S. government; others, such as those of the Export-Import Bank of the U.S., are supported by the right of the issuer to borrow from the U.S. Treasury; others, such as those of the Federal National Mortgage Association, are supported by the discretionary authority of the U.S. government to purchase the agency's obligations; and still others, such as those of the Student Loan Marketing Association, are supported only by the credit of the instrumentality. No assurance can be given that the U.S. government would provide financial support to U.S. government sponsored instrumentalities if it is not obligated to do so by law. During temporary defensive periods, the Fund may be less likely to achieve its investment objective.

Further information on the investment objective and policies of the Fund are set forth in the SAI.

Investment Restrictions. The Fund has adopted certain investment restrictions as fundamental policies of the Fund. Under the 1940 Act, a fundamental policy may not be changed without the vote of a majority of the outstanding voting securities of the Fund, as defined in the 1940 Act. The Fund's investment restrictions are more fully discussed under "Investment Restrictions" in the SAI.

Portfolio Turnover. The Fund will buy and sell securities to accomplish its investment objective. The investment policies of the Fund may lead to frequent changes in investments, particularly in periods of rapidly fluctuating interest or currency exchange rates. The portfolio turnover may be higher than that of other investment companies.

Portfolio turnover generally involves some expense to the Fund, including brokerage commissions or dealer mark-ups and other transaction costs on the sale of securities and reinvestment in other securities. The portfolio turnover rate is computed by dividing the lesser of the amount of the securities purchased or securities sold by the average monthly value of securities owned during the year (excluding securities whose maturities at acquisition were one year or less).

RISK FACTORS AND SPECIAL CONSIDERATIONS

Investors should consider the following risk factors and special considerations associated with investing in the Fund.

Preferred Stock

General. There are a number of risks associated with an investment in the Series B Preferred or Series C Auction Rate Preferred. The market value for the Series B Preferred and/or Series C Auction Rate Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series B Preferred or Series C Auction Rate Preferred and other factors. The Series B Preferred and/or Series C Auction Rate Preferred are subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series B Preferred or Series C Auction Rate Preferred. Subject to such circumstances, the Series B Preferred and/or Series C Auction Rate Preferred are perpetual.

The credit rating on the Series B Preferred or Series C Auction Rate Preferred could be reduced or withdrawn while an investor holds shares, and the credit rating does not eliminate or mitigate the risks of investing in the

Series B Preferred or Series C Auction Rate Preferred. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of the Series B Preferred or Series C Auction Rate Preferred.

The Series B Preferred and the Series C Auction Rate Preferred are not obligations of the Fund. The Series B Preferred and/or Series C Auction Rate Preferred would be junior in respect of dividends and liquidation preference to any indebtedness incurred by the Fund. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series B Preferred and/or Series C Auction Rate Preferred for the full redemption price. In addition, the Fund has adopted a policy (which it may modify) of distributing 8% of average quarter-end net assets attributable to common stock. In the event investment returns do not provide sufficient amounts to fund such distributions, the Fund may be required to return capital as part of such distributions, which may have the effect of decreasing the asset coverage per share with respect to the Fund's outstanding Series B Preferred and Series C Auction Rate Preferred. For the year ending December 31, 2002, 64% of the distributions paid by the Fund with respect to its common stock constituted a return of capital.

Leverage Risk. The Fund uses financial leverage for investment purposes by issuing preferred stock. It is currently anticipated that, taking into account the Series B Preferred and/or Series C Auction Rate Preferred being offered in this prospectus, the amount of leverage will represent approximately 35% of the Fund's managed assets (as defined below). The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the Series B Preferred and/or Series C Auction Rate Preferred's asset coverage.

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund's managed assets (which equal the aggregate net asset value of the common shares plus assets attributable to outstanding shares of its preferred stock, with no deduction for the liquidation preference of such shares of preferred stock), when the Fund's total return at least equals the dividend rate on the preferred stock (rather than only on the basis of net assets attributable to the common stock) the fee may be higher when leverage is utilized, giving the Investment Adviser an incentive to utilize leverage.

Restrictions on Dividends and Other Distributions. Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the Fund's common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem its preferred stock (including the Series B Preferred and/or Series C Auction Rate Preferred) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See "Taxation" in the SAI.

Ratings and Asset Coverage Risk. While it is a condition to the closing of the offering that Moody's assigns a rating of Aaa to the Series B Preferred and/or Series C Auction Rate Preferred and that Fitch assigns a rating of AAA to the Series C Auction Rate Preferred, the ratings do not eliminate or necessarily mitigate the risks of investing in Series B Preferred or Series C Auction Rate Preferred. The credit rating on the Series B Preferred or Series C Auction Rate Preferred could be reduced or withdrawn while an investor holds shares, which would likely have an adverse effect on the market value of the Series B Preferred or Series C Auction Rate Preferred. A reduction or withdrawal of the credit ratings on the Series C Auction Rate Preferred may also make your Series C Auction Rate Preferred shares less liquid at an auction or in the secondary market.

In addition, if a rating agency rating the Series C Auction Rate Preferred at the Fund's request downgrades the Series C Auction Rate Preferred, the maximum rate on the Series C Auction Rate Preferred will increase. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Rating Agency Guidelines" for a description of the asset maintenance tests the Fund must meet. In addition, should the rating on the Fund's preferred stock be lowered or withdrawn by the relevant rating agency, the Fund may also be required to redeem all or part of its outstanding preferred stock.

Special Risks of the Series B Preferred

Illiquidity Prior to Exchange Listing. Prior to the offering, there has been no public market for the Series B Preferred. In the event the Series B Preferred are issued, prior application will have been made to list the Series B Preferred on the New York Stock Exchange. However, during an initial period, which is not expected to exceed 30 days after the date of its initial issuance, the Series B Preferred will not be listed on any securities exchange. During such period, the underwriters intend to make a market in the Series B Preferred, though, they have no obligation to do so. Consequently, an investment in the Series B Preferred may be illiquid during such period.

Special Risks of the Series C Auction Rate Preferred

Interest Rate Risk. In connection with the sale of the Series C Auction Rate Preferred, the Fund may enter into interest rate swap or cap transactions in order to reduce the impact of changes in the dividend rate of the Series C Auction Rate Preferred or obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred that is lower than the Fund would have to pay if it issued fixed rate preferred shares. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. See "How the Fund Manages Risk -- Interest Rate Transactions."

Auction Risk. You may not be able to sell your Series C Auction Rate Preferred at an auction if the auction fails, i.e., if there is more Series C Auction Rate Preferred offered for sale than there are buyers for those shares. Also, if you place orders (place a hold order) at an auction to retain Series C Auction Rate Preferred only at a specified rate that exceeds the rate set at the auction, you will not retain your Series C Auction Rate Preferred. Additionally, if you place a hold order without specifying a rate below which you would not wish to continue to hold your shares and the auction sets a below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend period may be changed, subject to certain conditions and with notice to the holders of the Series C Auction Rate Preferred, which could also affect the liquidity of your investment. See "Description of the Series B Preferred and Series C Auction Rate Preferred" and "The Auction of Series C Auction Rate Preferred."

Secondary Market Risk. If you try to sell your Series C Auction Rate Preferred between auctions, you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, changes in interest rates could affect the price you would receive if you sold your shares in the secondary market. Broker-dealers that maintain a secondary trading market for the Series C Auction Rate Preferred are not required to maintain this market, and the Fund is not required to redeem Series C Auction Rate Preferred if either an auction or an attempted secondary market sale fails because of a lack of buyers. The Series C Auction Rate Preferred is not registered on a stock exchange or the NASDAQ stock market. If you sell your Series C Auction Rate Preferred to a broker-dealer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the last auction or during a special dividend period.

Asset Class Risks

Credit Risk for Convertible Securities and Fixed Income Securities. Many convertible securities are not investment grade, that is, not rated within the four highest categories by S&P and Moody's. To the extent that the Fund's convertible securities and any other fixed income securities are rated lower than investment grade or are not rated, there would be a greater risk as to the timely repayment of the principal of, and timely payment of interest or dividends on, those securities. It is expected that not more than 50% of the Fund's portfolio will consist of securities rated CCC or lower by S&P or Caa or lower by Moody's or, if unrated, are of comparable quality as determined by the Investment Adviser.

Securities rated BB or lower by S&P or Ba or lower by Moody's are often referred to in the financial press as "junk bonds" and may include securities of issuers in default. "Junk bonds" are considered by the rating agencies to be predominantly speculative and may involve major risk exposures such as:

- greater volatility and credit risk;
- vulnerability to economic downturns and changes in interest rates;
- sensitivity to adverse economic changes and corporate developments;
- additional expenses to pursue recovery from issuers that default;
- redemption or call provisions that may be exercised at inopportune times;
- difficulty in accurately valuing or disposing of such securities;
- subordination to other debt of the issuer; and
- junk bonds are generally unsecured.

Convertible securities and other income securities need not meet a minimum rating standard in order to be acceptable for investment by the Fund. See "Appendix A -- Description of Corporate Bond Ratings."

In addition, securities ratings are relative and subjective and not absolute standards of quality. They are based largely on an issuer's historical financial condition and the rating agency's analysis at the time of the rating. Consequently, the rating assigned to any particular security is not necessarily a reflection of the issuer's current financial condition.

Dilution Risk for Convertible Securities. In the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the Fund's holding may occur in the event the underlying stock is subdivided, additional equity securities are issued for below market value, a stock dividend is declared, or the issuer enters into another type of corporate transaction that has a similar effect.

Illiquid Securities. The Fund has no limit on the amount of its net assets it may invest in unregistered and otherwise illiquid investments. Unregistered securities are securities that cannot be sold publicly in the United States without registration under the Securities Act. Unregistered securities generally can be resold only in privately negotiated transactions with a limited number of purchasers or in a public offering registered under the Securities Act. Considerable delay could be encountered in either event and, unless otherwise contractually provided for, the Fund's proceeds upon sale may be reduced by the costs of registration or underwriting discounts. The difficulties and delays associated with such transactions could result in the Fund's inability to realize a favorable price upon disposition of unregistered securities, and at times might make disposition of such securities impossible.

Unregistered convertible securities or the securities obtained upon conversion normally may be resold publicly under certain volume and other restrictions beginning one year following the acquisition of the securities obtained upon conversion and without any restrictions beginning two years after the acquisition of the securities obtained upon conversion. Unregistered securities that are freely salable among qualified institutional investors under special rules adopted by the Securities and Exchange Commission (the "SEC") may be treated as liquid if they satisfy institutional liquidity standards established by the Board of Directors. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly, the Board of Directors will monitor their liquidity.

Interest Rate Risk for Fixed Income Securities. The primary risk associated with fixed income securities is interest rate risk. A decrease in interest rates will generally result in an increase in the value of a fixed income security, while increases in interest rates will generally result in a decline in its value. This effect is generally more pronounced for fixed rate securities than for securities whose income rate is periodically reset. Market interest rates recently have declined significantly below historical average rates, which may increase the risk that these rates will rise in the future.

Further, while longer term fixed rate securities may pay higher interest rates than shorter term securities, longer term fixed rate securities, like fixed rate securities, also tend to be more sensitive to interest rate changes and, accordingly, tend to experience larger changes in value as a result of interest rate changes.

Distribution Risk for Equity Income Securities. In selecting equity income securities in which the Fund will invest, the Investment Adviser will consider the issuer's history of making regular periodic distributions (i.e., dividends) to its equity holders. An issuer's history of paying dividends, however, does not guarantee that the issuer will continue to pay dividends in the future. The dividend income stream associated with equity income securities generally is not guaranteed and will be subordinate to payment obligations of the issuer on its debt and other liabilities. Accordingly, in the event the issuer does not realize sufficient income in a particular period both to service its liabilities and to pay dividends on its equity securities, it may forgo paying dividends on its equity securities. In addition, because in most instances issuers are not obligated to make periodic distributions to the holders of their equity securities, such distributions or dividends generally may be discontinued at the issuer's discretion.

Equity Risk. The principal risk of investing in equity securities is equity risk. Equity risk is the risk that the price of an equity security will fall due to general market and economic conditions, perceptions regarding the industry in which the issuer participates or the issuing company's particular circumstances. Common stock in which the Fund will invest or receive upon conversion of convertible securities is subject to such equity risk. In the case of convertible securities, it is the conversion value of a convertible security that is subject to the equity risk; that is, if the appreciation potential of a convert ible security is not realized, the premium paid for its conversion value may not be recovered. See "Investment Objective and Policies -- Investment Practices -- Convertible Securities."

Ratings Risk. The rating received by the Fund on its outstanding preferred stock, or on any other senior security that it may issue, is an assessment by the applicable rating agency of the capacity of the Fund to satisfy its obligations on its outstanding senior securities. However, an AAA, Aaa or similar rating on the Fund's outstanding preferred stock does not eliminate or mitigate the risks associated with investing in the Fund's preferred or common stock. In addition, should the rating on the Fund's preferred stock be lowered or withdrawn by the relevant rating agency, the Fund may also be required to redeem all or part of its outstanding preferred stock. If the Fund were required to redeem its outstanding preferred stock (in whole or part) as a result of the change in or withdrawal of the rating, the common stock of the Fund will lose the benefits associated with a leveraged capital structure.

Prepayment Risks on Government Sponsored Mortgage-Backed Securities. The yield and maturity characteristics of government sponsored mortgage-backed securities differ from traditional debt securities. A major difference is that the principal amount of the obligations may generally be prepaid at any time because the underlying assets (i.e., loans) generally may be prepaid at any time. Prepayment risks include the following:

- the relationship between prepayments and interest rates may give some lower grade government sponsored mortgage-backed securities less potential for growth in value than conventional bonds with comparable maturities;

- in addition, when interest rates fall, the rate of prepayments tends to increase. During such periods, the reinvestment of prepayment proceeds by the Fund will generally be at lower rates than the rates that were carried by the obligations that have been prepaid;

- because of these and other reasons, a government sponsored mortgage-backed security's total return and maturity may be difficult to predict; and

- to the extent that the Fund purchases government sponsored mortgage-backed securities at a premium, prepayments may result in loss of the Fund's principal investment to the extent of premium paid.

Long-term Objective

The Fund is intended for investors seeking a high level of total return over the long-term. The Fund is not meant to provide a vehicle for those who wish to play short-term swings in the stock market. An investment in shares of the Fund should not be considered a complete investment program. Each shareholder should take into account the Fund's investment objective as well as the shareholder's other investments when considering an investment in the Fund.

Market Value and Net Asset Value

The Fund is a diversified, closed-end management investment company. Shares of closed-end funds are bought and sold in the securities markets and may trade at either a premium or discount from net asset value. Listed shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of stock of a closed-end fund is a risk separate and distinct from the risk that the Fund's net asset value will decrease. The Fund cannot predict whether its listed stock will trade at, below or above net asset value. Stockholders desiring liquidity may, subject to applicable securities laws, trade their stock in the Fund on the New York Stock Exchange or other markets on which such stock may trade at the then current market value, which may differ from the then current net asset value. Stockholders will incur brokerage or other transaction costs to sell stock.

Foreign Securities

Investments in the securities of foreign issuers involve certain considerations and risks not ordinarily associated with investments in securities of domestic issuers. Foreign companies are not generally subject to uniform accounting, auditing and financial standards and requirements comparable to those applicable to U.S. companies. Foreign securities exchanges, brokers and listed companies may be subject to less government supervision and regulation than exists in the United States. Dividend and interest income may be subject to withholding and other foreign taxes, which may adversely affect the net return on such investments. There may be difficulty in obtaining or enforcing a court judgment abroad. In addition, it may be difficult to effect repatriation of capital invested in certain countries. In addition, with respect to certain countries, there are risks of expropriation, confiscatory taxation, political or social instability or diplomatic developments that could affect assets of the Fund held in foreign countries.

There may be less publicly available information about a foreign company than a U.S. company. Foreign securities markets may have substantially less volume than U.S. securities markets and some foreign company securities are less liquid than securities of otherwise comparable U.S. companies. A portfolio of foreign securities may also be adversely affected by fluctuations in the rates of exchange between the currencies of different nations and by exchange control regulations. Foreign markets also have different clearance and settlement procedures that could cause the Fund to encounter difficulties in purchasing and selling securities on such markets and may result in the Fund missing attractive investment opportunities or experiencing loss. In addition, a portfolio that includes foreign securities can expect to have a higher expense ratio because of the increased transaction costs on non-U.S. securities markets and the increased costs of maintaining the custody of foreign securities. The Fund may invest up to 25% of its total assets in securities of foreign issuers.

The Fund may purchase sponsored American Depository Receipts ("ADRs") or U.S. denomi nated securities of foreign issuers, which will not be included in the 25% foreign securities limitation. ADRs are receipts issued by United States banks or trust companies in respect of securities of foreign issuers held on deposit for use in the United States securities markets. While ADRs may not necessarily be denominated in the same currency as the securities into which they may be converted, many of the risks associated with foreign securities may also apply to ADRs.

Special Risks of Derivative Transactions

Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of the securities, foreign currency and interest rate markets is inaccurate, the consequences to the Fund may leave the Fund in a worse position than if it had not used such strategies. Risks inherent in the use of options, foreign currency, futures contracts and options on futures contracts, securities indices and foreign currencies include:

- dependence on the Investment Adviser's ability to predict correctly movements in the direction of interest rates, securities prices and currency markets;

- imperfect correlation between the price of options and futures contracts and options thereon and movements in the prices of the securities or currencies being hedged;

- the fact that skills needed to use these strategies are different from those needed to select portfolio securities;

- the possible absence of a liquid secondary market for any particular instrument at any time;

- the possible need to defer closing out certain hedged positions to avoid adverse tax consequences;

- the possible inability of the Fund to purchase or sell a security at a time that otherwise would be favorable for it to do so, or the possible need for the Fund to sell a security at a disadvantageous time due to a need for the Fund to maintain "cover" or to segregate securities in connection with the hedging techniques; and

- the creditworthiness of counterparties.

For a further description, see "Risk Factors and Special Considerations -- Futures Transactions" and "Risk Factors and Special Considerations -- Forward Currency Exchange Contracts."

Futures Transactions

Futures and options on futures entail certain risks, including but not limited to the following:

- no assurance that futures contracts or options on futures can be offset at favorable prices;

- possible reduction of the yield of the Fund due to the use of hedging;

- possible reduction in value of both the securities hedged and the hedging instrument;

- possible lack of liquidity due to daily limits or price fluctuation;

- imperfect correlation between the contracts and the securities being hedged; and

- losses from investing in futures transactions that are potentially unlimited and the segregation requirements for such transactions.

For a further description, see "Investment Objective and Policies -- Investment Practices" in the SAI.

Forward Currency Exchange Contracts

The use of forward currency contracts may involve certain risks, including the failure of the counter party to perform its obligations under the contract and that the use of forward contracts may not serve as a complete hedge because of an imperfect correlation between movements in the prices of the contracts and the prices of the currencies hedged or used for cover. For a further description of such investments, see "Investment Objective and Policies -- Investment Practices" in the SAI.

Dependence on Key Personnel

The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund's investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser.

Current Market Uncertainties

As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, some of the U.S. Securities Markets were closed for a four-day period. These terrorists attacks and related events have led to increased short-term market volatility and may have long-term effects on U.S. and world markets. A similar disruption of financial markets could affect interest rates, securities exchanges, auctions, secondary trading, ratings, credit risk, inflation and other factors relating to the Series B Preferred and/or Series C Auction Rate Preferred.

HOW THE FUND MANAGES RISK

Investment Limitations

The Fund has adopted certain investment limitations designed to limit investment risk and maintain portfolio diversification. These limitations are fundamental and may not be changed without the approval of the holders of a majority, as defined in the 1940 Act, of the outstanding shares of common stock and preferred stock voting together as a single class. The Fund may become subject to guidelines that are more limiting than the investment restrictions set forth above in order to obtain and maintain ratings from Moody's or Fitch on its preferred stock. See "Investment Restrictions" in the SAI for a complete list of the fundamental and non-fundamental investment policies of the Fund.

Interest Rate Transactions

In order to reduce the impact of changes in the dividend rate of the Series C Auction Rate Preferred or obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred that is lower than the Fund would have to pay if it issued fixed rate preferred shares, the Fund may enter into interest rate swap or cap transactions.

The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the "counterparty") periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund's variable rate payment obligation on the Series C Auction Rate Preferred. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock dividends when due in accordance with the Articles Supplementary even if the counterparty defaulted. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at that point in time, such a default could negatively affect the Fund's ability to make dividend payments on the Series C Auction Rate Preferred. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund's ability to make dividend payments on the Series C Auction Rate Preferred. To the extent there is a decline in interest rates, the value of the interest rate swap or cap could decline, resulting in a decline in the asset coverage for the Series C Auction Rate Preferred. A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. Under the Articles Supplementary, if the Fund fails to maintain the required asset coverage on the outstanding preferred stock (including the Series C Auction Rate Preferred) or fails to comply with other covenants, the Fund may be required to redeem some or all of these shares. The Fund may also choose to redeem some or all of the Series C Auction Rate Preferred at any time. Such redemption would likely result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could result in a termination payment by the Fund to the counterparty, while early termination of a cap could result in a termination payment to the Fund.

The Fund will usually enter into swaps or caps on a net basis; that is, the two payment streams will be netted out in a cash settlement on the payment date or dates specified in the instrument, with the Fund receiving or paying, as the case may be, only the net amount of the two payments. The Fund intends to maintain in a segregated account with its custodian cash or liquid securities having a value at least equal to the value of the Fund's net payment obligations under any swap transaction, marked to market daily. The Fund does not presently intend to enter into interest rate swap or cap transactions relating to Series C Auction Rate Preferred in a notional amount in excess of the outstanding amount of the Series C Auction Rate Preferred. The Fund will monitor any such swap with a view to ensuring that the Fund remains in compliance with all applicable regulatory investment policy and tax requirements.

MANAGEMENT OF THE FUND

General

The Fund's Board of Directors (who, with its officers, are described in the SAI) has overall responsibility for the management of the Fund. The Board decides upon matters of general policy and reviews the actions of the Investment Adviser, Gabelli Funds, LLC, located at One Corporate Center, Rye, New York 10580-1434, and the Sub-Administrator (as defined below). Pursuant to an Investment Advisory Contract with the Fund, the Investment Adviser, under the supervision of the Fund's Board of Directors, provides a continuous investment program for the Fund's portfolio; provides investment research and makes and executes recommendations for the purchase and sale of securities; and provides all facilities and personnel, including officers required for its administrative management and pays the compensation of all officers and directors of the Fund who are its affiliates. As compensation for its services and the related expenses borne by the Investment Adviser, the Fund pays the Investment Adviser a fee, computed daily and payable monthly, equal, on an annual basis, to 1.00% of the Fund's average weekly net assets. However, the Investment Adviser will waive the portion of its investment advisory fee attributable to an amount of assets of the Fund equal to the aggregate stated value of its outstanding preferred stock for any calendar year in which the net asset value total return of the Fund allocable to the common stock, including distributions and the advisory fee subject to potential waiver, is less than the stated annual dividend rate of such preferred stock, prorated during the year such preferred stock is issued and the final year it is outstanding. For purposes of the calculation of the fees payable to the Investment Adviser by the Fund, average weekly net assets of the Fund are determined at the end of each month on the basis of its average net assets for each week during the month. The assets for each weekly period are determined by averaging the net assets at the end of a week with the net assets at the end of the prior week.

The Investment Adviser

Gabelli Funds, LLC acts as the Fund's Investment Adviser pursuant to an advisory agreement with the Fund. The Investment Adviser is a New York corporation with principal offices located at One Corporate Center, Rye, New York 10580. The Investment Adviser was organized in 1999 and is the successor to Gabelli Advisers, Inc., which was organized in 1980. As of December 31, 2002, the Investment Adviser acted as registered investment adviser to 18 management investment companies with aggregate net assets of $8.7 billion. The Investment Adviser, together with other affiliated investment advisers, had assets under management totaling $9.7 billion, as of December 31, 2002. GAMCO Investors, Inc., an affiliate of the Investment Adviser, acts as investment adviser for individuals, pension trusts, profit sharing trusts and endowments and as a sub-adviser to management investment companies, having aggregate assets of $10.0 billion under management as of December 31, 2002. Gabelli Fixed Income LLC, an affiliate of the Investment Adviser, acts as investment adviser for The Treasurer's Fund and separate accounts having aggregate assets of $1.6 billion under management as of December 31, 2002.

The Investment Adviser is a wholly-owned subsidiary of Gabelli Asset Management Inc., a New York corporation, whose Class A Common Stock is traded on the New York Stock Exchange under the symbol "GBL." Mr. Mario J. Gabelli may be deemed a "controlling person" of the Investment Adviser on the basis of his ownership of a majority of the stock of the Gabelli Group Capital Partners, Inc., which owns a majority of the capital stock of Gabelli Asset Management Inc.

Payment of Expenses

The Investment Adviser is obligated to pay expenses associated with providing the services contemplated by the Investment Advisory Agreement between the Fund and the Investment Adviser (the "Advisory Agreement") including compensation of and office space for its officers and employees connected with investment and economic research, trading and investment management and administra tion of the Fund, as well as the fees of all directors of the Fund who are affiliated with the Investment Adviser. The Fund pays all other expenses incurred in its operation including, among other things, expenses for legal and independent accountants' services, costs of printing proxies, stock certificates and stockholder reports, charges of the custodian, any subcustodian and transfer and dividend paying agent, expenses in connection with its respective automatic dividend reinvestment and voluntary cash purchase plan, SEC fees, fees and expenses of unaffiliated directors, accounting and pricing costs, including costs of calculating the net asset value of the Fund, membership fees in trade associations, fidelity bond coverage for its officers and employees, directors' and officers' errors and omission insurance coverage, interest, brokerage costs, taxes, stock exchange listing fees and expenses, expenses of qualifying its stock for sale in various states, litigation and other extraordinary or non-recurring expenses, and other expenses properly payable by the Fund.

In addition to the fees of the Investment Adviser, the Fund is responsible for the payment of all its other expenses incurred in the operation of the Fund, which include, among other things, expenses for legal and independent accountant's services, stock exchange listing fees, expenses relating to the offering of preferred stock, rating agency fees, costs of printing proxies, stock certificates and stockholder reports, charges of State Street Bank and Trust Company ("State Street" or the "Custodian"), charges of EquiServe and The Bank of New York, SEC fees, fees and expenses of unaffiliated directors, accounting and printing costs, the Fund's pro rata portion of membership fees in trade organizations, fidelity bond coverage for the Fund's officers and employees, interest, brokerage costs, taxes, expenses of qualifying the Fund for sale in various states, expenses of personnel performing stockholder servicing functions, litigation and other extraordinary or non-recurring expenses and other expenses properly payable by the Fund.

Selection of Securities Brokers

The Investment Advisory Contract contains provisions relating to the selection of securities brokers to effect the portfolio transactions of the Fund. Under those provisions, the Investment Adviser may (i) direct Fund portfolio brokerage to Gabelli & Company, Inc. or other broker-dealer affiliates of the Investment Adviser and (ii) pay commissions to brokers other than Gabelli & Company, Inc. that are higher than might be charged by another qualified broker to obtain brokerage and/or research services considered by the Investment Adviser to be useful or desirable for its investment management of the Fund and/or its other advisory accounts or those of any investment adviser affiliated with it. The SAI contains further information about the Investment Advisory Contract including a more complete description of the advisory and expense arrangements, exculpatory and brokerage provisions, as well as information on the brokerage practices of the Fund.

Portfolio Manager

Mario J. Gabelli is responsible for the day-to-day management of the Fund. Mr. Gabelli has served as Chairman, President and Chief Investment Officer of the Investment Adviser since 1980. Mr. Gabelli also serves as Portfolio Manager for several other funds in the Gabelli fund family. Because of the diverse nature of Mr. Gabelli's responsibilities, he will devote less than all of his time to the day-to-day management at the Fund. Over the past five years, Mr. Gabelli has served as Chairman of the Board and Chief Executive Officer of Gabelli Asset Management Inc.; Chief Investment Officer of GAMCO Investors, Inc.; Vice Chairman of the Board of Lynch Corporation, a diversified manufacturing company, and Chairman of the Board and Chief Executive Officer of Lynch Interactive Corporation, a multimedia and communications services company.

Non-resident Directors

Karl Otto Pohl and Anthonie C. van Ekris, directors of the Fund, reside outside the United States and all or a significant portion of their assets are located outside the United States. Neither director has an authorized agent in the United States to receive service of process. As a result, it may not be possible for investors to effect service of process within the United States or to enforce against either director in United States courts judgments predicated upon civil liability provisions of United States securities laws. It may also not be possible to enforce against either director in foreign courts judgments of United States courts or liabilities in original actions predicated upon civil liability provisions of the United States securities laws.

Sub-Administrator

The Investment Adviser has entered into sub-administration agreement with PFPC Inc. (the "Sub-Administrator") pursuant to which the Sub-Administrator provides certain administrative services necessary for the Fund's operations which do not include the investment advisory and portfolio management services provided by the Investment Adviser. For these services and the related expenses borne by the Sub-Administrator, the Investment Adviser pays a prorated monthly fee at the annual rate of .0275% of the first $10.0 billion of the aggregate average net assets of the Fund and all other funds advised by the Investment Adviser and administered by the Sub-Administrator, ..0125% of the aggregate average net assets exceeding $10 billion and .01% of the aggregate average net assets in excess of $15 billion. The Sub-Administrator has its principal office at 760 Moore Road, King of Prussia, Pennsylvania 19406.

PORTFOLIO TRANSACTIONS

Principal transactions are not entered into with affiliates of the Fund. However, Gabelli & Company, Inc., an affiliate of the Investment Adviser, may execute portfolio transactions on stock exchanges and in the over-the-counter markets on an agency basis and receive a stated commission therefor. For a more detailed discussion of the Fund's brokerage allocation practices, see "Portfolio Transactions" in the SAI.

DIVIDENDS AND DISTRIBUTIONS

The Fund may retain for reinvestment, and pay the resulting federal income taxes on, its net capital gain, if any, although the Fund reserves the authority to distribute its net capital gain in any year. The Fund has a policy, which may be modified at any time by its Board of Directors, of paying distributions on its common stock of 8% of average quarter-end net assets attributable to common stock. This policy permits holders of common stock to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their common stock without having to sell shares. To implement this policy, the Fund makes quarterly distributions of $0.20 per share at the end of each of the first three calendar quarters of each year to holders of its common stock. The Fund's distribution in December for each calendar year is an adjusting distribution (equal to the sum of 2.0% of the net asset value of the Fund as of the last day of the four preceding calendar quarters less the aggregate distributions of $0.60 per share made for the most recent three calendar quarters) in order to meet the Fund's 8% pay-out goal. If, for any calendar year, the total distributions exceed net investment income and net capital gain, the excess will generally be treated as a tax-free return of capital up to the amount of the stockholder's tax basis in his stock. The amount treated as a tax-free return of capital will reduce a stockholder's tax basis in his stock, thereby increasing his potential gain or reducing his potential loss on the sale of his stock. Any amounts distributed to a stockholder in excess of the basis in the stock will be taxable to the stockholder as capital gain. See "Taxation" below.

In the event the Fund distributes amounts in excess of its net investment income and net capital gain, such distributions will decrease the Fund's total assets and, therefore, have the likely effect of increasing the Fund's expense ratio. In addition, in order to make such distributions, the Fund may have to sell a portion of its investment portfolio at a time when independent investment judgment might not dictate such action.

The Fund, along with other registered investment companies advised by the Investment Adviser, has obtained an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder permitting the Fund to make periodic distributions of long-term capital gains provided that the Fund maintains distribution policies with respect to the common stock calling for periodic (e.g., quarterly or semi-annually, but in no event more frequently than monthly) distributions in an amount equal to a fixed percentage of the Fund's average net asset value over a specified period of time or market price per share of common stock at or about the time of distribution or pay-out of a fixed dollar amount. If the total distributions required by the proposed periodic pay-out policy exceed the Fund's net investment income and net capital gain, the excess will be treated as a return of capital. If the Fund's net investment income (including net short-term capital gains) and net long-term capital gains for any year exceed the amount required to be distributed under the periodic pay-out policy, the Fund generally intends to pay such excess once a year, but may, in its discretion, retain and not distribute net long-term capital gains to the extent of such excess. The Fund reserves the right, but does not currently intend, to retain for reinvestment and pay the resulting U.S. federal income taxes on the excess of its net realized long-term capital gains over its net short-term capital losses, if any.

DESCRIPTION OF THE SERIES B PREFERRED AND SERIES C AUCTION RATE PREFERRED

The Fund offers by this prospectus, in the aggregate, $50 million of preferred stock of either Series B Preferred or Series C Auction Rate Preferred, or a combination of both such series. The following is a brief description of the terms of each of the Series B Preferred and the Series C Auction Rate Preferred. This description does not purport to be complete and is qualified by reference to the Fund's Charter, including the provisions of the Articles Supplementary establishing each of the Series B Preferred and the Series C Auction Rate Preferred. For complete terms of the Series B Preferred or the Series C Auction Rate Preferred, including definitions of terms used in this prospectus, please refer to the actual terms of such series, which are set forth in the applicable Articles Supplementary.

General

Under its Charter, the Fund is authorized to issue up to 1,995,000 shares of preferred stock as Series B Preferred and up to 5,000 shares of preferred stock as Series C Auction Rate Preferred. No fractional shares of either series will be issued. The Board of Directors reserves the right to issue additional shares of preferred stock, including Series B Preferred or Series C Auction Rate Preferred, from time to time, subject to the restrictions in the Fund's Charter and the 1940 Act.

If and when issued, the Series B Preferred will have a liquidation preference of $25 per share and the Series C Auction Rate Preferred will have a liquidation preference of $25,000 per share. Upon a liquidation, each holder of Series B Preferred or Series C Auction Rate Preferred will be entitled to receive out of the assets of the Fund available for distribution to stockholders (after payment of claims of the Fund's creditors but before any distributions with respect to the Fund's common stock or any other stock of the Fund ranking junior to the Series B Preferred and Series C Auction Rate Preferred as to liquidation payments) an amount per share equal to such share's liquidation preference plus any accumulated but unpaid dividends (whether or not earned or declared) to the date of distribution. The Series B Preferred and the Series C Auction Rate Preferred will rank on a parity with shares of any other series of preferred stock of the Fund as to the payment of dividends and the distribution of assets upon liquidation. Series B Preferred and Series C Auction Rate Preferred shares each carry one vote per share on all matters on which such shares are entitled to vote. The Series B Preferred and the Series C Auction Rate Preferred will, upon issuance, be fully paid and nonassessable and will have no preemptive, exchange or conversion rights. Any Series B Preferred or Series C Auction Rate Preferred repurchased or redeemed by the Fund will be classified as authorized but unissued preferred stock. The Board of Directors may by resolution classify or reclassify any authorized but unissued capital stock of the Fund from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or terms or conditions of redemption. The Fund will not issue any class of stock senior to the Series B Preferred and/or Series C Auction Rate Preferred.

Rating Agency Guidelines

Upon issuance, both the Series B Preferred and the Series C Auction Rate Preferred will be rated Aaa by Moody's Investors Service, Inc. In addition, the Series C Auction Rate Preferred will also be rated AAA by Fitch. The Fund is required under Moody's and Fitch guidelines to maintain assets having in the aggregate a discounted value at least equal to the Basic Maintenance Amount (as defined below) for its outstanding preferred stock, including any outstanding Series B Preferred or Series C Auction Rate Preferred, with respect to the separate guidelines Moody's and Fitch has each established for determining discounted value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of discounted value (as defined by such rating agency). The Moody's and Fitch guidelines also impose certain diversification requirements and industry concentration limitations on the Fund's overall portfolio, and apply specified discounts to securities held by the Fund (except certain money market securities). The "Basic Maintenance Amount" is equal to (i) the sum of (a) the aggregate liquidation preference of the preferred stock then outstanding plus (to the extent not included in the liquidation preference of such preferred stock) an amount equal to the aggregate accumulated but unpaid dividends (whether or not earned or declared) in respect of such preferred stock, (b) the total principal of any debt (plus accrued and projected interest), (c) certain Fund expenses and (d) certain other current liabilities (excluding any unpaid dividends on the Fund's common stock) less (ii) the Fund's (a) cash and (b) assets consisting of indebtedness which (x) is to mature prior to or on the date of redemption or repurchase of the preferred stock, (y) are U.S. Government Obligations or evidences of indebtedness rated at least Aaa, P-1, VMIG-1 or MIG-1 by Moody's or AAA, SP-1+ or A-1+ by Standard and Poor's, and (z) is held by the Fund for the payment of dividends or distributions, the amounts needed to redeem or repurchase preferred stock, or the Fund's liabilities.

If the Fund does not timely cure a failure to maintain a discounted value of its portfolio equal to the Basic Maintenance Amount in accordance with the requirements of the applicable rating agency or agencies then rating the Series B Preferred or the Series C Auction Rate Preferred at the request of the Fund, the Fund may, and in certain circumstances will be required to, mandatorily redeem preferred stock, including the Series B Preferred or the Series C Auction Rate Preferred, as described below under " -- Redemption."

The Fund may, but is not required to, adopt any modifications to the rating agency guidelines that may hereafter be established by Moody's or Fitch. Failure to adopt any such modifications, however, may result in a change in the relevant rating agency's ratings or a withdrawal of such ratings altogether. In addition, any rating agency providing a rating for the Series B Preferred or the Series C Auction Rate Preferred at the request of the Fund may, at any time, change or withdraw any such rating. The Board of Directors, without further action by the stockholders, may amend, alter, add to or repeal certain of the definitions and related provisions that have been adopted by the Fund pursuant to the rating agency guidelines if the Board of Directors determines that such modification is necessary to prevent a reduction in rating of the shares of preferred stock by Moody's and/or Fitch, as the case may be, or is in the best interests of the holders of shares of common stock and is not adverse to the holders of preferred stock in view of advice to the Fund by Moody's and Fitch (or such other rating agency then rating the Series B Preferred or Series C Auction Rate Preferred at the request of the Fund) that such modification would not adversely affect its then-current rating of the Series B Preferred or Series C Auction Rate Preferred, as the case may be.

In addition, with respect to the Series C Auction Rate Preferred, the Board of Directors may amend the Articles Supplementary definition of "Maximum Rate" (the "maximum rate" as defined below under " -- Dividends on the Series C Auction Rate Preferred -- Maximum Rate") to increase the percentage amount by which the "AA" Financial Composite Commercial Paper Rate or the Treasury Index Rate, whichever is applicable, is multiplied to determine the maximum rate without the vote or consent of the holders of Series C Auction Rate Preferred or any other stockholder of the Fund, but only after consultation with the broker-dealers for the Series C Auction Rate Preferred, and with confirmation from each applicable rating agency that the Fund could meet the Basic Maintenance Amount Test applicable to the Series C Auction Rate Preferred immediately following any such increase. See " -- Dividends on the Series C Auction Rate Preferred -- Maximum Rate."

As described by Moody's and Fitch, the ratings assigned to the Series B Preferred and the Series C Auction Rate Preferred are assessments of the capacity and willingness of the Fund to pay the obligations of each of the Series B Preferred and the Series C Auction Rate Preferred. The ratings on the Series B Preferred and the Series C Auction Rate Preferred are not recommendations to purchase, hold or sell shares of either series, inasmuch as the ratings do not comment as to market price or suitability for a particular investor. The rating agency guidelines also do not address the likelihood that an owner of Series B Preferred or Series C Auction Rate Preferred will be able to sell such shares on an exchange, in an auction or otherwise. The ratings are based on current information furnished to Moody's and Fitch by the Fund and the Investment Adviser and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information.

The rating agency guidelines will apply to the Series B Preferred or Series C Auction Rate Preferred, as the case may be, only so long as such rating agency is rating such shares at the request of the Fund. The Fund will pay fees to Moody's and Fitch for rating the Series B Preferred and the Series C Auction Rate Preferred.

Asset Maintenance Requirements

In addition to the requirements summarized under " -- Rating Agency Guidelines" above, the Fund must also satisfy asset maintenance requirements under the 1940 Act with respect to its preferred stock. The 1940 Act requirements are summarized below.

The Fund will be required under the Articles Supplementary for each of the Series B Preferred and/or Series C Auction Rate Preferred to determine whether it has as of the last business day of each March, June, September and December of each year, an "asset coverage" (as defined in the 1940 Act) of at least 200% (or such higher or lower percentage as may be required at the time under the 1940 Act) with respect to all outstanding senior securities of the Fund that are stock, including any outstanding Series B Preferred and the Series C Auction Rate Preferred. If the Fund fails to maintain the asset coverage required under the 1940 Act on such dates and such failure is not cured within 60 days, in the case of the Series B Preferred, or 10 days, in the case of the Series C Auction Rate Preferred, (including the Series B Preferred or Series C Auction Rate Preferred) the Fund may, and in certain circumstances will be required to, mandatorily redeem shares of preferred stock sufficient to satisfy such asset coverage. See " -- Redemption" below.

If the shares of Series B Preferred and/or Series C Auction Rate Preferred offered hereby had been issued and sold as of February 14, 2003, the asset coverage required under the 1940 Act immediately following such issuance and sale (after giving effect to the deduction of the underwriting discounts and estimated offering expenses for such shares of $1,500,000), would have been computed as follows:

> value of Fund assets less liabilities not constituting senior securities ($144,898,943) divided by senior securities representing indebtedness plus liquidation preference of each class of preferred stock ($50,000,000), expressed as a percentage = 290%.

Dividends on the Series B Preferred

Upon issuance of the Series B Preferred (if issued), holders of shares of Series B Preferred will be entitled to receive, when, as and if declared by the Board of Directors of the Fund out of funds legally available therefor, cumulative cash dividends, at the annual rate of % (computed on the basis of a 360-day year consisting of twelve 30-day months) of the liquidation preference of $25 per share, payable quarterly on March 26, June 26, September 26 and December 26 in each year or, if any such day is not a business day, the immediately succeeding business day. Such dividends will commence on , 2003, and will be payable to the persons in whose names the shares of Series B Preferred are registered at the close of business on the fifth preceding business day.

Dividends on the shares of Series B Preferred will accumulate from the date on which such shares are issued; provided, however, that any shares of Series B Preferred issued within 30 days of the original issue date of the series will accumulate dividends from the series' original date of issue.

Dividends on the Series C Auction Rate Preferred

General. Upon issuance of the Series C Auction Rate Preferred (if issued), the holders of Series C Auction Rate Preferred will be entitled to receive cash dividends stated at annual rates as a percentage of its $25,000 per share liquidation preference, that will vary from dividend period to dividend period. The dividend rate for the initial dividend period for any Series C Auction Rate Preferred offered in this prospectus will be the rate set out on the cover of this prospectus. For subsequent dividend periods, the Series C Auction Rate Preferred will pay dividends based on a rate set at the auction, normally held weekly, but the rates set at the auction will not exceed the maximum rate. Dividend periods generally will be seven days, and the dividend periods generally will begin on the first business day after an auction. In most instances, dividends are also paid weekly, on the business day following the end of the dividend period. The Fund, subject to some limitations, may change the length of the dividend periods, designating them as "special dividend periods," as described below.

Dividend Payments. Except as described below, the dividend payment date will be the first business day after the dividend period ends. The dividend payment dates for special dividend periods of more (or less) than seven days will be set out in the notice designating a special dividend period. See " -- Designation of Special Dividend Periods" for a discussion of payment dates for a special dividend period.

Dividends on Series C Auction Rate Preferred will be paid on the dividend payment date to holders of record as their names appear on the Fund's stock ledger or stock records on the business day immediately preceding the dividend payment date. If dividends are in arrears, they may be declared and paid at any time to holders of record as their names appear on the Fund's stock ledger or stock records on a date not more than 15 days before the payment date, as the Fund's Board of Directors may fix.

The dividend paying agent, in accordance with its current procedures, is expected to credit in same-day funds on each dividend payment date dividends received from the Fund to the accounts of broker-dealers who act on behalf of holders of the Series C Auction Rate Preferred. Such broker-dealers, in turn, are expected to distribute dividend payments to the person for whom they are acting as agents. If a broker-dealer does not make dividends available to Series C Auction Rate Preferred holders in same-day funds, these stockholders will not have funds available until the next business day.

Dividend Rate Set at Auction. The Series C Auction Rate Preferred pays dividends based on a rate set at auction at which Series C Auction Rate Preferred may be bought and sold. The auction usually is held weekly, but may be held more or less frequently. The Bank of New York, the auction agent, reviews orders from broker-dealers on behalf of existing holders who wish to sell, hold at the auction rate, or hold only at a specified dividend rate , and on behalf of potential holders who wish to buy Series C Auction Rate Preferred. The auction agent then determines the lowest dividend rate that will result in all of the Series C Auction Rate Preferred continuing to be held. See "The Auction of Series C Auction Rate Preferred."

If an auction is not held because an unforeseen event, or unforeseen events cause a day that otherwise would have been an auction date not to be a business day, then the length of the then current dividend period will be extended by seven days (or a multiple thereof if necessary because of such unforeseen event or events), the applicable rate for such period will be the applicable rate for the then-current dividend period so extended and the dividend payment date for such dividend period will be the first business day immediately succeeding the end of such period.

Determination of Dividend Rates. The Fund computes the dividends per share by multiplying the applicable rate determined at the auction by a fraction, the numerator of which normally is the number of days in such dividend period and the denominator of which is 360. This applicable rate is then multiplied by $25,000 to arrive at the dividend per share.

Maximum Rate. The dividend rate that results from an auction for the Series C Auction Rate Preferred will not be greater than the applicable "maximum rate." The maximum rate means (i) in the case of a dividend period of 184 days or less, the applicable percentage of the "AA" Financial Composite Commercial Paper Rate on the date of such auction determined as set forth in the following chart based on the lower of the credit ratings assigned to the Series C Auction Rate Preferred by Moody's and Fitch or (ii) in the case of a dividend period of longer than 184 days, the applicable percentage of the Treasury Index Rate.

Moody's Credit Rating	Fitch Credit Rating	Applicable Percentage
Aa3 or higher	AA- or higher	150%
A3 to A1	A- to A+	175%
Baa3 to Baa1	BBB- to BBB+	250%
Below Baa3	Below BBB-	275%

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

There is no minimum dividend rate in respect of any dividend period.

Effect of Failure to Pay Dividends in a Timely Manner. If the Fund fails to pay the paying agent the full amount of any dividend for the Series C Auction Rate Preferred in a timely manner, but the Fund cures the failure and pays any late charge before 12:00 noon, New York City time on the third business day following the date the failure occurred, no default will be deemed to have occurred and the dividend rate for the dividend period immediately following the dividend with respect to which the dividend payment default would otherwise have occurred will be the applicable rate set at the auction for such dividend period.

However, if the Fund does not effect a timely cure, the dividend rate for the Series C Auction Rate Preferred for such default period, and any subsequent dividend period for which such default is continuing, will be the default rate. In the event the Fund fully pays all default amounts due during a dividend period, the dividend rate for the remainder of that dividend period will be, as the case may be, the applicable rate (for the first dividend period following a dividend default) or the then-maximum rate (for any subsequent dividend period for which such default is continuing).

The default rate means 300% of the applicable "AA" Financial Composite Commercial Paper Rate for a dividend period of 184 days or fewer and 300% of the applicable Treasury Index Rate for a dividend period of longer than 184 days. Late charges are also calculated at the applicable default rate.

Designation of Special Dividend Periods. The Fund may instruct the auction agent to hold auctions and pay dividends more or less frequently than weekly. The Fund may do this if, for example, the Fund expects that short-term rates might increase or market conditions otherwise change, in an effort to optimize the effect of the Fund's leverage on holders of its common shares. The Fund does not currently expect to hold auctions and pay dividends less frequently than weekly in the near future. If the Fund designates a special dividend period, changes in interest rates could affect the price received if shares of Series C Auction Rate Preferred are sold in the secondary market.

Any designation of a special dividend period will be effective only if (i) notice thereof will have been given as provided for in the Charter, (ii) any failure to pay in a timely matter to the auction agent the full amount of any dividend on, or the redemption price of, the Series C Auction Rate Preferred will have been cured as provided for in the Charter, (iii) the auction immediately preceding the special dividend period was not a failed auction, (iv) if the Fund will have mailed a notice of redemption with respect to Series C Auction Rate Preferred, the Fund will have deposited with the paying agent all funds necessary for such redemption, and (v) the Fund has confirmed that as of the auction date immediately preceding the first day of such special dividend period, it has assets with an aggregate discounted value at least equal to the Basic Maintenance Amount (as defined below), and the Fund has consulted with the broker- dealers for the Series C Auction Rate Preferred and has provided notice of such designation and a Basic Maintenance Report to each rating agency then rating the Series C Auction Rate Preferred at the request of the Fund.

The dividend payment date for any special dividend period will be the first business day after the end of the special dividend period. In addition, for special dividend periods of (x) at least 91 days but not more than one year, dividend payment dates will occur on the 91st, 181st and 271st days within such dividend period, if applicable, and (y) more than one year, dividend payment dates will occur on each March 26, June 26, September 26 and December 26 during the special dividend period.

Before the Fund designates a special dividend period: (1) at least seven business days (or two business days in the event the duration of the dividend period prior to such special dividend period is less than eight days) and not more than 30 business days before the first day of the proposed special dividend period, the Fund will issue a press release stating its intention to designate a special dividend period and inform the auction agent of the proposed special dividend period by telephonic or other means and confirm it in writing promptly thereafter and (2) the Fund must inform the auction agent of the proposed special dividend period by 3:00 p.m., New York City time on the second business day before the first day of the proposed special dividend period.

See the SAI for more information.

Restrictions on Dividends and Other Distributions for the Series B Preferred and the Series C Auction Rate Preferred

So long as any Series B Preferred or Series C Auction Rate Preferred is outstanding, the Fund may not pay any dividend or distribution (other than a dividend or distribution paid in common stock or in options, warrants or rights to subscribe for or purchase common shares) in respect of the common stock or call for redemption, redeem, purchase or otherwise acquire for consideration any common stock (except by conversion into or exchange for shares of the Fund ranking junior to the Series B Preferred and/or Series C Auction Rate Preferred as to the payment of dividends and the distribution of assets upon liquidation), unless:

- the Fund has declared and paid (or provided to the relevant dividend paying agent) all cumulative dividends on the Fund's preferred stock, including the Series B Preferred and/or Series C Auction Rate Preferred, due on or prior to the date of such common stock dividend or distribution;

- the Fund has redeemed the full number of shares of Series B Preferred and/or Series C Auction Rate Preferred to be redeemed pursuant to any mandatory redemption provision in the Fund's Charter; and

- after paying the dividend, the Fund meets applicable asset coverage requirements described under " -- Rating Agency Guidelines" and " -- Asset Maintenance Requirements."

No full dividend will be declared or paid on the Series B Preferred or Series C Auction Rate Preferred for any dividend period, or part thereof, unless full cumulative dividends due through the most recent dividend payment dates therefor for all outstanding series of preferred stock of the Fund ranking on a parity with the Series B Preferred and Series C Auction Rate Preferred as to the payment of dividends have been or contemporaneously are declared and paid. If full cumulative dividends due have not been paid on all outstanding shares of preferred stock of the Fund ranking on a parity with the Series B Preferred and/or Series C Auction Rate Preferred as to the payment of dividends, any dividends being paid on the shares of such preferred stock (including the Series B Preferred and/or Series C Auction Rate Preferred) will be paid as nearly pro rata as possible in proportion to the respective amounts of dividends accumulated but unpaid on each such series of preferred stock on the relevant dividend payment date.

Redemption

Mandatory Redemption Relating to Asset Coverage Requirements. The Fund may, at its option, consistent with its Charter and the 1940 Act, and in certain circumstances will be required to, mandatorily redeem preferred stock (including, at its discretion, the Series B Preferred or Series C Auction Rate Preferred) in the event that:

- the Fund fails to maintain the asset coverage requirements specified under the 1940 Act and such failure is not cured on or before 60 days, in the case of the Series B Preferred, or 10 business days in the case of the Series C Auction Rate Preferred following such failure; or

- the Fund fails to maintain the asset coverage requirements as calculated in accordance with the applicable rating agency guidelines as of any monthly valuation date, and such failure is not cured on or before 10 business days after such valuation date.

The redemption price for shares of each of the Series B Preferred and Series C Auction Rate Preferred subject to mandatory redemption will be, respectively, $25 per share and $25,000 per share, in each case plus an amount equal to any accumulated but unpaid dividends (whether or not earned or declared) to the date fixed for redemption, plus (in the case of Series C Auction Rate Preferred having a dividend period of more than one year) any applicable redemption premium determined by the Board of Directors.

The number of shares of preferred stock that will be redeemed in the case of a mandatory redemption will equal the minimum number of outstanding shares of preferred stock the redemption of which, if such redemption had occurred immediately prior to the opening of business on the applicable cure date, would have resulted in the relevant asset coverage requirement having been met or, if the required asset coverage cannot be so restored, all of the shares of preferred stock. In the event that shares of preferred stock are redeemed due to a failure to satisfy the 1940 Act asset coverage requirements, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's assets exceed the asset coverage requirements under the 1940 Act after the redemption by 10% (that is, 220% asset coverage). In the event that shares of preferred stock are redeemed due to a failure to satisfy applicable rating agency guidelines, the Fund may, but is not required to, redeem a sufficient number of shares of preferred stock so that the Fund's discounted portfolio value (as determined in accordance with the applicable rating agency guidelines) after redemption exceeds the rating agency guidelines asset coverage requirements by up to 10% (that is, 110% rating agency asset coverage). In addition, as discussed under " -- Optional Redemption" below, the Fund generally may exercise its optional redemption rights with respect to the Series C Auction Rate Preferred at any time.

If the Fund does not have funds legally available for the redemption of, or is otherwise unable to redeem, all the shares of preferred stock to be redeemed on any redemption date, the Fund will redeem on such redemption date that number of shares for which it has legally available funds, or is otherwise able to redeem, from the holders whose shares are to be redeemed ratably on the basis of the redemption price of such shares, and the remainder of those shares to be redeemed will be redeemed on the earliest practicable date on which the Fund will have funds legally available for the redemption of, or is otherwise able to redeem, such shares upon written notice of redemption.

If fewer than all shares of the Fund's outstanding preferred stock are to be redeemed, the Fund, at its discretion and subject to the limitations of the 1940 Act and Maryland law, will select the one or more series of preferred stock from which shares will be redeemed and the amount of preferred stock to be redeemed from each such series. If fewer than all of the shares of a series of preferred stock are to be redeemed, such redemption will be made as among the holders of that series pro rata in accordance with the respective number of shares of such series held by each such holder on the record date for such redemption (or by such other equitable method as the Fund may determine). If fewer than all shares of the preferred stock held by any holder are to be redeemed, the notice of redemption mailed to such holder will specify the number of shares to be redeemed from such holder, which may be expressed as a percentage of shares held on the applicable record date.

Optional Redemption of the Series B Preferred. Prior to , 2008, the shares of Series B Preferred are not subject to optional redemption by the Fund unless such redemption is necessary, in the judgment of the Fund, to maintain the Fund's status as a regulated investment company under the Code. Commencing on , 2008 and thereafter, the Fund may at any time redeem shares of Series B Preferred in whole or in part for cash at a redemption price per share equal to $25 per share plus accumulated and unpaid dividends (whether or not earned or declared) to the redemption date. Such redemptions are subject to the notice requirements set forth under " -- Redemption Procedures" and the limitations of the 1940 Act and Maryland law.

Optional Redemption of the Series C Auction Rate Preferred. The Fund may, at its option, redeem the Series C Auction Rate Preferred, in whole or in part, at any time following the initial dividend period so long as the Fund has not designated a non-call period. The Fund may designate a non- call period during a dividend period of more than seven days. In the case of Series C Auction Rate Preferred having a dividend period of one year or less, the redemption price per share will equal $25,000 plus an amount equal to any accumulated but unpaid dividends thereon (whether or not earned or declared) to the redemption date, and in the case of Series C Auction Rate Preferred having a dividend period of more than one year, for the redemption price plus any redemption premium applicable during such dividend period. Such redemptions are subject to the notice requirements set forth under " -- Redemption Procedures" and the limitations of the 1940 Act and Maryland law.

Redemption Procedures. A notice of redemption with respect to an optional redemption will be given to the holders of record of preferred stock selected for redemption not less than 15 days, in the case of the Series B Preferred, and not less than 7 days in the case of the Series C Auction Rate Preferred, nor, in both cases, more than 40 days prior to the date fixed for redemption. Preferred stockholders may receive shorter notice in the event of a mandatory redemption. Each notice of redemption will state (i) the redemption date, (ii) the number or percentage of shares of preferred stock to be redeemed (which may be expressed as a percentage of such shares outstanding), (iii) the CUSIP number(s) of such shares, (iv) the redemption price (specifying the amount of accumulated dividends to be included therein), (v) the place or places where such shares are to be redeemed, (vi) that dividends on the shares to be redeemed will cease to accrue on such redemption date, (vii) the provision of the Articles Supplementary under which the redemption is being made and (viii) any conditions precedent to such redemption. No defect in the notice of redemption or in the mailing thereof will affect the validity of the redemption proceedings, except as required by applicable law.

The holders of Series B Preferred or Series C Auction Rate Preferred will not have the right to redeem their shares of the Fund at their option.

Liquidation Rights

Upon a liquidation, dissolution or winding up of the affairs of the Fund (whether voluntary or involuntary), holders of Series B Preferred or Series C Auction Rate Preferred then outstanding will be entitled to receive out of the assets of the Fund available for distribution to stockholders, after satisfying claims of creditors but before any distribution or payment of assets is made to holders of the common stock or any other class of stock of the Fund ranking junior to the Series B Preferred or Series C Auction Rate Preferred as to liquidation payments, a liquidation distribution in the amount of $25 per share, in the case of the Series B Preferred, or $25,000 per share, in the case of the Series C Auction Rate Preferred, in either case plus an amount equal to all unpaid dividends accrued to and including the date fixed for such distribution or payment (whether or not earned or declared by the Fund but excluding interest thereon), and such holders will be entitled to no further participation in any distribution or payment in connection with any such liquidation, dissolution or winding up. If, upon any liquidation, dissolution or winding up of the affairs of the Fund, whether voluntary or involuntary, the assets of the Fund available for distribution among the holders of all outstanding shares of preferred stock of the Fund ranking on a parity with the Series B Preferred and/or Series C Auction Rate Preferred as to payment upon liquidation will be insufficient to permit the payment in full to such holders of the Series B Preferred and/or Series C Auction Rate Preferred and other parity preferred stock of the amounts due upon liquidation with respect to such shares, then such available assets will be distributed among the holders of the Series B Preferred, the Series C Auction Rate Preferred and such other parity preferred stock ratably in proportion to the respective preferential amounts to which they are entitled. Unless and until the liquidation payments due to holders of the Series B Preferred and/or Series C Auction Rate Preferred and such other parity preferred stock have been paid in full, no dividends or distributions will be made to holders of the common stock or any other stock of the Fund ranking junior to the Series B Preferred and/or Series C Auction Rate Preferred and other parity preferred stock as to liquidation.

Voting Rights

Except as otherwise stated in this prospectus, specified in the Fund's Charter or as otherwise required by applicable law, holders of the Series B Preferred and/or Series C Auction Rate Preferred along with holders of other outstanding shares of series of preferred stock, will be entitled to one vote per share held on each matter submitted to a vote of stockholders and will vote together with holders of shares of common stock and of any other preferred stock then outstanding as a single class.

In connection with the election of the Fund's directors, holders of the outstanding shares of Series B Preferred, Series C Auction Rate Preferred and the other series of preferred stock, voting together as a single class, will be entitled at all times to elect two of the Fund's directors, and the remaining directors will be elected by holders of shares of common stock and holders of the Series B Preferred, Series C Auction Rate Preferred and other series of preferred stock, voting together as a single class. In addition, if (i) at any time dividends on outstanding shares of the Series B Preferred, Series C Auction Rate Preferred and/or any other preferred stock are unpaid in an amount equal to at least two full years' dividends thereon and sufficient cash or specified securities have not been deposited with the applicable paying agent for the payment of such accumulated dividends or (ii) at any time holders of any other series of preferred stock are entitled to elect a majority of the directors of the Fund under the 1940 Act or the Articles Supplementary creating such shares, then the number of directors constituting the Board of Directors automatically will be increased by the smallest number that, when added to the two directors elected exclusively by the holders of the Series B Preferred, Series C Auction Rate Preferred and other series of preferred stock as described above, would then constitute a majority of the Board of Directors as so increased by such smallest number. Such additional directors will be elected by the holders of the Series B Preferred, Series C Auction Rate Preferred and the other series of preferred stock, voting together as a single class, at a special meeting of stockholders which will be called as soon as practicable and will be held not less than 10 or more than 20 days after the mailing date of the meeting notice. If the Fund fails to send such meeting notice or to call such a special meeting, the meeting may be called by any preferred stockholder on like notice. The terms of office of the persons who are directors at the time of that election will continue. If the Fund thereafter pays or declares and sets apart for payment in full, all dividends payable on all outstanding shares of preferred stock for all past dividend periods or the holders of other series of preferred stock are no longer entitled to elect such additional directors, the additional voting rights of the holders of the preferred stock as described above will cease, and the terms of office of all of the additional or replacement directors elected by the holders of the preferred stock (but not of the directors with respect to whose election the holders of shares of common stock were entitled to vote or the two directors the holders of shares of preferred stock have the right to elect as a separate class in any event) will terminate at the earliest time permitted by law.

So long as shares of Series B Preferred or Series C Auction Rate Preferred are outstanding, the Fund will not, without the affirmative vote of the holders of a majority (as defined in the 1940 Act) of the shares of preferred stock outstanding at the time (including the Series B Preferred or Series C Auction Rate Preferred, as applicable), voting separately as one class, amend, alter or repeal the provisions of the Fund's Charter, whether by merger, consolidation or otherwise, so as to materially adversely affect any of the contract rights expressly set forth in the Charter with respect to such shares of preferred stock. Also, to the extent permitted under the 1940 Act, in the event shares of more than one series of preferred stock are outstanding, the Fund will not approve any of the actions set forth in the preceding sentence which materially adversely affects the contract rights expressly set forth in the Charter with respect to such shares of a series of preferred stock (such as the Series B Preferred or Series C Auction Rate Preferred) differently than those of a holder of shares of any other series of preferred stock without the affirmative vote of the holders of at least a majority of the shares of preferred stock of each series materially adversely affected and outstanding at such time (each such materially adversely affected series voting separately as a class to the extent its rights are affected differently). Unless a higher percentage is provided for under the Charter or applicable provisions of Maryland law, the affirmative vote of a majority of the votes entitled to be cast by holders of outstanding shares of the preferred stock (including the Series B Preferred and/or Series C Auction Rate Preferred), voting together as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock or any action requiring a vote of security holders under Section 13(a) of the 1940 Act, including, among other things, changes in the Fund's investment objective or changes in the investment restrictions described as fundamental policies under "Investment Objective and Policies" and "Investment Restrictions" in this prospectus and the SAI. For purposes of the preferred stock voting rights described in this section, except as otherwise required under the 1940 Act, the phrase "vote of the holders of a majority of the outstanding shares of preferred stock" (or any like phrase) means, in accordance with Section 2(a)(42) of the 1940 Act, the vote, at the annual or a special meeting of the stockholders of the Fund duly called (i) of 67% or more of the shares of preferred stock present at such meeting, if the holders of more than 50% of the outstanding shares of preferred stock are present or represented by proxy or (ii) more than 50% of the outstanding shares of preferred stock, whichever is less. The class vote of holders of shares of the preferred stock described above in each case will be in addition to a separate vote of the requisite percentage of shares of common stock, Series B Preferred, Series C Auction Rate Preferred and any other preferred stock, voting together as a single class, that may be necessary to authorize the action in question.

The calculation of the elements and definitions of certain terms of the rating agency guidelines may be modified by action of the Board of Directors without further action by the stockholders if the Board of Directors determines that such modification is necessary to prevent a reduction in rating of the shares of preferred stock by Moody's and/or Fitch (or any other rating agency then rating the Series B Preferred or Series C Auction Rate Preferred at the request of the Fund), as the case may be, or is in the best interests of the holders of shares of common stock and is not adverse to the holders of preferred stock in view of advice to the Fund by the relevant rating agencies that such modification would not adversely affect its then-current rating of the preferred stock.

The foregoing voting provisions will not apply to any Series B Preferred or Series C Auction Rate Preferred if, at or prior to the time when the act with respect to which such vote otherwise would be required will be effected, such shares will have been redeemed or called for redemption and sufficient cash or cash equivalents provided to the applicable paying agent to effect such redemption. The holders of Series B Preferred and/or Series C Auction Rate Preferred will have no preemptive rights or rights to cumulative voting.

Limitation on Incurrence of Additional Indebtedness
and Issuance of Additional Preferred Stock

So long as any Series B Preferred or Series C Auction Rate Preferred is outstanding and subject to compliance with the Fund's investment objective, policies and restrictions, the Fund may issue and sell one or more series of a class of senior securities of the Fund representing indebtedness under the 1940 Act and/or otherwise create or incur indebtedness, provided that the Fund will, immediately after giving effect to the incurrence of such indebtedness and to its receipt and application of the proceeds thereof (including the retirement of any senior securities representing indebtedness to be retired with such proceeds), have an "asset coverage" for all senior securities of the Fund representing indebtedness, as defined in the 1940 Act, of at least 300% of the amount of all indebtedness of the Fund then outstanding and no such additional indebtedness will have any preference or priority over any other indebtedness of the Fund upon the distribution of the assets of the Fund or in respect of the payment of interest. Any possible liability resulting from lending and/or borrowing portfolio securities, entering into reverse repurchase agreements, entering into futures contracts and writing options, to the extent such transactions are made in accordance with the investment restrictions of the Fund then in effect, will not be considered to be indebtedness limited by the Articles Supplementary.

So long as any Series B Preferred or Series C Auction Rate Preferred is outstanding, subject to receipt of approval from Moody's and, in the case of the Series C Auction Rate Preferred, Fitch, and subject to compliance with the Fund's investment objective, policies and restrictions, the Fund may issue and sell shares of one of more other series of preferred stock in addition to the Series B Preferred or Series C Auction Rate Preferred, provided that the Fund will, immediately after giving effect to the issuance of such additional preferred stock and to its receipt and application of the proceeds thereof (including, without limitation, to the redemption of preferred stock for which notice of redemption has been given prior to such issuance) have an "asset coverage" for all senior securities of the Fund which are stock, as defined in the 1940 Act, of at least 200% of the sum of the liquidation preference of the shares of preferred stock of the Fund then outstanding and all indebtedness of the Fund constituting senior securities and no such additional preferred stock will have any preference or priority over any other preferred stock of the

Fund upon the distribution of the assets of the Fund or in respect of the payment of dividends.

The Fund does not currently intend to offer additional preferred shares or senior securities representing indebtedness. However, the Fund will consider from time to time whether to do so and may issue additional such securities were the Board of Directors to conclude that such an offering would be consistent with the Fund's Charter and applicable law, and in the best interest of existing common stockholders.

Repurchase of Series B Preferred and Series C Auction Rate Preferred Shares

The Fund is a closed-end investment company and, as such, holders of the Series B Preferred or Series C Auction Rate Preferred do not and will not have the right to redeem their shares of the Fund. The Fund, however, may repurchase Series B Preferred or, outside of an auction, Series C Auction Rate Preferred when it is deemed advisable by the Board of Directors in compliance with the requirements of the 1940 Act and regulations thereunder and other applicable requirements.

Book-Entry

Shares of Series B Preferred will initially be held in the name of Cede & Co. as nominee for The Depository Trust Company ("DTC"). The Fund will treat Cede & Co. as the holder of record of the Series B Preferred for all purposes. In accordance with the procedures of DTC, however, purchasers of Series B Preferred will be deemed the beneficial owners of shares purchased for purposes of dividends, voting and liquidation rights. Purchasers of Series B Preferred may obtain registered certificates by contacting the Transfer Agent.

Shares of Series C Auction Rate Preferred will initially be held by the auction agent as custodian for Cede & Co., in whose name the shares of the Series C Auction Rate Preferred shall be registered. The Fund will treat Cede & Co. as the holder of record of the Series C Auction Rate Preferred for all purposes.

THE AUCTION OF SERIES C AUCTION RATE PREFERRED

Summary of Auction Procedures

The following is a brief summary of the auction procedures for the Series C Auction Rate Preferred, which are described in more detail in the SAI. These auction procedures are complicated, and there are exceptions to these procedures. Many of the terms in this section have a special meaning. Accordingly, this description does not purport to be complete and is qualified, in its entirety, by reference to the Fund's Charter, including the provisions of the Articles Supplementary establishing the Series C Auction Rate Preferred.

The auctions determine the dividend rate for the Series C Auction Rate Preferred, but each dividend rate will not be higher than the maximum rate. See "Description of the Series B Preferred and Series C Auction Rate Preferred -- Dividends on the Series C Auction Rate Preferred." If you own shares of Series C Auction Rate Preferred, you may instruct your broker-dealer to enter one of three kinds of order in the auction with respect to your shares: sell, bid and hold.

- If you enter a sell order, you indicate that you want to sell Series C Auction Rate Preferred at $25,000 per share, no matter what the next dividend period's rate will be.

- If you enter a bid (or "hold at a rate") order, which must specify a dividends rate, you indicate that you want to sell Series C Auction Rate Preferred only if the next dividend period's rate is less than the rate you specify.

- If you enter a hold order you indicate that you want to continue to own Series C Auction Rate Preferred, no matter what the next dividend period's rate will be.

You may enter different types of orders for different portions of your Series C Auction Rate Preferred. You may also enter an order to buy additional Series C Auction Rate Preferred. All orders must be for whole shares. All orders you submit are irrevocable. There is a fixed number of Series C Auction Rate Preferred shares, and the dividend rate likely will vary from auction to auction depending on the number of bidders, the number of shares the bidders seek to buy, the rating of the Series C Auction Rate Preferred and general economic conditions including current interest rates. If you own Series C Auction Rate Preferred and submit a bid for them higher than the then-maximum rate, your bid will be treated as a sell order. If you do not enter an order, the broker-dealer will assume that you want to continue to hold Series C Auction Rate Preferred, but if you fail to submit an order and the dividend period is longer than 28 days, the broker-dealer will treat your failure to submit a bid as a sell order.

If you do not then own Series C Auction Rate Preferred, or want to buy more shares, you may instruct a broker-dealer to enter a bid order to buy shares in an auction at $25,000 per share at or above the dividend rate you specify. If your bid for shares you do not own specifies a rate higher than the then- maximum rate, your bid will not be considered.

Broker-dealers will submit orders from existing and potential holders of Series C Auction Rate Preferred to the auction agent. Neither the Fund nor the auction agent will be responsible for a broker-dealer's failure to submit orders from existing or potential holders of Series C Auction Rate Preferred. A broker-dealer's failure to submit orders for Series C Auction Rate Preferred held by it or its customers will be treated in the same manner as a holder's failure to submit an order to the broker-dealer. A broker- dealer may submit orders to the auction agent for its own account. The Fund may not submit an order in any auction.

The auction agent after each auction for the Series C Auction Rate Preferred will pay to each broker-dealer, from funds provided by the Fund, a service charge equal to, in the case of any auction immediately preceding a dividend period of less than 365 days, the product of (i) a fraction, the numerator of which is the number of days in such dividend period and the denominator of which is 365, times (ii) 1/4 of 1%, times (iii) $25,000, times (iv) the aggregate number of Series C Auction Rate Preferred shares placed by such broker-dealer at such auction or, in the case of any auction immediately preceding a dividend period of one year or longer, a percentage of the purchase price of the Series C Auction Rate Preferred placed by the broker-dealers at the auction agreed to by the Fund and the broker-dealers.

If the number of Series C Auction Rate Preferred shares subject to bid orders by potential holders with a dividend rate equal to or lower than the then-maximum rate is at least equal to the number of Series C Auction Rate Preferred shares subject to sell orders, then the dividend rate for the next dividend period will be the lowest rate submitted which, taking into account that rate and all lower rates submitted in order from existing and potential holders, would result in existing and potential holders owning all the Series C Auction Rate Preferred available for purchase in the auction.

If the number of Series C Auction Rate Preferred shares subject to bid orders by potential holders with a dividend rate equal to or lower than the then-maximum rate is less than the number of Series C Auction Rate Preferred shares subject to sell orders, then the auction is considered to be a failed auction, and the dividend rate will be the maximum rate. In that event, existing holders that have submitted sell orders (or are treated as having submitted sell orders) may not be able to sell any or all of the Series C Auction Rate Preferred for which they submitted sell orders.

The auction agent will not consider a bid above the then-maximum rate. The purpose of the maximum rate is to place an upper limit on dividends with respect to the Series C Auction Rate Preferred and in so doing to help protect the earnings available to pay dividends on common shares, and to serve as the dividend rate in the event of a failed auction (that is, an auction where there are more Series C Auction Rate Preferred offered for sale than there are buyers for those shares).

If broker-dealers submit or are deemed to submit hold orders for all outstanding Series C Auction Rate Preferred, the auction is considered an "all hold" auction and the dividend rate for the next dividend period will be the "all hold rate," which is 80% of the "AA" Financial Composite Commercial Paper Rate, as determined in accordance with procedures set forth in the Articles Supplementary establishing the Series C Auction Rate Preferred.

The auction procedures include a pro rata allocation of Series C Auction Rate Preferred shares for purchase and sale. This allocation process may result in an existing holder continuing to hold or selling, or a potential holder buying, fewer shares than the number of Series C Auction Rate Preferred shares in its order. If this happens, broker-dealers will be required to make appropriate pro rata allocations among their respective customers.

Settlement of purchases and sales will be made on the next business day (which also is a dividend payment date) after the auction date through The Depository Trust C