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GABELLI DIVIDEND & INCOME TRUST

Form N-2/A

October 05, 2004

As filed with the Securities and Exchange Commission on October 5, 2004
Securities Act File No. 333-113708
Investment Company Act File No. 811-21423

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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. 2
[] Post-Effective Amendment No. _____
and/or

[X] Registration Statement under the Investment
Company Act of 1940
[X] Amendment No. 7

(Check Appropriate Box or Boxes)

THE GABELLI DIVIDEND & INCOME TRUST
(Exact Name of Registrant as Specified in Charter)

One Corporate Center
Rye, New York 10580-1422
(Address of Principal Executive Offices)

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

Bruce N. Alpert
The Gabelli Dividend & Income Trust
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)
 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)
___% Series A Preferred	6,000,000 Shares	\$25	\$150,000,000
Series B AMPS	6,000 Shares	\$25,000	\$150,000,000

(1) Estimated solely for the purpose of calculating the registration fee.
 (2) \$12,796.70 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.

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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 Fr
3. Fee Table and Synopsis.....	Summary; Summary of Fund Expenses
4. Financial Highlights.....	Not Applicable
5. Plan of Distribution.....	Outside Front Cover Page; Summary;
6. Selling Shareholders.....	Not Applicable
7. Use of Proceeds.....	Use of Proceeds; Investment Objecti
8. General Description of the Registrant.....	Outside Front Cover Page; Summary; Investment Objective and Policies; Special Considerations; How the Fun Description of the Series A Preferr AMPS; Anti-takeover Provisions of t Governing Documents
9. Management.....	Outside Front Cover Page; Summary; Fund; Custodian, Transfer Agent, Di Agent
10. Capital Shares, Long-Term Debt, and Other Securities.....	Outside Front Cover Page; Summary; Objective and Policies; Description Preferred and Series B AMPS; Descri Authorized and Outstanding Shares;
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 Information
PART B	

14. Cover Page.....	Outside Front Cover Page
15. Table of Contents.....	Outside Front Cover Page
16. General Information and History.....	Not Applicable

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17.	Investment Objective and Policies.....	Investment Objective and Policies; Restrictions
18.	Management.....	Management of the Fund
19.	Control Persons and Principal Holders of Securities.....	Not Applicable
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.....	Not Applicable

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.

[FLAG]

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
Preliminary Prospectus dated October 5, 2004

PROSPECTUS \$300,000,000 [GABELLI LOGO]

The Gabelli Dividend & Income Trust

Shares, % Series A Cumulative Preferred Shares
(Liquidation Preference \$25 per Share)

Shares, Series B Auction Market Preferred Shares
(Liquidation Preference \$25,000 per Share)

The Gabelli Dividend & Income Trust, or the Fund, is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940. The Fund's investment objective is to seek a high level of total return with an emphasis on dividends and income. The Fund attempts to achieve its objective by investing at least 80% of its assets in dividend paying or other income producing securities under normal market conditions. In addition, under normal market conditions, at least 50% of the Fund's assets will consist of dividend paying equity securities. In making

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stock selections, Gabelli Funds, LLC, which serves as investment adviser to the Fund, looks for securities that have a superior yield, as well as capital gains potential. The Fund commenced its investment operations on November 28, 2003. We cannot assure you that the Fund's objective will be achieved.

(continued on following page)

Investing in our Series A Preferred or Series B AMPS involves risks that are described in the "Risk Factors and Special Considerations" section beginning on page 35 of this prospectus.

	Public Offering Price(1)	Underwriting Discount	Proceeds to the Fund (before expenses) (2)
Per Series A Cumulative Preferred Share.....	\$	\$	\$
Total.....	\$	\$	\$
Per Series B AMPS.....	\$	\$	\$
Total.....	\$	\$	\$

(1) Plus accumulated dividends, if any, from _____, 2004

(2) Offering expenses payable by the Fund are estimated at \$ _____

The underwriters may also purchase up to an additional _____ Series A Preferred at the public offering price, less the underwriting discount, within 30 days from the date of this prospectus to cover overallotments.

This prospectus describes the Fund's _____ % Series A Cumulative Preferred Shares (the "Series A Preferred"), liquidation preference \$25 per share. Dividends on the Series A Preferred are cumulative from their original issue date at the annual rate of _____ % of the liquidation preference of \$25 per share and are payable quarterly on _____, _____, and in each year, commencing on _____, 2004.

This prospectus also describes the Fund's Series B Auction Market Preferred Shares (the "Series B AMPS"), liquidation preference \$25,000 per share. The dividend rate for the Series B AMPS will vary from dividend period to dividend period. The annual dividend rate for the initial dividend period for the Series B AMPS will be _____ % of the liquidation preference of \$25,000 per share. The initial dividend period commences on the date of issuance and continues through _____, 2004. For subsequent dividend periods, the Series B AMPS will pay dividends based on a rate set at auction, usually held weekly.

The Fund offers by this prospectus, in the aggregate, \$ _____ million of preferred shares of either Series A Preferred or Series B AMPS, or a combination of both series.

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.

The Series A Preferred and/or Series B AMPS 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 Series A Preferred or Series B AMPS will be made in book-entry form through the facilities of The

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Depository Trust Company on or about , 2004.

Merrill Lynch & Co.
A.G. Edwards

Citigroup
Gabelli & Company, Inc.

The date of this prospectus is , 2004.

(continued from previous page)

Application has been made to list the Series A Preferred on the New York Stock Exchange. Subject to notice of issuance, trading of the Series A 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 A Preferred. See "Underwriting."

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 Policies" beginning on page 27.

The Fund expects that dividends paid on the Series A Preferred and Series B AMPS will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations) and (iii) investment company taxable income (other than qualified dividend income), including interest income, short-term capital gain and income from certain hedging and interest rate transactions. For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is currently 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2008. We cannot assure you, however, as to what percentage of the dividends paid on the Series A Preferred or Series B AMPS will consist of long-term capital gains and qualified dividend income, which are taxed at lower rates for individuals than ordinary income. For a more detailed discussion, see "Taxation."

Neither the Series A Preferred nor the Series B AMPS may be issued unless each is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"). In addition, the Series B AMPS may not be issued unless they are also rated "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). In order to keep these ratings, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series A Preferred and Series B AMPS under guidelines established by each of Moody's and S&P. See "Description of the Series A Preferred and Series B AMPS - Rating Agency Guidelines." The Fund is also required to maintain a minimum asset coverage by the Investment Company Act of 1940. If the Fund fails to maintain any of these minimum asset coverage requirements, the Fund may, at its option (and in certain circumstances must) require, in accordance with its governing documents and the requirements of the Investment Company Act of 1940, that some or all of its outstanding preferred shares, including the Series A Preferred and/or Series B AMPS, be sold back to it (redeemed).

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Otherwise, prior to , 2009 the Series A 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 Investment Company Act of 1940), the Fund at its option may redeem (i) the Series A Preferred beginning on , 2009 and (ii) the Series B AMPS following the initial dividend period (so long as the Fund has not designated a non-call period). In the event the Fund redeems Series A 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 B AMPS, 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), although if the Series B AMPS have a dividend period of more than one year, the Fund's Board of Trustees may determine to provide for a redemption premium.

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

The Fund has also filed with the Securities and Exchange Commission a Statement of Additional Information, dated , 2004, which contains additional information about the Fund. The Statement of Additional Information is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 74 of this prospectus. You may request a free copy of the Statement of Additional Information 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 Statement of Additional Information as well as reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the Securities and Exchange Commission on the Securities and Exchange Commission's web site (<http://www.sec.gov>).

The Fund's Series A Preferred and Series B AMPS do not represent a deposit or obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

The Series B AMPS will not be listed on an exchange. Investors may only buy or sell Series B AMPS 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 B AMPS, and a secondary market may not provide you with liquidity.

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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.

Prospectus Summary

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's Series A Preferred and/or Series B AMPS, especially the information set forth under the heading "Risk Factors and Special Considerations." You should review the more detailed information contained in this prospectus, the Statement of Additional Information dated , 2004 (the "SAI"), the Fund's Statement of Preferences of % Series A Cumulative Preferred Shares (the "Series A Statement of Preferences") and the Fund's Statement of Preferences of Auction Market Preferred Shares (the "Series B Statement of Preferences") on file with the Securities and Exchange Commission.

The Fund..... The Fund is a closed-end, non-diversified management organized under the laws of the State of Delaware on Fund's outstanding common shares, par value \$.001 per share, traded on the New York Stock Exchange ("NYSE") under the listing agreement of June 30, 2004, the net assets of the Fund were \$1,000,000. Fund had outstanding 84,994,505 common shares. Prior to the offering of the Series A Preferred and/or Series B AMPS offered by this prospectus, the Fund had no preferred shares outstanding.

The Offering..... The Fund offers by this prospectus, in the aggregate,

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shares of either Series A Preferred or Series B AMPS, both such series. The Series A Preferred and/or Series B AMPS are being offered by a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated ("Merrill Lynch") and including Citigroup Inc., A.G. Edwards & Sons, Inc. and Gabelli & Company as co-underwriters. Upon issuance, the Series A Preferred and Series B AMPS will have equal seniority with respect to dividends and will have a preference. See "Description of the Series A Preferred and Series B AMPS."

Series A Preferred. The Fund is offering 1,000,000 shares of Series A Preferred, par value \$.001 per share, liquidation preference \$25,000 per share at a purchase price of \$25 per share. Dividends on the Series A Preferred will accumulate from the date on which such shares are issued. Application has been made to list the Series A Preferred on the New York Stock Exchange. It is anticipated that trading of the Series A Preferred will commence within 30 days from the date of this prospectus.

Series B AMPS. The Fund is offering 1,000,000 shares of Series B AMPS, par value \$.001 per share, liquidation preference \$25,000 per share at a purchase price of \$25,000 per share, plus dividends, accumulated from the commencement date of the dividend payments on such Series B AMPS are issued. The Series B AMPS will be listed on the New York Stock Exchange. Instead, investors may buy or sell Series B AMPS by submitting orders to broker-dealers that have entered into an agreement with the auction agent.

Generally, investors in Series A Preferred or Series B AMPS will receive certificates representing ownership of their shares held in a depository (The Depository Trust Company ("DTC") or a nominee for the account of the investor's broker-dealer. The broker-dealer on record ownership of the preferred shares in book-entry form. The broker-dealer, in turn, will maintain records of that ownership of preferred shares.

Investment Objective.....

The Fund's investment objective is to provide a high level of income on its assets with an emphasis on dividends and income from debt securities. It will be given that the Fund will achieve its investment objective by investing in securities that will attempt to achieve its investment objective by investing in securities that, under normal market conditions, at least 80% of its assets in dividends and income from debt securities (such as common and preferred stock) or other income from securities (such as fixed income debt securities and securities convertible into common stock). In addition, under normal market conditions, at least 50% of the Fund's assets will consist of dividend paying securities. The Fund may invest up to 35% of its total assets in securities of non-U.S. issuers and up to 25% of its total assets in securities of issuers in a single industry. There is no restriction on the rating for debt securities in which the Fund may invest. The Fund will not invest more than 10% of its total assets in nonconvertible securities rated in the lower rating category by any of the recognized statistical rating agencies -- typically those securities rated "BB" by S&P or "Ba" by Moody's. The Fund may invest in securities of comparable quality, all of which are commonly referred to as "junk bonds." See "Investment Objective and Policies."

The Investment Adviser's investment philosophy with respect to equity and debt securities is to identify assets that are selling at a discount to their private market value. The Investment Adviser defines private market value as the value informed by the price paid to pay to acquire assets with similar characteristics. In making its selections, the Fund's Investment Adviser looks for securities that offer a superior yield, as well as capital gains potential.

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Dividends and Distributions.....

Series A Preferred. Dividends on the Series A Preferred rate of % of its \$25 per share liquidation preference from the original issue date and are payable, when, at the Board of Trustees of the Fund, out of funds legally available quarterly on , , and in each year on , 2004.

Series B AMPS. The holders of Series B AMPS are entitled to dividends, stated at annual rates of its \$25,000 per share 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

	Initial Dividend Rate	Dividend Payment Date for Initial Dividend Period	Number of Days

Series B AMPS..... % , 2004

For subsequent dividend periods, the Series B AMPS will be paid on a rate set at auctions, normally held weekly. In most cases, dividends are payable weekly, on the first business day of the dividend period. If the day on which dividends are payable is not a business day, then dividends will be payable on the next business day that falls after the end of the dividend period, subject to certain conditions, designate special dividend periods (or less) than seven days. The dividend payment date for each dividend period will be set out in the notice designating the dividend period. Dividends on shares of Series B AMPS will be paid from the date such shares are issued and will be paid from available funds.

Any designation of a special dividend period will be made only if, among other things, proper notice has been given, the day preceding the special dividend period was not a failure day, and the Trustee has confirmed that it has assets with an aggregate value of at least equal to the Basic Maintenance Amount (as described in the "Description of the Series A Preferred and Series B AMPS Guidelines"). See "Description of the Series A Preferred and Series B AMPS -- Dividends on the Series B AMPS" and "The Auction of

There is no minimum rate with respect to any dividend period and no maximum rate. The maximum rate for any dividend period will be the greater of (i) the applicable percentage plus the reference rate set forth in the table below or (ii) the applicable percentage plus the applicable LIBOR Rate (for a dividend period or a special dividend period of fewer than 365 days), or the applicable Treasury Rate (for a special dividend period of 365 days or more). The applicable percentage and applicable spread will be determined based on the credit ratings assigned to the Series B AMPS by Moody's and S&P.

The applicable percentages and applicable spreads are

Credit Ratings	Applicable Percentage
Moody's	S&P

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Rating	Rating	Percentage
Aaa	AAA	125%
Aa3 to Aa1	AA- to AA+	150%
A2 to A1	A- to A+	200%
Baa3 to Baa1	BBB- to BBB+	250%
Ba1 and lower	BB+ and Lower	300%

Assuming the Fund maintains an "Aaa" and "AAA" rating, the practical effect of the different methods used to determine the applicable rate is shown in the table below:

Reference Rate	Maximum Applicable Rate Using the Applicable Percentage	Maximum Applicable Rate Using the Reference Rate
1%	1.25%	2.25%
2%	2.50%	3.25%
3%	3.75%	4.25%
4%	5.00%	5.25%
5%	6.25%	6.25%
6%	7.50%	7.25%

See "Description of the Series A Preferred and Series B AMPS -- Maximum Rate." For example, on December 31, 2003 and June 30, 2004, respectively, the Series B AMPS (assuming a rating of "Aaa" by Moody's) would have been approximately 2.40% and 2.86%, for dividend days, and approximately 3.02% and 4.04% for dividend periods. There is no minimum rate with respect to any dividend.

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

Preferred Share Dividends. Under current law, all preferred shares of the Fund must have the same seniority as to the payment of dividends. Accordingly, no full dividend will be declared or paid on the preferred shares of the Fund for any dividend period, unless full cumulative dividends due through the most recent payment dates therefor for all series of outstanding preferred shares of the Fund are declared and paid. If full cumulative dividends are declared and paid on all outstanding preferred shares of the Fund ranking on a parity with the Series A Preferred and/or Series B AMPS, the payment of dividends, any dividends being paid on the Fund (including any outstanding Series A Preferred and Series B AMPS) shall be paid as nearly pro rata as possible in proportion to the amount of dividends accumulated but unpaid on each such series.

on the relevant dividend payment date.

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

Common Share Dividends. In order to allow its holders to realize a predictable, but not assured, level of cash liquidity periodically on their investment without having to sell shares, the Fund has adopted a policy, which may be changed by the Board of Trustees, of paying distributions on its common shares quarterly, which is equal to an annual rate of 6% of the value of the common share. On September 24, 2004, the Fund paid a dividend of \$0.15 per share, a portion of which constituted a return of capital. The amount of this dividend is based on earnings as of the record date. The composition of the distribution may change based on the Fund's activity through December 31, 2004.

Auction Procedures.....

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

Provided that the Fund has not defaulted on its payment obligations to the holders of the Series B AMPS, the auctions determine the dividend rate on the Series B AMPS, except that no dividend rate resulting from the auction process will be higher than the then-maximum rate. See "Dividends on Series A Preferred and Series B AMPS -- Dividends on Auctions" for more information.

If you own shares of Series B AMPS, you may instruct the Fund to enter one of three kinds of orders 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 your shares at \$25,000 per share, no matter what the next dividend rate will be.

If you enter a bid order, which must specify a dividend rate, that you want to purchase or hold the indicated number of shares of Series B AMPS at \$25,000 per share if the dividend rate for the next dividend period is not less than the rate specified in your bid order. Your bid order will be deemed an irrevocable offer to sell your shares if the next dividend period's rate is less than the rate you specified.

If you enter a hold order you indicate that you want to hold your shares of Series B AMPS, no matter what the next dividend period's rate will be.

You may enter different types of orders for different lots of Series B AMPS. All orders must be for whole shares. Auctions are irrevocable. There is a fixed number of Series B AMPS shares available at each auction. 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 number of Series B AMPS shares available and general economic conditions including interest rates. If you own Series B AMPS and submit a bid order that is higher than the then maximum rate, your bid order will be deemed an irrevocable offer to sell your shares.

as a sell order. If you do not enter an order, the broker-dealer will ordinarily assume that you want to continue to hold your shares. If you fail to submit an order and the dividend period expires, the broker-dealer will treat your failure to submit an order as a sell order.

If you do not then own Series B AMPS, or want to buy shares, you may instruct a broker-dealer to enter a bid order to buy shares at \$25,000 per share at or above the dividend rate you specify. For shares you do not already own at a rate higher than the dividend rate, your bid will not be considered.

Broker-dealers will submit orders from existing and potential holders of Series B AMPS to the auction agent. Neither the Fund nor the broker-dealer will be responsible for a broker-dealer's failure to submit orders for Series B AMPS held by it or its clients. A broker-dealer is treated in the same manner as a holder's failure to submit an order to a broker-dealer. A broker-dealer may submit orders to the auction agent on its own account provided that the broker-dealer is not acting on behalf of the Fund. If a broker-dealer submits an order for its own account to the auction, it may have knowledge of orders placed through the auction and therefore have an advantage over other bidders, but the broker-dealer would not have knowledge of orders submitted by other holders at that auction. As a result of bidding by the broker-dealer, the auction rate may be higher or lower than the rate that would have prevailed had the broker-dealer not bid. The Fund may not participate in any auction.

The auction agent after each auction for the Series B AMPS will pay to the broker-dealer, from funds provided by the Fund, a service charge. In the case of any auction immediately preceding a dividend period of less than one year, the product of (i) a fraction, the numerator being the number of days in such dividend period and the denominator being the number of days in the dividend period, times (ii) 1/4 of 1%, times (iii) \$25,000, times (iv) the number of Series B AMPS placed by such broker-dealer at such auction, less the amount of any auction immediately preceding a dividend period longer, the service charge shall be determined by mutual agreement between the Fund and any such broker-dealer and shall be based upon the same concession that would be applicable to an underwriting of Series B AMPS rate preferred shares with a similar final maturity or dividend period, respectively, at the commencement of the dividend period with respect to such action. A broker-dealer may share such fees with non-participating broker-dealers that submit orders to the broker-dealer for an auction that are placed by that broker-dealer at the Auction.

There are sufficient clearing bids for shares of Series B AMPS at the Auction if the number of Series B AMPS subject to bid orders from broker-dealers for potential holders with a dividend period of less than the then-maximum rate is at least equal to the number of shares subject to sell orders and the number of shares of Series B AMPS subject to bid orders specifying rates higher than the then-maximum rate is at least equal to the number of Series B AMPS submitted or deemed submitted to the auction agent by existing holders. If there are sufficient clearing bids for Series B AMPS, then the dividend rate for the next dividend period will be the lowest rate submitted which, taking into account the dividend rate of lower rate bids submitted from existing and potential holders, is higher than the lowest rate in existing and potential holders owning all the Series B AMPS for purchase in the auction.

If there are not sufficient clearing bids for shares

the auction is considered to be a failed auction, and will be the maximum rate. If the Fund has declared a period and there are not sufficient clearing bids, the dividend rate will not be effective and the dividend period will be the same as during the current rate period. Existing holders that have submitted sell orders (or submitted sell orders) may not be able to sell any or AMPS for which they submitted sell orders.

The auction agent will not consider a bid above the purpose of the maximum rate is to place an upper limit respect to the Series B AMPS and in so doing to help available to pay dividends on the Fund's common share dividend rate in the event of a failed auction (that there are more shares of Series B AMPS offered for sale buyers for those shares).

If broker-dealers submit or are deemed to submit hold outstanding Series B AMPS, the auction is considered and the dividend rate for the next dividend period will rate," which is 90% of the then-current reference rate less than the rate that would have been determined if occurred. The auction procedures include a pro rata allocation of AMPS for purchase and sale. This allocation process may existing holder selling, or a potential holder buying the number of Series B AMPS in its order. If this happens that have designated themselves as existing holders or respect of customer orders will be required to make allocations among their respective customers.

Settlement of purchases and sales will be made through business day after the auction date (which also is a date). Purchasers will pay for their Series B AMPS through in same-day funds to DTC against delivery to the broker. make payment to the sellers' broker-dealers in accordance procedures, which require broker-dealers to make payment in same-day funds. As used in this prospectus, a business which the NYSE is open for trading, and which is not any other day on which banks in New York City are authorized by law to close.

The first auction for Series B AMPS will be held on the day preceding the dividend payment date for the initial. Thereafter, except during special dividend periods, an AMPS normally will be held every Thursday (or the next day if Thursday is a holiday), and each subsequent dividend Series B AMPS normally will begin on the following Friday.

Tax Treatment of Preferred
Share Dividends.....

The Fund expects that dividends paid on the Series A AMPS will consist of (i) long-term capital gain (gain capital asset held longer than 12 months), (ii) qualified (dividend income from certain domestic and foreign companies investment company taxable income (other than qualified including interest income, short-term capital gain and hedging and interest rate transactions. For individual federal income tax rate on long-term capital gain is qualified dividend income is currently 15%, and on other distributions from investment company taxable income for treatment as qualified dividend income) is currently rates are scheduled to apply through 2008. We cannot as to what percentage of the dividends paid on the Series

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Rating and Asset

Coverage Requirements.....

Series B AMPS will consist of long-term capital gains dividend income, which are taxed at lower rates for ordinary income. For a more detailed discussion, see

Series A Preferred. In order to be issued, the Series A Preferred must receive a rating of "Aaa" from Moody's. The Series A Preferred contains certain tests that the Fund must maintain a rating of "Aaa" from Moody's on the Series A Preferred. See "Description of the Series A Preferred and Series B AMPS Guidelines."

Series B AMPS. In order to be issued, the Series B AMPS must receive a rating of "Aaa" from Moody's and a rating of "AAA" from S&P. In addition to the rating requirements, the Series B Statement of Preferences contains certain tests that the Fund must satisfy to obtain and maintain a rating of "Aaa" from Moody's and "AAA" from S&P. See "Description of the Series A Preferred and Series B AMPS -- Rating Agency Guidelines."

Asset Coverage Requirements. Under the asset coverage requirements of the Series A Preferred and/or Series B AMPS is subject to the requirement that the Fund must be required to maintain (i) assets having in the aggregate a value greater than or equal to a Basic Maintenance Amount (as defined in "Description of the Series A Preferred and Series B AMPS Guidelines") for each such series calculated pursuant to the applicable rating agency guidelines and (ii) an asset coverage of not less than such higher or lower percentage as may be required at the time of the offering under the Investment Company Act of 1940 (the "1940 Act") with respect to the outstanding preferred shares of the Fund, including the Series A Preferred and the Series B AMPS. See "Description of the Series A Preferred and Series B AMPS -- Asset Maintenance Requirements."

The Fund estimates that if the shares offered hereby were sold as of September 15, 2004, the asset coverage under the Series A Preferred and Series B AMPS would have been approximately 633% immediately following such sale, giving effect to the deduction of the underwriting discounts and offering expenses for such shares of \$6,825,000). The asset coverage has been computed as follows:

Value of Fund assets less liabilities not constituting senior securities	\$1,000,000,000

Senior securities representing indebtedness = plus liquidation value of the AMPS	\$300,000,000

The Statement of Preferences for each of the Series A Preferred and Series B AMPS, which contain the technical provisions of the asset coverage tests, will be filed with the registration statement and may be obtained through the Securities and Exchange Commission (<http://www.sec.gov>).

Mandatory Redemption.....

The Series A Preferred and the Series B AMPS 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 under the 1940 Act described above and does not cure such failure by the applicable cure date. If the Fund redeems preferred shares, it may, but is not required to, redeem a sufficient number of shares so that after the redemption the Fund exceeds the asset coverage requirements of the guidelines of each of the applicable rating agencies by 10%.

With respect to the Series A Preferred, any such redemption will be made for cash at a redemption price equal to \$25 per share.

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to accumulated and unpaid dividends (whether or not earned) as of the redemption date.

With respect to the Series B AMPS, any such redemption will be made in cash at a redemption price equal to \$25,000 per share plus any dividends to accumulated but unpaid dividends (whether or not earned) as of the redemption date, plus, in the case of Series B AMPS having a dividend period of more than one year, any applicable redemption premium payable by the Board of Trustees. See "Description of the Series B AMPS -- Redemption."

In the event of a mandatory redemption, such redemption will be made in the Series A Preferred, the Series B AMPS or other property of the Fund in such proportions as the Fund may determine, subject to the limitations of the 1940 Act and Delaware law.

Optional Redemption.....

Subject to the limitations of the 1940 Act and Delaware law, the Fund at its option, redeem the Series A Preferred and/or Series B AMPS as follows:

Series A Preferred. Commencing January 1, 2009 and at any time thereafter, the Fund at its option may redeem the Series A Preferred, in whole or in part, in cash at a redemption price per share equal to \$25,000 plus any dividends to accumulated and unpaid dividends (whether or not earned) as of the redemption date. If fewer than all of the shares of the Series A Preferred are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. Prior to January 1, 2009, the Series A Preferred will be subject to optional redemption by the Fund at a redemption price only to the extent necessary for the Fund to qualify for tax treatment as a regulated investment company. See "Description of the Series A Preferred and Series B AMPS -- Optional Redemption of the Series A Preferred."

Series B AMPS. The Fund at its option generally may redeem the Series B AMPS in whole or in part, at any time other than during a dividend period. The Fund may declare a non-call period during a dividend period of seven days. If fewer than all of the shares of the Series B AMPS are redeemed, such redemption will be made pro rata in accordance with the number of such shares held. See "Description of the Series B AMPS -- Redemption -- Optional Redemption of the Series B AMPS."

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

Voting Rights.....

At all times, holders of the Fund's preferred shares (including the Series A Preferred and/or Series B AMPS), voting as a single class, will be entitled to elect two members of the Fund's Board of Trustees. The holders of the preferred shares and common shares, voting as a single class, will elect the remaining trustees. However, until the Fund to pay dividends on any of its preferred shares for two full years dividends, holders of the preferred shares, voting as a single class, will have the right to elect additional trustees who then constitute a simple majority of the Board of Trustees. Cumulative dividends on all preferred shares have been paid for.

Holders of outstanding Series A Preferred, Series B AMPS

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preferred shares will vote separately as a class on c
as required under the applicable Statement of Prefere
Delaware law. Except as otherwise indicated in this p
otherwise required by applicable law, holders of Seri
Series B AMPS will be entitled to one vote per share
submitted to a vote of shareholders and will vote tog
common shares and any other preferred shares as a sin
"Description of the Series A Preferred and Series B A

Liquidation Preference..... The liquidation preference of each share of Series A
liquidation preference of the Series B AMPS is \$25,00
liquidation, preferred shareholders will be entitled
liquidation preference with respect to their preferre
amount equal to accumulated but unpaid dividends with
shares (whether or not earned or declared) to the dat
See "Description of the Series A Preferred and Series
Rights."

Use of Proceeds..... The Fund will use the net proceeds from the offering
portfolio securities in accordance with its investmen
policies. See "Use of Proceeds."

Listing of the
Series A Preferred..... Prior to this offering, there has been no public mark
Preferred. Following its issuance (if issued), the S
expected to be listed on the NYSE. However, during a
is not expected to exceed 30 days after the date of i
the Series A Preferred will not be listed on any secu
consequently may be illiquid during that period. The
that a secondary market will provide owners with liqu

Limitation on Secondary Market Trading
of the Series B AMPS The Series B AMPS will not be listed on an exchange.
but are not obliged to, maintain a secondary trading
AMPS outside of auctions. There can be no assurance
market will provide owners with liquidity. You may t
outside of auctions only to or through a broker-deale
into an agreement with the auction agent or other per
permits.

Special Characteristics
and Risks..... Risk is inherent in all investing. Therefore, before
Series A Preferred or the Series B AMPS you should co
carefully.

Series A Preferred. Primary risks specially associate
in the Series A Preferred include:

Fluctuations in Market Price. The market price for th
will be influenced by changes in interest rates, the
quality of the Series A Preferred and other factors.
Special Considerations -- Special Risks of the Series
Fluctuations in Market Price."

Illiquidity Risk. Prior to the offering, there has be
for the Series A Preferred. In the event the Series A
prior application will have been made to list the Ser
NYSE. However, during an initial period, which is not
days after the date of its issuance, the Series A Pre
listed on any securities exchange. During such period
intend to make a market in the Series A Preferred, ho
obligation to do so. Consequently, the Series A Prefe
during such period. No assurances can be provided tha
securities exchange or market making by the underwrit

market for Series A Preferred being liquid at any time and Special Considerations -- Special Risks of the Series A Preferred and Series B AMPS -- Illiquidity Risk."

Series B AMPS. Primary risks specially associated with Series B AMPS include:

Auction Risk. You may not be able to sell your Series B AMPS if the auction fails, i.e., if there are more Series B AMPS for sale than there are buyers for those shares. Also, if you elect to sell at an auction to retain Series B AMPS only at a specified rate, at the rate set at the auction, you will not retain your Series B AMPS. Additionally, if you place a hold order without specifying a price, which you would not wish to continue to hold your shares, the auction sets a below-market rate, you will receive a lower rate than the market rate. Finally, the dividend payment is subject to certain conditions and with notice to the issuer of Series B AMPS, which could also affect the liquidity of your Series B AMPS. See "Risk Factors and Special Considerations -- Special Risks of the Series B AMPS -- Auction Risk."

Secondary Market Sale Risk. If you try to sell your Series B AMPS at auctions, you may not be able to sell them for \$25,000 per share plus accumulated dividends. If the Fund has a dividend period of more than seven days, changes in interest rates may affect the price you would receive if you sold your Series B AMPS in the market. Broker-dealers that may maintain a secondary market for Series B AMPS are not required to maintain this market. The issuer is required to redeem Series B AMPS if either an auction or a secondary market sale fails because of a lack of buyers. A broker-dealer may, in its own discretion, decide to sell Series B AMPS in the secondary market to investors at any time and at any price, but at prices equivalent to, below or above the par value of the Series B AMPS. The Series B AMPS are not listed on a stock exchange or a secondary market. If you sell your Series B AMPS to a broker-dealer, you may receive less than the price you paid for them if interest rates or market interest rates have risen since the last auction or dividend period. See "Risk Factors and Special Considerations -- Special Risks of the Series B AMPS -- Secondary Market Sale Risk."

Both the Series A Preferred and Series B AMPS. An investor in Series A Preferred or Series B AMPS also includes the following risks:

General Risks of Preferred Shares. The market value of Series A Preferred and/or Series B AMPS will be influenced by changes in interest rates, the perceived credit quality of the Series A Preferred and Series B AMPS and other factors.

The credit rating on the Series A Preferred and/or Series B AMPS may be reduced or withdrawn while an investor holds shares, but this does not eliminate or mitigate the risks of investing in Series A Preferred and/or Series B AMPS. A reduction or withdrawal of the credit rating would likely have an adverse effect on the market value of Series A Preferred and Series B AMPS.

The Fund may not meet the asset coverage requirements to pay income from its investments to pay dividends on the Series A Preferred and/or Series B AMPS.

The value of the Fund's investment portfolio may decline, which may reduce asset coverage for the Series A Preferred and/or Series B AMPS.

an issuer of a common stock in which the Fund invests, or if an issuer's preferred stock or debt is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a decline in the income and/or asset value of the Fund's investments. In such circumstances, the Fund may be forced to mandatorily redeem Series A Preferred and/or Series B AMPS.

In general, the Fund may redeem your Series B AMPS at any time and may also redeem your Series A Preferred at any time after , 20 . The Fund may at any time redeem shares of either or both series to meet regulatory requirements. Because of historically low interest rates and the current low cost of the Series B AMPS to the Fund may be higher than it otherwise might. The Series A Preferred and/or Series B AMPS to redemption under specified circumstances and invest the proceeds to reinvest the proceeds of any such redemption in an investment at the same or a better rate than that of the Series A Preferred and/or Series B AMPS. Subject to such circumstances, the Series A Preferred and/or Series B AMPS are perpetual.

The Series A Preferred and the Series B AMPS are not subordinated to the Fund. The Series A Preferred and/or Series B AMPS would have a preference in respect of dividends and liquidation preference to any other securities issued or incurred by the Fund, including any senior securities issued or incurred representing debt. Although unlikely, precipitous declines in the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series A Preferred and/or Series B AMPS at their redemption price.

Leverage Risk. The Fund intends to use financial leverage for investment purposes by issuing preferred shares and/or senior securities and debt. It is currently anticipated that, taking into account the Series A Preferred and/or Series B AMPS being offered in this offering, the amount of leverage will represent approximately 6% of the Fund's net assets (as defined below). The Fund expects that depending on market conditions, available investment opportunities it will increase its leverage through the issuance of additional senior securities and debt to approximately 33% of the Fund's total assets including the proceeds from the Series A Preferred and/or Series B AMPS. The Fund's leveraged investments create special risks not associated with unleveraged investments with a similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility in the value of the Fund and the asset coverage for the Series A Preferred and/or Series B AMPS. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to investors or to pay on the preferred shares or principal or interest payments on other securities, or to redeem preferred shares or repay debt. It may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common share dividend payments and such a failure to make such payments or distributions could result in the Fund ceasing to qualify as an investment company under the Code. See "Taxation."

Because the fee paid to the Investment Adviser will be based on the basis of the Fund's assets, which includes for this purpose the amount attributable to the aggregate net asset value of the Fund's assets attributable to any outstanding senior securities, the Fund's higher liquidation preference for the liquidation preference of any preferred share will be higher when leverage in the form of preferred shares is used. This gives the Investment Adviser an incentive to utilize such leverage. The Investment Adviser has agreed not to accept an increment

Series A Preferred or Series B AMPS, as the case may be, may reduce the Fund's total return allocable to the common shares for the period of the hurdles described under "Management of the Fund -- General Risk Factors and Special Considerations -- Risks Associated with the Series A Preferred and Series B AMPS -- Leverage Risk."

Special Risks Related to Preferred Shares of Senior Securities Representing Debt. As provided in the 1940 Act, and subject to compliance with the Fund's investment limitations, the Fund may issue senior securities representing debt. In the event the Fund were to issue senior securities, the Fund's obligations to pay dividends and, upon liquidation, liquidation payments in respect of its preferred shares would be subordinate to the Fund's obligations to make any principal and interest payments due and owing with respect to its outstanding senior securities. Accordingly, the Fund's issuance of senior securities would have the effect of creating special risks for the common shareholders (including the holders of Series A Preferred and Series B AMPS) that would not be present in a capital structure consisting only of such securities. See "Risk Factors and Special Considerations -- Risks Associated with both Series A Preferred and Series B AMPS -- Leverage Risk" to Preferred Shares of Senior Securities Representing Debt.

Restrictions on Dividends and Other Distributions. The Fund's ability to declare the declaration and payment of dividends or other distributions to the holders of the Fund's common shares and preferred shares is limited by the Act and by requirements imposed by rating agencies, market conditions, and the ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to distribute dividends to its shares (including the Series A Preferred and/or Series B AMPS) to the extent necessary to enable the Fund to distribute its dividends, it cannot maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be taken to meet the Code requirements. See "Taxation" in the Prospectus.

Securities and Exchange Commission Inquiries. Merrill Lynch, Pierce, Fenner & Smith Inc. (Merrill Lynch) and Global Markets Inc. have advised the Fund that they and other broker-dealers and other participants in the auction markets, including both taxable and tax exempt markets, have received letters from the Securities and Exchange Commission requesting that they voluntarily conduct an investigation regarding their trading practices and procedures in those markets. Merrill Lynch, Pierce, Fenner & Smith Inc. and those other broker-dealers are cooperating with the Securities and Exchange Commission and continue to cooperate with the Securities and Exchange Commission in providing the requested information. No assurance can be given as to whether the results of this process will affect the Fund's ability to conduct the auctions.

Risks of Investing in the Fund

Limited Operating History. The Fund is a non-diversified investment management investment company with a limited operating history. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Limited Operating History."

Common Stock Dividend Policy Risk. The Fund has adopted a dividend policy that may be changed at any time by the Board of Trustees, of which the Fund is a member, to its common shares of \$.30 per quarter, which is equal to 6% of the original issue price of the common shares. If the Fund's investment returns do not provide sufficient amounts to pay dividends, the Fund may be required to return capital to the common shareholders, which may have the effect of decreasing the value of the common shares per share with respect to the Fund's Series A Preferred

The Fund made its first dividend payment on March 25, which constituted a return of capital.

Value Investing Risk. The Fund focuses its investment common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investment securities may present risks in addition to the general risks associated with investing in common and preferred stocks. The Fund's investments on dividend-paying common and preferred stocks that the Investment Adviser believes are undervalued or inexpensive relative to other investments. These types of securities may present risks in addition to the general risks associated with investing in common and preferred stocks including the risk of misestimation of certain market values. In addition, during certain time periods market dynamics may cause "growth" stocks of issuers that do not display strong price momentum to market price based upon positive price momentum and other factors. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Value Investing Risk."

Non-Diversified Status. As a non-diversified investment company under the 1940 Act, the Fund may invest a greater portion of its assets in a limited number of issuers than may a diversified fund. This concentration of investment in the Fund may, under certain circumstances, increase the risk to an investor than an investment in a diversified fund. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Non-Diversified Status."

Industry Concentration Risk. The Fund may invest up to 10% of its assets in the securities of companies principally engaged in a single industry. In the event the Fund makes substantial investments in a single industry, the Fund would become more susceptible to adverse economic conditions or occurrences affecting that industry. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Industry Concentration Risk."

Special Risks Related to the Fund's Preferred Securities. The Fund's investments in preferred securities associated with the Fund's investing in preferred securities may include deferral of distributions or dividend payments, in some cases an issuer never to pay missed dividends, subordination of rights, limited voting rights and redemption by the issuer. Because of the limit on its investment in non-cumulative preferred securities, if of dividends the Fund pays may be adversely affected by the non-cumulative preferred stock held by the Fund determines the amount of dividends on such stock. There is no assurance that distributions on preferred stock in which the Fund invests will be made or otherwise made payable. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Special Risks Related to Preferred Securities."

Illiquid Securities. The Fund has no limit on the amount of assets it may invest in unregistered and otherwise illiquid securities. Unregistered securities are securities that cannot be sold in the United States without registration under the Securities Act. Unregistered securities generally can be resold only through negotiated transactions with a limited number of purchasers or through an offering registered under the Securities Act. Considerations encountered in either event and, unless otherwise provided for, the Fund's proceeds upon sale may be reduced by discounts for registration or underwriting discounts. The difficulties associated with such transactions could result in the Fund's not realizing a favorable price upon disposition of unregistered securities.

at times might make disposition of such securities impractical. See "Risk Factors and Special Considerations -- Risks of Investing in Illiquid Securities."

Foreign Securities Risk. The Fund may invest up to 35% of its assets in foreign securities. Investing in securities of foreign governments), which are generally denominated in foreign currencies, may involve certain risks and opportunities associated with investing in domestic companies and currencies that may be affected favorably or unfavorably by changes in currency values and revaluation of currencies. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Foreign Securities."

Smaller Companies. While the Fund intends to focus on established suppliers of accepted products and services, it may invest in smaller companies which may benefit from their products and services. These smaller companies may present more opportunities for capital appreciation, and may also involve a higher investment risk than larger, more established companies. Smaller companies may have more limited product lines, fewer resources, and their securities may trade less frequently and in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of such smaller companies may fluctuate to a greater degree than the prices of securities of larger issuers. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Smaller Companies."

Investment Companies. The Fund may invest in the securities of investment companies to the extent permitted by law. The Fund invests in the common equity of investment companies, and its ratable share of any such investment company's expenses, including management fees. The Fund will also remain obligated to the Investment Adviser with respect to the assets and liabilities of the securities of other investment companies. In these circumstances, the Fund's common shares will be subject to duplicate expenses. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Investment Companies."

Lower Grade Securities. The Fund may invest up to 10% of its assets in fixed-income securities rated below investment grade by statistical rating agencies or unrated securities of lower quality. The prices of these lower grade securities are more susceptible to developments, such as a decline in the issuer's revenues or an economic downturn, than are the prices of higher grade securities. Securities of below investment grade quality are predicted to be more susceptible to default risk than higher grade securities when due and therefore involve a greater risk of default. These securities are referred to as "junk bonds." See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Lower Grade Securities."

Special Risks of Derivative Transactions. The Fund may engage in certain derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. The Fund may use options or futures markets and in currency exchange transactions to manage investment risks and transaction costs to which the Fund is subject absent the use of these strategies. If the Fund's prediction of movements in the direction of the security price in a currency or interest rate markets is inaccurate, the Fund may leave the Fund in a worse position than if it had not used these strategies. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Special Risks of Derivative Transactions."

Interest Rate Transactions. The Fund may enter into a swap or cap transaction with respect to all or a portion of its portfolio. The use of interest rate swaps and caps is a highly sensitive strategy that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Interest Rate Transactions."

Loans of Portfolio Securities. The Fund may seek to loan portfolio securities to broker-dealers or other institutions. Without other extensions of credit, there are risks of default or even loss of rights in the securities loaned if the borrower or the securities violates the terms of the loan or fails to pay interest. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Loans of Portfolio Securities."

Management Risk. The Fund is subject to management risk in its actively managed portfolio. The Investment Adviser utilizes various techniques and risk analyses in making investment decisions, but there can be no guarantee that these will produce the desired results. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Management Risk."

Dependence on Key Personnel. The Investment Adviser relies on 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 -- Risks of Investing in the Fund -- Dependence on Key Personnel."

Current Developments. As a result of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001, the U.S. Securities Markets were closed for a four-day period. These events, along with other attacks, the war in Iraq and its aftermath and other global events, have led to, and may in the future lead to, increased volatility and may have long-term effects on U.S. and international markets. Similar events in the future or other disruptions of the securities markets could affect interest rates, securities exchange rates, secondary trading, ratings, credit risk, inflation and other factors relating to the Series A Preferred and/or Series B AM Shares. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Current Developments."

Anti-takeover Provisions. The Fund's governing documents contain provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See "Anti-Takeover Provisions of the Fund's Governing Documents."

Status as a Regulated Investment Company. The Fund has elected to be qualified for, and intends to remain qualified for, federal income tax purposes as a regulated investment company. Qualification as a regulated investment company, among other things, compliance by the Fund with certain distribution requirements. Statutory limitations on distributions may apply if the Fund fails to satisfy the 1940 Act's asset coverage requirements, which could jeopardize the Fund's ability to meet such distribution requirements. The Fund presently intends, however, to purchase or redeem shares to the extent necessary in order to maintain compliance with the distribution coverage requirements. See "Taxation" for a more complete discussion of these and other federal income tax considerations.

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Management and Fees.....

Gabelli Funds, LLC serves as the Fund's Investment Adviser and is compensated for its services and its related expenses at a rate of 1.00% of the Fund's average weekly net assets. As used herein, net assets means the aggregate net asset value of the Fund for purposes of the Investment Adviser's compensation (excluding any amount attributable to outstanding preferred shares, with no liquidation preference of any preferred shares). Notwithstanding the foregoing, the Investment Adviser has voluntarily agreed to a portion of its investment advisory fee attributable to the Fund equal to the aggregate stated value of the Fund's Series A Preferred or Series B AMPS, as the case may be, for each year in which the net asset value total return of the Fund's common shares, including distributions and the advisory fee, is less than the stated annual dividend rate of such series and (ii) for Series B AMPS, the net cost of capital to the Fund with respect to Series B AMPS for such year expressed as a percentage of the net asset value (after duplication, dividends paid by the Fund on the Series B AMPS, net of the cost to the Fund of any associated swap or cap transaction used to hedge its Series B AMPS dividend obligations). This fee shall be paid from the portion of the Fund's assets attributable to the Fund's Series B AMPS, respectively, for so long as any shares of the Fund remain outstanding. The Investment Adviser is responsible for the administration of the Fund and currently utilizes and relies on a third party sub-administrator. See "Management of the Fund -- Regulatory Matters."

The Securities and Exchange Commission, the New York State Department of Banking and Finance, and other officials of other states have been conducting inquiries, investigations, enforcement and other proceedings regarding, trading and operations of open-end investment companies. The Investment Adviser has provided information requests from the New York Attorney General, the Securities and Exchange Commission subpoena and from the Securities and Exchange Commission in connection with these inquiries. The Investment Adviser and its affiliates have been complying with these requests and have been independent of the mutual fund practices in a variety of areas. For further information regarding the Investment Adviser's ongoing review in connection with these inquiries, see "Management of the Fund -- Regulatory Matters."

Repurchase of Common Shares and
Anti-takeover Provisions.....

The Fund's Board of Trustees has authorized the Fund to repurchase common shares in the open market when the common shares are trading at a discount of 7.5% or more from net asset value. Such repurchases are subject to certain notice and other requirements under applicable law. Since the Fund commenced operations, it has repurchased 220 common shares in the open market.

Certain provisions of the Fund's Agreement and Declaration of Trust and By-Laws (collectively, the "Governing Documents") may contain "anti-takeover" provisions. Pursuant to these provisions, a majority of the classes of trustees is elected each year, and the affirmative vote of the holders of 75% of the outstanding shares of the Fund is required to authorize the conversion of the Fund from a closed-end investment company to an open-end investment company. The overall effect of these provisions is to make more difficult the accomplishment of a merger with, or the acquisition of control by, a principal shareholder. These provisions are intended to prevent the Fund from being deprived of Fund common shareholders of an opportunity to sell their shares at a premium to the prevailing market price. See "Management of the Fund -- Regulatory Matters." Provisions of the Fund's Governing Documents."

Custodian, Transfer Agent, Auction Agent
and Dividend Disbursing Agent.....

State Street Bank and Trust Company (the "Custodian") is located at 100 State Street, Canton, Massachusetts 02021, serves as

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Fund's assets pursuant to a custody agreement. Under the Custodian holds the Fund's assets in compliance with its services, the Custodian will receive a monthly fee for other things, the average value of the total assets of certain charges for securities transactions.

EquiServe Trust Company, N.A., located at P.O. Box 43 Island 02940-3025, serves as the Fund's dividend disb under the Fund's automatic dividend reinvestment and purchase plan, and as transfer agent and registrar with common shares of the Fund.

Series A Preferred. EquiServe will also serve as the registrar, dividend paying agent and redemption agent Series A Preferred.

Series B AMPS. The Bank of New York will serve as the transfer agent, registrar, dividend paying agent and respect to the Series B AMPS.

Interest Rate Transactions.....

The Fund may enter into interest rate swap or cap tra to all or a portion of the Series B AMPS in order to its portfolio of changes on the dividend rate of the Through these transactions the Fund may, for example, of a fixed rate for the Series B AMPS that is lower t have to pay if it issued fixed rate preferred shares. rate swaps and caps is a highly specialized activity investment techniques and risks different from those ordinary portfolio security transactions.

In an interest rate swap, the Fund would agree to pay the interest rate swap (which is known as the "counte a fixed rate payment in exchange for the counterparty the Fund periodically a variable rate payment that is approximate the Fund's variable rate payment obligati AMPS. In an interest rate cap, the Fund would pay a p counterparty to the interest rate cap and, to the ext variable rate index exceeds a predetermined fixed rat receive from the counterparty payments of the differe notional amount of such cap. Interest rate swap and c introduce additional risk because the Fund would rema preferred share dividends when due in accordance with Statement of Preferences even if the counterparty def the general state of short-term interest rates and th Fund's portfolio securities at that point in time, su negatively affect the Fund's ability to make dividend preferred shares. In addition, at the time an interes transaction reaches its scheduled termination date, t the Fund will not be able to obtain a replaceme