NEW AMERICA HIGH INCOME FUND INC
Form N-2
May 14, 2007

As filed with the Securities and Exchange Commission on May 14, 2007

1933 Act File No. 333-

1940 Act File No. 811-5399

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

x **REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933**

o **Pre-Effective Amendment No.**

o **Post-Effective Amendment No.**
and/or

o **REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940**

x **Amendment No. 31**

THE NEW AMERICA HIGH INCOME FUND, INC.

Exact Name of Registrant as Specified in Charter

33 Broad Street, Boston, Massachusetts 02109

Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

(617) 263-6400
Registrant s Telephone Number, Including Area Code

Ellen E. Terry, Vice President & Treasurer
The New America High Income Fund, Inc.
33 Broad Street
Boston, Massachusetts 02109
Name and Address (Number, Street, City, State, Zip Code) of Agent for Service

With a copy to:

David C. Mahaffey, Esq.
Sullivan & Worcester LLP
1666 K Street, NW
Washington, DC 20006

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 (Securities Act), other than securities offered in connection with a dividend reinvestment plan, check the following box. o

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Common Stock, $0.01 par value	32,106,000 shares	$ 2.37 (1)	$ 76,091,220 (1)	$ 2,336.00
Subscription Rights	32,106,000 rights			

(1) Estimated pursuant to Rule 457(c) under the Securities Act solely for the purpose of determining the amount of the registration fee. The registration fee is based upon the average of the high and low prices reported for a share of Common Stock on May 11, 2007, as reported on the New York Stock Exchange.

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 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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.

The New America High Income Fund, Inc.

Subject To Completion
Dated _____, 2007

32,106,000 Shares of Common Stock
Issuable Upon Exercise of Rights to Subscribe
for Such Shares

The New America High Income Fund, Inc. (the "Fund") is issuing transferable rights ("Rights") to its stockholders (the "Offer"). You will receive one Right for each three shares of common stock, par value $0.01, ("Common Stock") you own on the record date, which is _______, 2007 (the "Record Date"). These Rights entitle you to subscribe for new shares of Common Stock to be issued by the Fund ("Shares"). You may purchase one new Common Share for every Right you receive. Stockholders on the record date who hold less than three shares will receive one Right. Also, stockholders on the record date may purchase the new Common Shares not acquired by other stockholders in this rights offering, subject to the limitations as discussed in this prospectus (the "Prospectus").

The Rights are transferable and will be listed for trading on the New York Stock Exchange (the "Exchange") under the symbol "HYB.RT" during the course of the offering. The Fund's Common Stock is listed, and the Shares issued in this Offer will be listed, on the Exchange under the symbol "HYB." On _______, 2007, the last reported net asset value per share of the Fund's Common Stock was $____ and the last reported sales price of a share on the Exchange on that date was $____.

The subscription price per share will be the lower of: (i) __% of the average of the last reported sales price of a share on the Exchange on the expiration date of the Offer and on the previous ___ business days, and (ii) __% of the net asset value ("NAV") per share as of the close of business on the expiration date of the Offer (the "Subscription Price"). You will not know the actual subscription price at the time you exercise your Rights. Once you subscribe for shares and the Fund receives payment or a guarantee of payment, you will not be able to change your decision. **The Offer will expire At 5:00 p.m., Eastern Time, on _______ , 2007 (the "Expiration Date"), unless the Fund extends the Offer as described in this Prospectus.**

The Fund is a non-diversified, closed-end management investment company with a leveraged capital structure. The Fund's investment objective is to provide high current income, while seeking to preserve stockholders' capital, through investment in a professionally managed, diversified portfolio of "high-yield" fixed-income securities (commonly referred to as "junk bonds"). No assurance can be given that the Fund will achieve its investment objective. **In determining whether to invest in Common Stock, you should carefully consider the significant risks described in the following sections of this Prospectus: "Financial Information Summary Capitalization and Information Regarding Senior Securities" on page __, "The Fund" on page__, "Investment Objective and Policies" on page __ and "Risk Factors and Special Considerations" on page __.**

The Subscription Price per share will be less than the then NAV per share and, under those circumstances, the Offer may result in a substantial dilution to stockholders who do not fully exercise their Rights. If you do not exercise your Rights, you will, upon the completion of the Offer, own a smaller proportional interest in the Fund than you do now. The Fund cannot state precisely the extent of this dilution because the Fund does not know what the NAV will be when the Offer expires, how many Rights will be exercised or the exact expenses of the Offer. **For further information on the effects of dilution, see "Risk Factors and Special Considerations" on page ____.**

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Share	**Total(4)**
Estimated Subscription Price[1]	$[ ]	$[ ]
Sales Load	None	None
Estimated Proceeds to the Fund[2,3]	$[ ]	$[ ]

(1) *This is an estimated price. The actual Subscription Price will be determined as set forth above on the Expiration Date.*

(2) *Reflects deduction of offering expenses incurred by the Fund, estimated at [$________], and is based on the Estimated Subscription Price (as defined below).*

(3) *Funds received by check prior to the final due date of this Offer will be deposited into a segregated interest-bearing account (which interest will accrue to the benefit of the Fund) pending allocation and distribution of Shares. Interest on subscription moneys will be paid to the Fund regardless of whether shares are issued by the Funds. This interest is not reflected in the Estimated Proceeds to the Fund.*

(4) *Assumes all Rights are exercised at the Estimated Subscription Price.*

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing and should be retained for future reference.

The date of this Prospectus is _____, 2007

The Fund's principal executive offices are located at 33 Broad Street, Boston, Massachusetts 02109, and our telephone number is 1-617-263-6400.

All questions and inquiries related to the Offer should be directed to the Information Agent, The Altman Group, Inc. toll free at 1-800-467-0609.

SUMMARY

This summary highlights some information from this Prospectus. It may not contain all of the information that is important to you. To understand the Offer fully, you should read the entire Prospectus carefully, including the risk factors and the financial highlights.

Purpose of the Offer

The Fund is offering its existing stockholders the opportunity to purchase additional Shares at a price that will be below market value without paying a brokerage commission. The Fund's Board of Directors has determined the Offer would be in the best interest of the Fund and its stockholders. The Board of Directors noted that an increase in the assets of the Fund would enable the Fund to take advantage of attractive investment opportunities and that the Offer may lower the Fund's expense ratio slightly by spreading the Fund's fixed costs over a larger asset base. In addition, the Board noted that an increase in the number of outstanding Shares could increase liquidity on the Exchange, where the Fund's shares of Common Stock are traded.

The Board considered that the Offer will reduce the NAV of the Fund's Common Stock and will have a negative impact on any stockholder who fails or is unable to exercise his or her Rights. The Board also took note of the fact that the possible benefits of the Offer would be reduced if expenses of the Offer were high and few Shares were sold. Reflecting these concerns, the Board has structured the Offer in a way that is intended to provide all stockholders with an equal opportunity to exercise Rights and for the Fund to sell a substantial number of Shares. In particular, the Rights will be transferable so that non-exercising rightholders will have a chance to partially offset the dilution they will suffer. In addition, the Board has established the Subscription Price and the exchange ratio with a view toward providing both an incentive to exercise Rights and an active trading market for the Rights.

The Offer

The Fund is issuing Rights to its stockholders. The Rights entitle you to subscribe for Shares at the rate of one Share for every Right held by you (the "Primary Subscription"). You will receive one Right for each three shares of Common Stock you hold on the Record Date. For example, if you own 300 shares, you will receive 100 Rights entitling you to purchase up to 100 additional Shares at the Subscription Price. You may exercise Rights at any time from the date of this Prospectus until 5:00 p.m., Eastern time, on ________, 2007, unless extended by the Fund.

If you subscribe for the maximum number of Shares to which you are entitled, you also may subscribe for Shares that were not otherwise subscribed for through the Primary Subscription by other stockholders (the "Over-Subscription Privilege"). Shares acquired pursuant to the Over-Subscription Privilege are subject to allotment, which is more fully discussed below under "The Offer   Over-Subscription Privilege" on page [_].

The subscription price per share will be the lower of: (i) __% of the average of the last reported sales price of a share on the Exchange on the expiration date of the Offer and on the previous ___ business days, and (ii) __% of the NAV per share as of the close of business on the expiration date of the Offer. You will not know the actual subscription price at the time you exercise your Rights. Once you subscribe for shares and the Fund receives payment or a guarantee of payment, you will not be able to change your decision.

You may also elect to sell your Rights. The Rights are transferable until the Expiration Date of the Offer. The Rights will be listed for trading on the Exchange. The Fund will use its best efforts to ensure that an adequate trading market for the Rights will exist but there is no assurance that a market for the Rights will develop. Trading in the Rights on the Exchange may be conducted until the close of trading on the Exchange on the last Business Day prior to the Expiration Date of the Offer.

If you do not exercise your Rights, you will suffer dilution as a result of the Offer. You should take steps to sell your Rights to avoid losing any market value represented by your Rights. See "The Offer   Sale of Rights" and "Risk Factors and Special Considerations Dilution." A business day is a day on which the Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in the City of New York, New York are authorized or obligated by law to close.

Key Terms of the Offer

[______], 2007 market price per share	[$________]
[______], 2007 net asset value per share	[$________]
Estimated Subscription Price(1)	[$________]
Shares outstanding at [______], 2007	[_________]
Transferable Rights issued	[_________]
Subscription ratio	[_________]
Maximum number of Shares to be issued	[_________]

(1) *Calculated as the lower of (i) ___% of the average of the last reported sales price of a share on the Exchange on ________, 2007 and on the previous _____ business days, and (ii) ___% of the NAV per share as of the close of business on ________, 2007.*

How to Exercise Rights

Complete, sign and date the enclosed Subscription Certificate.

Make your check or money order for [$_____] for each Share subscribed for, including any Shares you wish to buy using the over-subscription privilege. This payment may be more or less than the actual Subscription Price. Additional payment may be required for the Primary Subscription Shares, and any Over-Subscription Privilege Shares, when the actual Subscription Price is determined.

Registered stockholders should mail their completed Subscription Certificates and payments in the enclosed envelopes to the Subscription Agent, Colbent Corporation ("Colbent") in a manner that will ensure receipt prior to 5:00 p.m., Eastern time, on [________], 2007, unless extended.

If shares are held in a brokerage account or by a custodian bank, contact your broker or financial adviser.

Important Dates to Remember

Event	**Date**
Record Date	**[__________], 2007**
Expiration Date (Payment for Shares and Notices of Guaranteed Delivery Due)	**[__________], 2007 (unless extended)**
Due Date for Delivery of Subscription Certificates to Subscription Agent pursuant to Notice of Guaranteed Delivery	**[__________], 2007 (unless extended)**
Mailing of Shares	**Not later than [__________], 2007 (unless extended)**

Stockholder inquiries should be directed to the Information Agent:
The Altman Group, Inc.
1275 Valley Brook Avenue
Lyndhurst, New Jersey 07071
Toll Free: 1-800-467-0609

You may exercise your Rights by completing and executing the enclosed Subscription Certificate and mailing it, together with payment to Colbent, the Subscription Agent. Alternatively, you may exercise Rights by using a Notice of Guaranteed Delivery. This form may be obtained from the Information Agent. The Notice of Guaranteed

Delivery must be signed by a qualified financial institution and must meet certain other requirements that are described in this Prospectus. If you choose to exercise your Rights, you will not know the final Subscription Price at the time of exercise. You will be required initially to pay the estimated Subscription Price (the "Estimated Subscription Price") of [$_____]. See "The Offer Exercise of Rights" and "The Offer Payment for Shares."

The Fund

The Fund is a diversified, closed-end management investment company with a leveraged capital structure. The Fund's investment objective is to provide high current income, while seeking to preserve stockholders' capital, through investment in a professionally managed, diversified portfolio of "high-yield" fixed-income securities, commonly known as "junk bonds." The Fund will generally invest in securities that are rated below investment grade by recognized rating agencies or that are non-rated. See "Investment Objective and Policies" and "Management of the Fund The Investment Adviser." Securities rated below investment grade are considered by rating agencies, on balance, as predominantly speculative with respect to their capacity to pay interest and repay principal in accordance with the terms of the obligation and thus are generally considered to involve greater credit risk than securities in the higher-rating categories. The market values of the lower-quality securities tend to reflect individual corporate developments or negative economic changes to a greater extent than higher-quality securities. Credit ratings do not reflect this market risk. An investment in the Fund involves a number of significant risks, which are magnified due to the Fund's leveraged capital structure. No assurance can be given that the Fund will achieve its investment objective. See "Risk Factors and Special Considerations."

The Fund has had a leveraged capital structure since it began operation. The Fund is subject to various portfolio diversification and related asset coverage requirements under guidelines established by Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch") in connection with such rating agencies' issuance of ratings of Aaa and AAA, respectively, with respect to the Fund's Auction Term Preferred Stock (the "ATP"). Compliance with these guidelines limits the Fund's flexibility to invest in certain types of securities that might otherwise be attractive investments, including private placements. See "The Fund," "Investment Objective and Policies" and "Rating Agency Guidelines."

If all of the Common Stock covered by the Rights is sold, the Fund expects that the Board of Directors will authorize the Fund to issue more ATP, so that the percentage of the Fund's assets representing leverage will be approximately the same as prior to the sale of that Common Stock. However, there is no assurance that it will do so. As of March 31, 2007, the Fund's leverage ratio (the ratio of the Fund's senior securities to the sum of its net assets and its senior securities) was approximately 38%, which would be reduced to approximately [___]% in the event all Rights are exercised and no additional leverage is incurred. Incurring additional leverage will reduce any investment flexibility gained by the Fund as a result of the availability of additional assets from the exercise of Rights pursuant to the Offer. See "The Fund" and "Risk Factors and Special Considerations Leverage" for discussion of the risks and possible benefits associated with a leveraged capital structure.

The Investment Adviser

T. Rowe Price Associates, Inc. ("T. Rowe Price" or "Investment Adviser"), was selected by the Fund's Board of Directors to serve as the Fund's investment adviser starting December 2, 2002. The Investment Adviser's principal offices are located at 100 East Pratt Street, Baltimore, Maryland 21202. As of March 31, 2007, T. Rowe Price and its affiliates managed approximately $350 billion of assets, including approximately $69 billion of fixed income securities. "High-yield" investments represented approximately $10.6 billion of these totals. T. Rowe Price has provided investment advisory services to investment companies since 1937.

Risk Factors

An investment in the Fund is subject to a number of significant risks, which are magnified due to the Fund's leveraged capital structure. The Fund cannot give any assurance that it will achieve its investment objective. The NAV and market price of the Fund's Common Stock have declined sharply at times and may do so in the future.

Before exercising the Rights pursuant to the Offer, you should consider all of the factors described in this Prospectus. These factors include, among others, potential dilution of the NAV of your Shares caused by the Offer, the effects of the Fund's leveraged capital structure, the risks involved in investing lower-quality securities, the negative consequences for the Fund if it fails to meet certain asset coverage requirements, and the fact that Shares may trade at either a discount from or a premium to NAV.

FEE TABLE

Stockholder Transaction Expenses

Sales Load (as a percentage of offering price)[1]		None
Dividend Reinvestment and Cash Purchase Plan Fees[2]		None
Annual Expenses (as a percentage of net assets attributable to Common Stock)[3]		
Investment Advisory Fee		[____]%
Leverage Related Expenses	[____]%	
Other Expenses	[____]%	
Total Other Expenses[1]		[____]%
Total Annual Expenses		[____]%

(1) *Does not include expenses of the Fund incurred in connection with the Offer. Such expenses are estimated at $[________] and will be borne by the Fund and indirectly by all of the holders of the Fund's Common Stock, including those who do not exercise their Rights and will reduce the Fund's NAV per share. The reduction in NAV per share caused by expenses associated with the Offer will be increased to the extent that a substantial number of Rightholders do not exercise their Rights.*

(2) *Each participant will pay a pro rata share of brokerage commissions if shares of Common Stock are purchased by the Fund's dividend paying agent in the open market, which occurs only when the NAV of shares of Common Stock exceeds the market price. There is a [$0.75] fee for each cash purchase under the Fund's Cash Purchase Plan. See "Dividends and Distributions; Dividend Reinvestment Plan."*

(3) *Fund expense ratios have been calculated using Fund net assets attributable to Common Stock after giving effect to the anticipated proceeds of the Offer. See "Management of the Fund The Investment Adviser" for additional information.*

Example:

	Cumulative Expenses Paid for the Period of:			
	1 Year	**3 Years**	**5 Years**	**10 Years**
An investor would pay the following expenses on a $1,000 investment assuming a 5% annual return throughout the periods	[$__]	[$__]	[$__]	[$__]

The purpose of the foregoing table is to assist investors in understanding the various costs and expenses that investors in the Fund will bear directly or indirectly.

The Example and Fee Table should not be considered a representation of past or future expenses or annual rates of return. Actual expenses or annual rates of return may be greater or lesser than those assumed for purposes of the Example and Fee Table. In addition, while the example assumes reinvestment of all dividends and distributions at NAV, participants in the Fund's Dividend Reinvestment Plan may receive shares purchased or issued at a price or value different from NAV. See "Dividends and Distributions; Dividend Reinvestment Plan."

The Example above assumes reinvestment of all dividends and other distributions at NAV and an expense ratio based on net assets attributable to Common Stock of __% of which ___% is attributable to preferred stock payments and related expenses. The tables above and the assumption in the Example of a 5% annual return are required by Securities and Exchange Commission (the "Commission" or the "SEC") regulations applicable to all investment companies. Other Expenses are based on estimated amounts for the current fiscal year.

6

FINANCIAL INFORMATION SUMMARY

Financial Highlights

The following data with respect to a share of Common Stock of the Fund outstanding during the periods indicated has been audited by the Fund's current independent public accountants, , for the fiscal years ended December 31, 2006 and 2005, and by the Fund's former independent public accountants, KPMG LLP, for the fiscal years ended December 31, 2004, 2003, and 2002, and by Arthur Andersen LLP, for the fiscal years ended December 31, 2001, 2000, 1999, 1998, and 1997, as indicated in their respective reports thereto included with the Fund's audited financial statements herein and incorporated by reference, and should be read in conjunction with the audited financial statements and related notes included therein.

	For Years Ended December 31,									
	2006	**2005**	**2004**	**2003(b)**	**2002**	**2001(c)**	**2000**	**1999**	**1998(b)**	**1997(b)**
NET ASSET VALUE:	(For Each Share of Common Stock Outstanding Throughout the Period)									
Beginning of Period	$ 2.13	$ 2.26	$ 2.19	$ 1.89	$ 2.61	$ 2.85	$ 3.86	$ 4.16	$ 5.03	$ 4.94
NET INVESTMENT INCOME	.25	.25	.26	.26#	.37	.48	.60	.66	.71#	.70#
NET REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND OTHER FINANCIAL INSTRUMENTS	.07	(011)	.09	.34	(.72)	(.24)	(1.00)	(.30)	(.81)#	.25#
DISTRIBUTIONS FROM NET INVESTMENT INCOME RELATED TO PREFERRED STOCK	(.05)	(.05)	(.05)	(.06)	(.08)	(.12)	(.18)	(.18)	(.17)	(.16)
TOTAL FROM INVESTMENT OPERATIONS	.27	.09	.30	.54	(.43)	.12	(.58)	.18	(.27)	.79
DISTRIBUTIONS FROM NET INVESTMENT INCOME: To common stockholders	(.21)	(.22)	(.23)	(.22)	(.29)	(.36)	(.43)	(.48)	(.54)	(.53)
DIVIDENDS IN EXCESS OF NET INVESTMENT										(.01)

INCOME: To Common Stockholders										
TOTAL DISTRIBUTIONS	(.21)	(.22)	(.23)	(.22)	(.29)	(.36)	(.43)	(.48)	(.54)	(.54)
Effect of rights offering and related expenses and Auction Term Preferred Stock offering costs and sales load				(.02)					(.06)	(.16)
NET ASSET VALUE:										
End of Period	$ 2.19	$ 2.13	$ 2.26	$ 2.19	$ 1.89	$ 2.61	$ 2.85	$ 3.86	$ 4.16	$ 5.03
PER SHARE MARKET VALUE:										
End of Period	$ 2.26	$ 2.03	$ 2.19	$ 2.16	$ 2.01	$ 2.64	$ 2.63	$ 3.13	$ 4.25	$ 5.63
TOTAL INVESTMENT RETURN	22.82%	2.47%	12.80%	19.23%	(12.97)%	13.97%	(3.84)%	(16.92)%	(15.15)%	21.97%
NET ASSETS, END OF PERIOD, APPLICABLE TO COMMON STOCK(a)	$ 208,999	$ 200,549	$ 212,165	$ 204,705	$ 131,170	$ 178,231	$ 191,928	$ 258,215	$ 273,518	$ 243,625
NET ASSETS, END OF PERIOD, APPLICABLE TO PREFERRED STOCK(a)	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 100,000	$ 150,000	$ 160,000	$ 210,000	$ 210,000	$ 150,000
TOTAL NET ASSETS, END OF PERIOD(a)	$ 338,999	$ 330,549	$ 342,165	$ 334,705	$ 231,170	$ 328,231	$ 351,928	$ 468,215	$ 483,518	$ 393,625

Financial Highlights (continued)

	For Years Ended December 31,									
	2006	**2005**	**2004**	**2003(b)**	**2002**	**2001(c)**	**2000**	**1999**	**1998(b)**	**1997(b)**
EXPENSE RATIOS:										
Ratio of preferred and other debt expenses to average net assets* .	16%	.16%	.15%	.16%	.18%	.17%	.19%	.18%	.14%	.13%
Ratio of operating expenses to average net assets*	1.21%	1.23%	1.27%	1.56%	1.46%	1.11%	.99%	.89%	.82%	.92%
RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS*	1.37%	1.39%	1.42%	1.72%	1.64%	1.28%	1.18%	1.07%	.96%	1.05%
RATIO OF NET INVESTMENT INCOME TO AVERAGE NET ASSETS*	11.54%	11.48%	12.02%	12.81%	16.48%	16.70%	17.46%	16.36%	15.22%	13.86%
RATIO OF TOTAL EXPENSES TO AVERAGE NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK	.84%	.85%	.87%	1.05%	.89%	.71%	.64%	.60%	.58%	.66%
RATIO OF NET INVESTMENT INCOME TO AVERAGE	7.05%	7.03%	7.38%	7.79%	8.91%	9.23%	9.41%	9.16%	9.26%	8.75%

NET ASSETS APPLICABLE TO COMMON AND PREFERRED STOCK										
PORTFOLIO TURNOVER RATE.	64.08%	61.54%	70.90%	120.47%	82.47%	38.89%	45.58%	66.74%	124.67%	108.84%

(a) *Dollars in thousands.*

(b) *The Fund issued Series C ATP on May 6, 1997 and October 17, 2003, and Series D ATP on May 20, 1998. The per share data and ratios for the years ended December 31, 1997. 1998 and 2003 reflect these transactions.*

(c) *As required, effective January 1, 2001, the Fund has adopted the provisions of the AICPA Audit and Accounting Guide for Investment Companies and began amortizing discount and premium on debt securities. This had no effect on net investment income per share and a $0.01 increase to net realized and unrealized loss per share for the year ended December 31, 2001. The effect of this change did increase the ratio of net investment income to average net assets from 16.29% to 16.70%. Per share, ratios and supplemental data for periods prior to January 1, 2001 have not been restated to reflect this change in presentation.*

* *Ratios are calculated on the basis of expenses and net investment income applicable to the Common Stock relative to the average net assets of the Common Stockholders only. The expense ratio and net investment income ratio do not reflect the effect of dividend payments (including net swap settlement receipts/payments) to preferred stockholders.*

\# *Calculation is based on average shares outstanding during the indicated period due to the per share effect of the Fund's March 1997 and February 1998 and August 2003 rights offerings.*

Total investment return is calculated assuming a purchase of common stock at the current market value on the first day and a sale at the current market value on the last day of each year reported. Dividends and distributions are assumed for purposes of this calculation to be reinvested at prices obtained under the dividend reinvestment plan. This calculation does not reflect brokerage commissions.]

Capitalization and Information Regarding Senior Securities

Capitalization. The following table sets forth the unaudited capitalization of the Fund as of March 31, 2007.

Title of Class	Amount Authorized	Amount Held by the Fund or for its Account	Amount Outstanding Exclusive of Amount Held by the Fund or for its Account
Preferred Stock, $1.00 par value	1,000,000shares	-0-shares	5,200shares
Common Stock, $0.01 par value	200,000,000shares	-0-shares	95,891,999shares

Pro Forma Capitalization. The following table sets forth the total assets and liabilities of the Fund and the net assets of the Fund as of March 31, 2007 and as adjusted to give effect to the issuance of all of the Shares offered hereby at the Estimated Subscription Price. To the extent that fewer than all of the Rights are exercised, both the increase in net assets attributable to Common Stock outstanding and the reduction in NAV per share of Common Stock would be less.

	Actual	As Adjusted
	(in thousands)	
Total Assets	$ 348,756	
Total Liabilities	5,353	
NET ASSETS REPRESENTS:		
Auction Term Preferred Stock Series A, $1.00 par value, liquidation preference $25,000 per share, 2,400 shares authorized, 1,400 shares issued and outstanding	35,000	$ 35,000
Auction Term Preferred Stock Series B, $1.00 par value, liquidation preference $25,000 per share, 1,600 shares authorized, 1,000 shares issued and outstanding	25,000	25,000
Auction Term Preferred Stock Series C, $1.00 par value, liquidation preference $25,000 per share, 2,000 shares authorized, 1,800 shares issued and outstanding	45,000	45,000
Auction Term Preferred Stock Series D, $1.00 par value, liquidation preference $25,000 per share, 2,400 shares authorized, 1,000 shares issued and outstanding	25,000	25,000
Net Assets attributable to Common Stock	$ 213,403	
REPRESENTED BY:		
Common Stock, $0.01 par value, 200,000,000 shares authorized, 95,891,999 shares issued and outstanding, [______] shares issued and outstanding as adjusted	$ 959	
Capital in excess of par value	386,400	
Accumulated net realized loss from security transactions	(178,138)	
Net unrealized appreciation on investments	2,116	
Accumulated undistributed net investment income	2,066	
NET ASSETS:	$ 213,403	
Net asset value per share of Common Stock	$ 2.23	

Senior Securities. The following table shows certain information regarding senior securities of the Fund as of the dates indicated. The information has been audited by , independent public accountants, for the fiscal years ended December 31, 2006 and 2005, and by the Fund's former independent public accountants, KPMG LLP, for the fiscal years ended December 31, 2004, 2003, and 2002, and by Arthur Andersen LLP, for the fiscal years ended December 31, 2001, 2000, 1999, 1998, and 1997. In connection with its initial public offering in February 1988, the Fund issued senior securities consisting of $105 million aggregate principal amount of 9% Senior Extendible Notes ("Notes") and $79 million (aggregate liquidation preference) of Taxable Auction Rate Preferred Stock ("TARPS"), the dividends on which were set in monthly auctions with reference to short-term interest rates. The Fund subsequently repurchased substantial amounts of these securities and by December 31, 1992 had $45.5 million aggregate principal amount of Notes and $35 million (aggregate liquidation preference) of TARPS outstanding. See "The Fund." The Notes were refinanced in January 1993 with the proceeds of a credit facility from BankBoston, N.A. (the "Credit Facility") in the aggregate principal amount of $45.5 million. The Credit Facility was repaid and the outstanding TARPS were redeemed in January 1994 with the proceeds from an offering of two series of newly authorized Auction Term Preferred Stock having an aggregate liquidation preference of $100 million plus accumulated and unpaid dividends. See "Description of Capital Stock," "The Fund" and "Financial Statements." In May 1997, May 1998 and October 2003, additional series of newly authorized Auction Term Preferred Stock, with an aggregate liquidation preference of $50, $60 and $30 million, respectively, plus accumulated and unpaid dividends were issued. In connection with maintaining asset coverage requirements for the Auction Term Preferred Stock, the Fund repurchased $50 million, $10 million, and $50 million of Auction Term Preferred Stock in fiscal 2002, 2001, and 2000, respectively.

	As of December 31,									
	2006	**2005**	**2004**	**2003**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
TOTAL AMOUNT OUTSTANDING:[1]										
Preferred Stock	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 100,000	$ 150,000	$ 160,000	$ 210,000	$ 210,000	$ 150,000
ASSET COVERAGE:										
Per Preferred Stock Share[2]	$ 65,192	$ 63,567	$ 65,801	$ 64,366	$ 57,793	$ 54,705	$ 54,989	$ 55,740	$ 57,562	$ 65,604
INVOLUNTARY LIQUIDATION PREFERENCE:										
Preferred Stock Share[3]	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
APPROXIMATE MARKET VALUE:										
Per Preferred Stock Share[3]	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000

(1) *Dollars in thousands.*

(2) *Calculated by subtracting the Fund's total liabilities (including senior securities constituting debt but not including preferred stock) from the Fund's total assets and dividing such amount by the number of shares of preferred stock outstanding.*

(3) *Plus accumulated and unpaid dividends.*

NET ASSET VALUE AND MARKET PRICE INFORMATION

The shares of Common Stock of the Fund are listed on the Exchange. The following table shows, for each quarterly period since the beginning of the 1997 fiscal year (i) the high and low NAVs per share of the Fund, (ii) the high and low sale prices per share of Common Stock, as reported on the New York Stock Exchange Composite Tape, and (iii) the largest premium (or, if applicable, smallest discount) and the largest discount (or, if applicable, the smallest premium) at which the Common Stock traded relative to the Fund's NAVs per share during the periods indicated.

	Net Asset Value		**Market Price**		**Premium (Discount) As A Percentage Of Net Asset Value***	
Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
March 31, 1997	5.10	4.79	5.13	4.75	1.10	(7.80)
June 30, 1997	5.03	4.76	5.25	4.63	4.40	(2.80)
September 30, 1997	5.15	5.02	5.38	5.00	5.20	0.20
December 31, 1997	5.19	5.04	5.75	5.06	12.70	3.80
March 31, 1998	5.21	5.04	5.69	5.06	12.85	(1.63)
June 30, 1998	5.15	4.94	5.25	5.06	4.38	0.49
September 30, 1998	4.98	4.04	5.19	3.81	11.83	2.90
December 31, 1998	4.30	3.84	4.81	3.94	13.93	4.17
March 31, 1999	4.19	4.09	4.56	4.19	9.49	2.16
June 30, 1999	4.27	4.06	4.56	4.31	9.22	2.94
September 30, 1999	4.09	3.83	4.63	3.88	12.18	2.54
December 31, 1999	3.89	3.72	4.06	3.00	4.71	(19.04)
March 31, 2000	3.81	3.52	3.31	2.94	(14.77)	(20.42)
June 30, 2000	3.54	3.44	3.38	2.88	(3.57)	(16.55)
September 30, 2000	3.56	3.37	3.69	3.31	3.86	(0.57)
December 31, 2000	3.35	2.85	3.56	2.50	6.42	(11.02)
March 31, 2001	3.15	2.90	3.50	2.69	6.61	(1.32)
June 30, 2001	3.06	2.87	3.10	2.75	4.53	(3.03)
September 30, 2001	2.93	2.54	3.06	2.32	4.84	(4.67)
December 31, 2001	2.69	2.52	2.98	2.61	15.08	3.82
March 31, 2002	2.65	2.53	2.87	2.56	7.20	2.37
June 30, 2002	2.61	2.20	2.73	2.18	10.00	1.54
September 30, 2002	2.14	1.77	2.39	1.70	7.78	(3.65)
December 31, 2002	1.95	1.66	2.37	1.55	17.89	0.00
March 31, 2003	2.01	1.91	2.28	2.02	12.44	4.55
June 30, 2003	2.19	2.05	2.34	2.14	12.62	(0.91)
September 30, 2003	2.20	2.05	2.30	1.90	(2.20)	(9.72)
December 31, 2003	2.20	2.11	2.20	1.99	(1.36)	(6.08)
March 31, 2004	2.27	2.19	2.32	2.16	2.74	(2.23)
June 30, 2004	2.21	2.08	2.29	1.70	0.91	(11.42)
September 30, 2004	2.22	2.14	2.14	1.94	(3.82)	(7.94)
December 31, 2004	2.29	2.22	2.28	2.05	(1.77)	(6.11)
March 31, 2005	2.30	2.20	2.29	1.95	(.44)	(9.42)
June 30, 2005	2.13	2.09	2.17	1.98	(.93)	(7.21)
September 30, 2005	2.20	2.16	2.25	2.12	2.29	(0.90)
December 31, 2005	2.15	2.12	2.20	1.91	0.93	(5.14)

	Net Asset Value		Market Price		Premium (Discount) As A Percentage Of Net Asset Value*	
Quarter Ended	**High**	**Low**	**High**	**Low**	**High**	**Low**
March 31, 2006	2.18	2.14	2.19	2.01	0.46	(3.27)
June 30, 2006	2.18	2.10	2.19	2.10	1.90	(3.23)
September 30, 2006	2.14	2.10	2.24	2.11	5.21	1.41
December 31, 2006	2.20	2.14	2.40	2.19	8.33	3.20
March 31, 2007	2.25	2.19	2.39	2.24	7.66	1.35

** The data shown in this column generally is as of different dates than the data appearing under "Net Asset Value" and "Market Price" and cannot be calculated from that data.*

The Fund's Common Stock has sometimes traded at a premium and sometimes at a discount to NAV. See "Risk Factors and Special Considerations Premium/Discount from Net Asset Value." At the close of business on [__________], 2007, and [__________], 2007 the Fund's NAVs per share of Common Stock were [$_____] and [$_____], respectively, while the closing market prices of a share of Common Stock on the Exchange on such dates were [$_____] and [$_____], respectively. The premiums as a percentage of NAV on such dates were [ ]% and [____]%, respectively.

THE OFFER

Terms of the Offer

The Fund is issuing to Record Date Stockholders, as of the close of business on [_________], 2007, Rights to subscribe for the Shares. Each Record Date Stockholder will receive one transferable Right for each three shares of Common Stock owned on the Record Date. No fractional Rights will be issued. The Rights entitle the holders thereof to acquire, at the Subscription Price, one Share for each Right held. Record Date Stockholders holding a number of shares of Common Stock that is not an integral multiple of three will receive one additional Right. In the case of shares held of record by Cede & Co. ("Cede"), nominee for The Depository Trust Company ("DTC"), or by any other depository or nominee, additional Rights to be received by beneficial owners for whom Cede, or any other depository or nominee is the holder of record, will be issued to Cede or such other depository or nominee only if Cede or such other depository or nominee provides to the Fund on or before the close of business on [__________], 2007, written representation as to the number of additional Rights required for such issuance. The Rights are evidenced by subscription certificates ("Subscription Certificates") which will be mailed to Record Date Stockholders, except that Subscription Certificates will not be mailed to Record Date Stockholders whose record addresses are outside the United States. See "Foreign Stockholders" below.

The Subscription Price of the Shares to be issued pursuant to the Rights will be the lower of: (i) __% of the average of the last reported sales price of a share on the Exchange on the expiration date of the Offer and on the previous nine business days, and (ii) __% of the NAV per share as of the close of business on the expiration date of the Offer. A business day is a day on which the Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in the City of New York, New York are authorized or obligated by law to close. Exercising Rightholders, including both Rightholders purchasing Shares in the Primary Subscription and those who purchase Shares pursuant to the Over-Subscription Privilege (collectively, "Exercising Rightholders"), will not know the actual Subscription Price at the time of exercise and will be required initially to pay for the Shares at the Estimated Subscription Price of [$_____] per Share. The actual Subscription Price may be more than the Estimated Subscription Price. Exercising Rightholders will have no right to rescind a purchase after receipt by the Subscription Agent of their payment for Shares.

The Fund announced its intention to make the Offer after the close of trading on the Exchange on _______, 2007. The NAVs per share of Common Stock at the close of business on [__________], 2007 and [__________], 2007 were [$_____] and [$_____], respectively, and the closing market prices per share of Common Stock on the Exchange on those dates were [$_____] and [$_____], respectively. There can be no assurance that the Subscription Price will be less than the last reported market sale price of a share of Common Stock on the Expiration Date.

Completed Subscription Certificates may be delivered to the Subscription Agent at any time during the Subscription Period, which commences on the date of this Prospectus and ends at 5:00 p.m., Eastern time, on [__________], 2007, unless extended by the Fund until a time not later than 5:00 p.m., Eastern time, on [__________], 2007. See "Expiration of the Offer" below. All Rightholders may purchase Shares in the Primary Subscription. All Rights may be exercised immediately upon receipt and until 5:00 p.m. on the Expiration Date.

Any rightholder who fully exercises all Rights held by such Rightholder in the Primary Subscription is entitled to subscribe for Shares which were not otherwise subscribed for in the Primary Subscription pursuant to the Over-Subscription Privilege. Shares acquired pursuant to the Over-Subscription Privilege may be subject to allotment, which is more fully discussed below in "Over-Subscription Privilege."

Rights may be exercised by completing the Subscription Certificate and delivering it, together with payment, to the Subscription Agent. The method by which Rights may be exercised and Shares paid for is set forth below in "Exercise of Rights" and "Payment for Shares." Interest will accrue to the benefit of the Fund on payments received by the Subscription Agent prior to the Expiration Date. An Exercising Rightholder will have no right to rescind a purchase after the Subscription Agent has received payment. See "Payment for Shares" below. Shares issued pursuant to an exercise of Rights will be listed on the Exchange.

The Rights are transferable until the Expiration Date and will be admitted for trading on the Exchange. Assuming a market for the Rights exists, the Rights may be purchased and sold through usual brokerage channels, or delivered on or before [__________], 2007 (or, if the Offer is extended, until two business days prior to the Expiration Date), to the Subscription Agent, for sale through _______. Although no assurance can be given that a market for the Rights will develop, if such a market does develop on the Exchange, trading in the Rights on the Exchange may be conducted until and including the close of trading on the last Exchange trading day prior to the Expiration Date. The method by which the Rights may be transferred is set forth below in "Sale of Rights."

There is no minimum number of Rights that must be exercised in order for the Offer to close.

The Fund believes that the distribution to Record Date Stockholders of transferable Rights, which themselves may have realizable value, will afford nonparticipating Record Date Stockholders the potential to receive a cash payment upon sale of such Rights. Stockholders who do not exercise their Rights in full will suffer a greater level of dilution of their interest in the Fund than stockholders who do. See "Risk Factors and Special Considerations Dilution and Other Investment Considerations."

The first regular monthly dividend to be paid on shares of Common Stock acquired upon exercise of Rights will be the first monthly dividend, the record date for which occurs after the issuance of such shares following the Expiration Date. It is the Fund's present policy to pay dividends on the last business day of each month to stockholders of record fourteen days prior to the payment date. Assuming that the Subscription Period is not extended beyond [__________], 2007, it is expected that the first dividend received by Rightholders acquiring shares pursuant to the Offer will be paid on the last business day of [__________], 2007. See "Dividends and Distributions; Dividend Reinvestment Plan."

Participants in the Fund's Dividend Reinvestment Plan (the "Plan") will be issued Rights for the shares of Common Stock held in their accounts in the Plan as of the Record Date. Participants wishing to exercise such Rights must exercise such Rights in accordance with the procedures set forth below in "Exercise of Rights" and "Payment for Shares" below. Such Rights will not be exercised automatically by the Plan.

For purposes of determining whether a stockholder has fully exercised such stockholder's Rights and for purposes of allotment, shares of Common Stock and Rights held of record by Cede, nominee for DTC, or any other depository or nominee will be deemed to be held by the broker-dealer on whose behalf they are held (or, if there is no broker-dealer, by the stockholder on whose behalf they are held).

Purpose of the Offer

The Fund is seeking through the Offer to allow existing stockholders of the Fund an opportunity to purchase additional Shares at a price that will be below market value without paying a brokerage commission. The Board of Directors of the Fund has determined that it would be in the best interest of the Fund and its stockholders to increase the assets of the Fund available for investment. In reaching its decision, the Board of Directors concluded that an increase in the assets of the Fund would enable the Fund to take advantage of investment and leverage opportunities. The Board also concluded that an increase in the assets of the Fund through a well-subscribed Offer could tend to reduce the Fund's expense ratio in the future, after the expenses associated with the Offer have been recouped. The Board observed that a lower expense ratio, if achieved, would be of long-term benefit to holders of Common Stock, although no assurance can be given that the Fund will in fact achieve lower expenses in the future as the Fund cannot predict with certainty its expenses over time. See "The Fund" and "Description of Capital Stock Asset Maintenance." The Board considered that a well-subscribed Offer could also tend to increase liquidity on the Exchange, where the Fund's shares of Common Stock are traded, by increasing the number of outstanding shares. In connection with its analysis, the Board also considered the effect of the Fund's four previous rights offering which were completed on July 22, 1994, March 18, 1997, March 18, 1998 and August 18, 2003. All of the rights issued by the Fund pursuant to these rights offering were exercised. As a result of the first offering, approximately 8,568,000 new shares of Common Stock were issued with the net proceeds to the Fund of approximately $35.4 million. As a result of the second offering, approximately 11,982,000 new shares of Common Stock were issued with the net proceeds to the Fund of approximately $54 million. As a result of the third offering, approximately 16,241,851 new shares of Common Stock were issued with net proceeds to the Fund of approximately $76.4 million. And as a result of the fourth offering, approximately 23,397,095 new shares of Common Stock were issued with net proceeds to the Fund of approximately $41.5 million.

In considering the Offer, the Board considered that the Offer will reduce the NAV of the Fund's Common Stock and will adversely affect any holder of Common Stock who fails or is unable to exercise his or her Rights. The Board also took note of the fact that the possible beneficial effects of the Offer would be reduced to the extent expenses associated with the Offer were high and the Offer was not well subscribed.

Reflecting the foregoing considerations, the Board has established the terms of the Offer on a basis that is intended to provide all existing stockholders with an equal opportunity to exercise Rights and to achieve full or substantial subscription. The Board has specified that Rights will be transferable in order to give non-exercising Rightholders an opportunity to receive partial compensation for the dilution they will suffer through non-exercise by selling their Rights, and has established the Subscription Price and the one-for-one exchange ratio with a view toward providing both an incentive to exercise Rights and an opportunity to obtain value for the sale of Rights. In this regard, the Board has noted that an existing stockholder who seeks to maintain rather than increase his or her investment in the Fund may, in lieu of selling Rights, sell a portion of his or her shares of the Fund sufficient to provide, after expenses including commissions, funds for the exercise of Rights. The Board has also sought to reduce costs associated with the Offer by, among other things, engaging an information agent rather than paying commissions to a broker or a dealer-manager, [and has sought to facilitate, through its arrangements with ______, the existence of an adequate trading market for Rightholders who do not exercise their Rights].

There can, of course, be no assurance that the Offer will be successful or that the objectives sought by the Board will be achieved, as in the case of any rights offer. However, following analysis and discussion of the Offer and consideration of its terms at a series of meetings, the Board of Directors has determined that the Offer, if successful, would result in a net benefit to existing stockholders. The Offer was approved unanimously by all the Directors, present and voting at a meeting of the Board of Directors at which a quorum was present and acting throughout, and by all of the Directors who are not "interested persons" of the Fund. None of the members of the Fund's Board of Directors is affiliated with the Investment Adviser. It should be noted that the Investment Adviser will benefit from the Offer because its fee is based on the Fund's average weekly NAV, which will increase as a result of the issuance of Shares in connection with the Offer. The benefit to the Investment Adviser was not a material element of the Board's deliberations.

If all of the Common Stock covered by the Rights is sold, the Fund expects that the Board of Directors will authorize the Fund to issue more ATP, so that the percentage of the Fund's assets representing leverage will be approximately the same as prior to the sale of that Common Stock. As of March 31, 2007, the Fund's leverage ratio (the ratio of the Fund's total senior securities to the sum of its total net assets and its senior securities) was approximately 38%, which would be reduced to approximately [___]% in the event all Rights are exercised and no additional leverage is incurred. The incurrence of additional leverage would reduce the investment flexibility gained by the Fund through the increase in assets that will result from the Offer. See "The Fund" and "Risk Factors and Special Considerations Leverage" for discussion of the risks and possible benefits associated with a leveraged capital structure.

The Fund may, in the future and at its discretion, choose to make additional rights offerings from time to time for a number of shares and on terms that may or may not be similar to this Offer. Any such further rights offering will be made in accordance with the Investment Company Act of 1940, as amended, (the "1940 Act").

Expiration of the Offer

The Offer will expire at 5:00 p.m., Eastern time, on [__________], 2007, unless extended by the Fund until a time not later than 5:00 p.m., Eastern time, on [__________], 2007. Rights will expire on the Expiration Date and may not be exercised thereafter.

Subscription Agent

The Subscription Agent is Colbent Corporation, [161 Bay State Drive, Braintree, Massachusetts 02184], which will receive, for its administrative, processing, invoicing and other services as subscription agent, a fee estimated to be [$______], and reimbursement for all out-of-pocket expenses related to the Offer. Questions regarding the Subscription Certificates should be directed to Colbent, 161 Bay State Drive, Braintree, Massachusetts 02184 (telephone 1-800-______). SIGNED SUBSCRIPTION CERTIFICATES SHOULD BE SENT TO COLBENT CORPORATION, attention [ ], by one of the methods described below. The Fund reserves the right to accept Subscription Certificates actually received on a timely basis at any of the addresses listed.

(1) BY FIRST CLASS MAIL:

Colbent Corporation
[161 Bay State Road
Braintree, Massachusetts 02184]

(2) BY EXPRESS MAIL OR OVERNIGHT COURIER:

Colbent Corporation
161 Bay State Road
Braintree, Massachusetts 02184

(3) BY HAND:

[ ]

DELIVERY TO AN ADDRESS OTHER THAN THE ABOVE DOES NOT CONSTITUTE GOOD DELIVERY.

Information Agent

Any questions or requests for assistance may be directed to the Information Agent at its telephone number and address listed below:

The Information Agent for the Offer is:

The Altman Group, Inc.
1275 Valley Brook Avenue
Lyndhurst, New Jersey 07071
Toll Free: 1-800-467-0609

The Information Agent will receive a fee estimated to be $12,500 and reimbursement for out-of-pocket expenses related to the Offer.

Stockholders may also contact their brokers or nominees for information with respect to the Offer.

Exercise of Rights

Rights may be exercised by filling in and signing the Subscription Certificate and mailing it in the envelope provided, or otherwise delivering the completed and signed Subscription Certificate to the Subscription Agent, together with payment for the Shares as described below under "Payment for Shares." Rightholders may also exercise Rights by contacting a broker, bank or trust company who can arrange, on behalf of the Rightholder, to guarantee delivery of payment and of a properly completed and executed Subscription Certificate. A fee may be charged for this service. Completed Subscription Certificates and full payment for the Shares subscribed for must be received by the Subscription Agent prior to 5:00 p.m., Eastern time, on the Expiration Date (unless payment is effected by means of a notice of guaranteed delivery as described below under "Payment for Shares") at one of the offices of the Subscription Agent at the addresses set forth above.

Qualified Financial Institutions that hold shares of Common Stock as nominee for the account of others should notify the respective beneficial owners of such shares as soon as possible to ascertain such beneficial owners' intentions and to obtain instructions with respect to the Rights. For purposes of this Prospectus, "Qualified Financial Institution" shall mean a registered broker-dealer, commercial bank or trust company, securities depository or participant therein, or nominee thereof. If the beneficial owner so instructs, the nominee should complete the Subscription Certificate and submit it to the Subscription Agent with the proper payment. In addition, beneficial owners of Common Stock or Rights held through such a nominee should contact the nominee and request the nominee to effect transactions in accordance with the beneficial owners' instructions.

Stockholders who are registered holders can choose between either option set forth under "Payment for Shares" below.

Over-Subscription Privilege

If Rightholders do not exercise all of the Rights held by them on Primary Subscription, any Shares for which subscriptions have not been received (the "Excess Shares") will be offered by means of the Over-Subscription Privilege to those Rightholders (including those Rightholders who acquired their Rights during the Subscription Period) who have exercised all the Rights held by them on Primary Subscription and who wish to acquire more than the number of Shares for which the Rights held by them are exercisable. Rightholders who exercise on Primary Subscription all of the Rights held by them will be asked to indicate on their Subscription Certificates how many Shares they would desire to purchase pursuant to the Over-Subscription Privilege. If sufficient Excess Shares remain as a result of unexercised Rights, all over-subscriptions will be honored in full. If sufficient Excess Shares are not available to honor all over-subscriptions, the available Shares will be allocated first among Rightholders who subscribe for an aggregate of 1,000 or fewer Shares (inclusive of Shares subscribed for by such Rightholders in the Primary Subscription). Shares remaining thereafter will be allocated among those who over-subscribe based on the number of Rights originally exercised by them in the Primary Subscription. The percentage of Excess Shares each over-subscribing Exercising Rightholder may acquire may be rounded up or down to result in delivery of whole Shares. The allocation process may involve a series of allocations in order to assure that the total number of Shares available for over-subscriptions is distributed on a pro rata basis. Each Rightholder is required to purchase all allocated Over-Subscription Shares requested on the Subscription Certificate.

The Fund will not otherwise offer or sell any Shares that are not subscribed for pursuant to the Primary Subscription or the Over-Subscription Privilege pursuant to the Offer.

Qualified Financial Institutions and other nominee holders of Rights will be required to certify to the Subscription Agent, before any Over-Subscription Privilege may be exercised as to any particular beneficial owner, as to the aggregate number of Rights exercised pursuant to the Primary Subscription and the number of Shares subscribed for pursuant to the Over-Subscription Privilege by such beneficial owner and that such beneficial owner's Primary Subscription was exercised in full.

Payment for Shares

Exercising Rightholders who acquire Shares on Primary Subscription or pursuant to the Over-Subscription Privilege may choose between the following methods of payment:

(1) An exercising Rightholder may send the Subscription Certificate, together with payment for the Shares acquired on Primary Subscription and for any additional Shares subscribed for pursuant to the Over-Subscription Privilege, to the Subscription Agent, calculating the total payment on the basis of the Estimated Subscription Price of $_____ per Share. To be accepted, such payment, together with the properly completed and executed Subscription Certificate, must be received by the Subscription Agent at one of the Subscription Agent's offices at the addresses set forth above, prior to 5:00 p.m., Eastern time, on the Expiration Date. Exercise of the Rights by this method is subject to actual collection of checks by 5:00 p.m. on the third business day after the Expiration Date. The Subscription Agent will deposit all share purchase checks and any orders received by it prior to the final payment date into a segregated interest bearing account pending proration and distribution of Shares or return of funds. All interest earned on such funds will accrue to the benefit of the Fund. A PAYMENT PURSUANT TO THIS METHOD MUST BE IN UNITED STATES DOLLARS BY MONEY ORDER OR CHECK DRAWN ON A BANK LOCATED IN THE UNITED STATES, MUST BE PAYABLE TO **THE NEW AMERICA HIGH INCOME FUND, INC.** AND MUST ACCOMPANY A PROPERLY COMPLETED AND EXECUTED SUBSCRIPTION CERTIFICATE FOR SUCH SUBSCRIPTION CERTIFICATE TO BE ACCEPTED.

THE METHOD OF DELIVERY OF SUBSCRIPTION CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO THE FUND WILL BE AT THE ELECTION AND RISK OF THE EXERCISING RIGHTHOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT SUCH CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE SUBSCRIPTION AGENT PRIOR TO 5:00 P.M., EASTERN TIME, ON THE EXPIRATION DATE AND CLEARANCE OF PAYMENT PRIOR TO 5:00 P.M., EASTERN TIME, ON THE THIRD BUSINESS DAY AFTER THE EXPIRATION DATE. BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE FIVE BUSINESS DAYS OR MORE TO CLEAR, RIGHTHOLDERS ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER.

(2) Alternatively, a subscription will be accepted by the Subscription Agent if, prior to 5:00 p.m., Eastern time, on the Expiration Date, the Subscription Agent has received a notice of guaranteed delivery by facsimile (telecopy) or otherwise from an Exchange member, a bank, a trust company, or other financial institution that is a member of the Securities Transfer Agents Medallion Program, the Stock Exchange Medallion Program or the New York Stock Exchange Medallion Signature Program, guaranteeing delivery of (i) payment of the full Subscription Price for the Shares subscribed for on Primary Subscription and any additional Shares subscribed for pursuant to the Over-Subscription Privilege, and (ii) a properly completed and executed Subscription Certificate, and, if applicable, a Nominee Holder Over-Subscription Form. The Subscription Agent will not honor a notice of guaranteed delivery if a properly completed and executed Subscription Certificate together with full payment is not received by the Subscription Agent by the close of business on the third business day after the Expiration Date.

On or before the seventh business day after the Expiration Date (the "Confirmation Date"), the Subscription Agent will send to each Exercising Rightholder (or, if shares are held by Cede or any other depository or nominee, to Cede or such other depository or nominee), a confirmation showing (i) the number of Shares purchased pursuant to the Primary Subscription and, if applicable, the Over-Subscription Privilege, (ii) the per Share and total purchase price for the Shares, (iii) any excess to be refunded by the Fund to such Rightholder as a result of payment for Shares pursuant to the Over-Subscription Privilege that the Rightholder is not acquiring and (iv) any additional amount payable by such Rightholder to the Fund or any excess to be refunded by the Fund to such Rightholder, in each case, based on the actual Subscription Price as determined on the Expiration Date. Any additional payment required from Rightholders must be received by the Subscription Agent within seven business days after the Confirmation Date. Any excess payment to be refunded by the Fund to a Rightholder will be mailed by the Subscription Agent as promptly as practicable. **An Exercising Rightholder will have no right to rescind a purchase after the Subscription Agent has received payment, either by means of a notice of guaranteed delivery or a check. See "Delivery of Share Certificates" below.**

Whichever of the two methods described above is used, issuance of the Shares purchased is subject to collection of checks and actual full payment. If a Rightholder who subscribes for Shares pursuant to the Primary Subscription or Over-Subscription Privilege does not make payment of any amounts due, the Subscription Agent reserves the right to take any or all of the following actions: (i) find other stockholders for such subscribed and unpaid for Shares; (ii) apply any payment actually received by it toward the purchase of the greatest whole number of Shares which could be acquired by such holder upon exercise of the Primary Subscription and/or Over-Subscription Privilege, and/or (iii) exercise any and all other rights or remedies to which it may be entitled, including, without limitation, the right to set off against payments actually received by it with respect to such subscribed Shares.

All questions concerning the timeliness, validity, form and eligibility of any exercise of Rights will be determined by the Subscription Agent, whose determinations will be final and binding. The Subscription Agent, in its sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as it may determine, or reject the purported exercise of any Right. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as the Subscription Agent determines in its sole discretion. The Subscription Agent will not be under any duty to give notification of any defect or irregularity in connection with the submission of Subscription Certificates or incur any liability for failure to give such notification.

Sale of Rights

Sales through Subscription Agent. Rightholders who do not wish to exercise any or all of their Rights may instruct the Subscription Agent to sell any unexercised Rights. Subscription Certificates representing the Rights to be sold by the Subscription Agent must be received by the Subscription Agent prior to __________, 2007 (or if the Offer is extended, until two business days prior to the Expiration Date). Upon the timely receipt by the Subscription Agent of appropriate instructions to sell Rights, the Subscription Agent will use its reasonable best efforts to complete the sale; and the Subscription Agent will remit the proceeds of sale, net of any commissions, to the Rightholders. No brokerage commissions will be charged to holders in connection with any sale of fewer than 100 Rights who elect to direct the Subscription Agent to sell such Rights in whole but not in part. Any commission on sales of 100 Rights or more will be paid by the selling Rightholders. If the Rights can be sold, sales of such Rights will be deemed to have been effected at the weighted-average price received by the Subscription Agent on the day such Rights are sold. The Subscription Agent will also attempt to sell all Rights which remain unclaimed as a result of Subscription Certificates being returned by the postal authorities to the Subscription Agent as undeliverable as of the fourth business day prior to the Expiration Date. Such sales will be made net of commissions on behalf of the nonclaiming stockholders. The Subscription Agent will hold the proceeds from those sales for the benefit of such nonclaiming stockholders until such proceeds are either claimed or become subject to escheat. There can be no assurance that the Subscription Agent will be able to complete the sale of any such Rights, and neither the Fund nor the Subscription Agent has guaranteed any minimum sales price for the Rights. All such Rights will be sold at the market price, if any, on the Exchange.

Other Transfers. The Rights are transferable on the Exchange until the close of business on the last business day prior to the Expiration Date. The Rights evidenced by a single Subscription Certificate may be transferred in whole or in part by delivering to the Subscription Agent a Subscription Certificate properly endorsed for transfer, with instructions to register such portion of the Rights evidenced thereby in the name of the transferee and to issue a new Subscription Certificate to the transferee evidencing such transferred Rights. In such event, a new Subscription Certificate evidencing the balance of the Rights will be issued to the transferring Rightholder or, if the transferring Rightholder so instructs, to an additional transferee.

Except for the fees charged by the Subscription Agent and brokerage commissions on the sale of fewer than 100 Rights (which will be paid by the Fund as described above), all commissions, fees and other expenses (including brokerage commissions and transfer taxes) incurred in connection with the purchase, sale or exercise of Rights will be for the account of the transferor of the Rights and none of such commissions, fees or expenses will be paid by the Fund or the Subscription Agent.

The Fund anticipates that the Rights will be eligible for transfer through, and that the exercise of the Primary Subscription and the Over-Subscription Privilege may be effected through, the facilities of DTC.

Delivery of Share Certificates

Participants in the Fund's Dividend Reinvestment Plan will have any Shares acquired with respect to Shares held in their stockholder dividend reinvestment accounts in the Plan on Primary Subscription and pursuant to the Over-Subscription Privilege credited to such accounts. Stockholders whose Shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have any Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege credited to the account of Cede or such other depository or nominee. With respect to all other stockholders, certificates for all Shares acquired on Primary Subscription and pursuant to the Over-Subscription Privilege will be mailed within nine business days after the Confirmation Date and after full payment for the Shares subscribed for has been received and cleared, which clearance may take up to fifteen days from the date of receipt of the payment.

Foreign Stockholders

Subscription Certificates will not be mailed to Record Date Stockholders whose record addresses are outside the United States (the term "United States" includes the states, the District of Columbia, and the territories and possessions of the United States) ("Foreign Record Date Stockholders"). The Rights to which such Subscription Certificates relate will be held by the Subscription Agent for such Foreign Record Date Stockholders' accounts until instructions are received to exercise, sell or transfer the Rights. If no instructions have been received by 12:00 noon, Eastern time, three business days prior to the Expiration Date regarding the Rights of those Foreign Record Date Stockholders, the Subscription Agent will use its reasonable best efforts to sell the Rights of those Foreign Record Date Stockholders on the Exchange. The net proceeds, if any, from the sale of those Rights will be remitted to the Foreign Record Date Stockholders.

Federal Income Tax Consequences of the Offer

The U.S. federal income tax consequences to holders of Common Stock with respect to the Offer will be as follows:

1. The distribution of Rights to Record Date Stockholders will not result in taxable income to such holders nor will such holders realize taxable income as a result of the exercise of the Rights.

2. The basis of a Right will be (a) to a holder of Common Stock to whom it is issued and who exercises or sells the Right (i) if the fair market value of the Right immediately after issuance is less than 15%

of the fair market value of the Common Stock with regard to which it is issued, zero (unless the holder elects, by filing a statement with his timely filed federal income tax return for the year in which the Rights are received, to allocate the basis of the Common Stock between the Right and the Common Stock based on their respective fair market values immediately after the Right is issued), and (ii) if the fair market value of the Right immediately after issuance is 15% or more of the fair market value of the Common Stock with regard to which it is issued, a portion of the basis in the Common Stock based upon the respective fair market values of the common stock and the Right immediately after the Right is issued; (b) to a holder of Common Stock to whom it is issued and who allows the Right to expire, zero; and (c) to anyone who purchases a Right in the market, the purchase price for a Right.

3. The holding period of a Right received by a Record Date Stockholder includes the holding period of the Common Stock with regard to which the Right is issued.

4. Any gain or loss on the sale of a Right will be treated as a capital gain or loss if the Right is a capital asset in the hands of the seller. Such a capital gain or loss will be long- or short- term, depending on how long the Right has been held, in accordance with paragraph 3 above. A Right issued with regard to Common Stock will be a capital asset in the hands of the person to whom it is issued if the Common Stock was a capital asset in the hands of that person. If a Right is allowed to expire, there will be no loss realized unless the Right had been acquired by purchase, in which case there will be a loss equal to the basis of the Right.

5. If the Right is exercised by the Record Date Stockholder, the basis of the Common Stock received will include the basis, if any, allocated to the Right and the amount paid upon exercise of the Right.

6. If the Right is exercised, the holding period of the Common Stock acquired begins on the date the Right is exercised.

The Fund is required to withhold and remit to the U.S. Treasury at a current rate of 28% on reportable payments paid on an account if the holder of the account provides the Fund with either an incorrect taxpayer identification number or no number at all or fails to certify that the taxpayer is not subject to such withholding.

The foregoing is only a summary of applicable federal income tax laws and does not include any state or local tax consequences of the Offer. Rightholders should consult their own tax advisers concerning the tax consequences of this transaction. See "Taxation."

Considerations for Certain Tax-Deferral Arrangements and Employee Plans

Special considerations apply with respect to Record Date Stockholders that are tax-deferral arrangements such as plans qualified under Section 401(a) of the Internal Revenue Service Code of 1986, as amended ("Code") (including retirement and 401(k) plans and Keogh plans of self-employed individuals), individual retirement accounts under Section 408(a) of the Code ("IRAs"), Roth IRAs under section 408A of the Code, and custodial accounts under Section 403(b) of the Code (collectively, "Plans"). For example, additional contributions to a Plan (other than permitted rollover contributions or trustee-to-trustee transfers from other Plans) in order to exercise Rights, when taken together with other contributions made to the Plan, may exceed limits under the Code, resulting in (among other things) excise taxes for excess or nondeductible contributions or the Plan's loss of its tax-favored status. Furthermore, the sale or transfer of Rights by a plan may be treated as a distribution or result in other adverse tax consequences.

Plans and other tax exempt entities should also be aware that if they borrow in order to finance their exercise of Rights, they may become subject to the tax on unrelated business taxable income ("UBTI") under Section 511 of the Code. If any portion of an IRA or Roth IRA is used as security for a loan, the portion so used is also treated as distributed to the IRA or Roth IRA depositor, which may result in current income taxation and penalty taxes.

Certain Plans may be subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), which is a broad statutory framework that governs most employer-maintained retirement plans ("ERISA Plans") and imposes certain fiduciary obligations on the persons who manage such plans ("Fiduciaries"). In determining whether to exercise or transfer Rights, Fiduciaries of Record Date Stockholders that are ERISA Plans must determine that such actions are consistent with their fiduciary duties under ERISA and do not result in transactions which are prohibited under Section 406 of ERISA. Further, Record Date Stockholders which are Plans that are subject to Section 4975 of the Code must determine that the exercise or transfer of Rights does not result in transactions which are prohibited and subject to excise taxes under Section 4975 (under rules which generally parallel the prohibited transaction provisions of Section 406 of ERISA). Employee benefit plans that are not ERISA Plans (such as governmental plans) may be subject to state law restrictions that could affect the decision to exercise or transfer Rights.

The Fund is an investment company registered under the 1940 Act, and intends to continue to qualify as such. Therefore, under ERISA, the assets of an ERISA Plan which is a stockholder of the Fund will include only the equity interest owned by such ERISA Plan and not the underlying assets of the Fund. The Investment Adviser will therefore not be a Fiduciary with respect to stockholders which are ERISA Plans and the operation of the Fund will not be subject to ERISA.

Due to the complexity of the foregoing rules and the taxes, penalties, and potential liability for noncompliance, stockholders which are Plans should consult with their counsel and other advisors before their exercise or transfer of Rights.

Notice of Net Asset Value Decline

The Fund has, as required by the staff of the Commission, undertaken to suspend the Offer until it amends this Prospectus if subsequent to ______, 2007, the effective date of the Fund's Registration Statement, the Fund's NAV declines more than 10% from its NAV as of that date. In such event, the Fund will notify stockholders of any such decline and thereby permit them to cancel their exercise of Rights.

USE OF PROCEEDS

The Fund anticipates investing substantially all of the net proceeds from the Offer in accordance with the Fund's investment objective and policies described below. See "Investment Objective and Policies." Assuming all Shares offered hereby are sold at the Estimated Subscription Price of $_____ per Share, the net proceeds of the Offer are estimated to be approximately $________ (after deducting offering expenses payable by the Fund estimated at approximately $________). The Fund anticipates that investment of such net proceeds will take up to [three months] from their receipt by the Fund, depending on market conditions and the availability of appropriate securities, but in no event will such investment take longer than six months. Pending such investment in accordance with the Fund's investment objective and policies, the proceeds will be held in U.S. Government securities (which include obligations of the United States Government and its agencies and instrumentalities) and other high-quality, short-term money market instruments.

THE FUND

The New America High Income Fund, Inc. is a diversified, closed-end management investment company with a leveraged capital structure. T. Rowe Price currently serves as the Fund's investment adviser. The Fund's investment objective is to provide high current income, while seeking to preserve stockholders' capital, through investment in a professionally managed, diversified portfolio of "high-yield" fixed-income securities, commonly known as "junk bonds."

The Fund invests primarily in "high-yield" fixed-income securities rated in the lower categories by established rating agencies, consisting principally of fixed income securities rated BB or lower by Standard and Poor's Corporation ("S&P") or Ba or lower by Moody's, and, subject to applicable rating agency guidelines (see "Rating Agency Guidelines"), non-rated securities deemed by the Investment Adviser to be of comparable quality. See "Investment Objective and Policies" and "Management of the Fund   The Investment Adviser." The fixed-income securities in which the Fund invests are regarded by the rating agencies, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. Such securities may also be subject to greater market price fluctuations than lower-yielding, higher-rated debt securities; credit ratings do not reflect this market risk.

The Fund is subject to various portfolio diversification and related asset coverage requirements under guidelines established by Moody's and Fitch in connection with such rating agencies' issuance of ratings of Aaa and AAA, respectively, with respect to the Fund's ATP. These guidelines require specific asset coverage ratios to be maintained on the basis of the discounted values of eligible securities in the Fund's portfolio, which discounts are directly correlated to the ratings assigned to the securities. The guidelines generally cause the Fund to invest in higher-quality assets and/or to maintain relatively substantial balances of highly liquid assets than would otherwise be the case in order to remain in compliance with applicable asset coverage requirements. See "Investment Objective and Policies," "Rating Agency Guidelines," "Risk Factors and Special Considerations   Leverage" and "Description of Capital Stock   Asset Maintenance." An investment in the Fund involves a number of significant risks, which are increased due to the Fund's leveraged capital structure, and no assurance can be given that the Fund will achieve its investment objective. See "Risk Factors and Special Considerations."

The Fund has had a leveraged capital structure since its inception. Through the use of leverage, the Fund seeks to increase dividend yields to holders of Common Stock over those that would be available in the absence of leverage by investing in securities which pay interest at a higher rate than the rates of required dividend payments on its outstanding ATP after related expenses. By issuing senior securities having a Aaa/AAA rating and agreeing to various portfolio diversification guidelines established by the relevant rating agencies in connection therewith, the Fund seeks to obtain a lower cost of leverage than it believes would be available with lower-rated or unrated senior securities. However, the use of leverage can, under certain circumstances, adversely affect the Fund's performance and generally will cause the NAV of the Common Stock to decline more rapidly when the value of portfolio holdings declines than would be the case for an unleveraged fund. The asset coverage requirements applicable to the Fund's senior securities affect the management of its portfolio, as described in the preceding paragraph. Also, in the event of a decline in the value of the Fund's portfolio securities, the Fund may be forced to redeem or repurchase senior securities in order to reduce investment leverage and thereby remain in compliance with applicable asset coverage requirements, which may require the liquidation of portfolio securities at prices below the prices at which they were purchased. Events such as increases in short-term interest rates, which increase the dividends required to be paid on the Fund's outstanding ATP, or increases in expenses associated with the ATP, will, absent a corresponding increase in the rate of return of portfolio holdings or a decrease in other expenses, result in a decrease in dividends paid to holders of Common Stock. See "Risk Factors and Special Considerations   Leverage," "Investment Objective and Policies" and "Description of Capital Stock."

The Fund's performance since inception illustrates the significant risks (and potential rewards) associated with investing in "high-yield, high-risk" securities on a leveraged basis. The Fund commenced operations in 1988 with total assets of $396,386,000, a NAV per share of Common Stock of $9.25 and outstanding senior securities of $184 million. At December 31, 1997, the Fund's total net assets were $393,625,000, NAV per share of Common Stock was $5.03 and outstanding senior securities aggregated $150 million. Cumulative total investment return for an investment in Common Stock for the one-, three- and five-year periods ended December 31, 1997 was 21.97%, 95.22% and 140.97%, respectively. At December 31, 2002, the Fund's total net assets were $231,170,000, NAV per share of Common Stock was $1.89 and outstanding senior securities aggregated $100 million. Cumulative total investment return for an investment in Common Stock for the one-, three- and five- year periods ended December 31, 2002 was -12.97%, -4.62% and -32.76%, respectively. At December 31, 2006, the Fund's total assets were $338,999,000, NAV per Share of Common Stock was $2.19 and outstanding senior securities aggregated $130 million. Cumulative total investment return for an investment in Common Stock for the one-, three- and five- year periods ended December 31, 2006 was 22.82%, 41.96%, and 47.31%, respectively. Past performance is no guarantee of future results.

Existing Leverage

In May 1997, May 1998 and October 2003, the Fund issued three additional series of ATP having an aggregate liquidation preference of $50 million, $60 million and $30 million, respectively, plus accumulated and unpaid dividends and no credit enhancement. In connection with maintaining asset coverage requirements for the ATP, the Fund repurchased $50 million, $10 million and $50 million of ATP in fiscal 2002, 2001, and 2000, respectively. Dividends on all series of the ATP are established in periodic auctions generally held every twenty-eight days (subject to the right of the Fund to establish longer or shorter dividend periods), and generally reflect short-term interest rates during short-term dividend periods. See "Description of Capital Stock Dividends and Dividend Periods."

The Fund has an interest payment swap arrangement with Fleet National Bank ("Fleet"). The aggregate effect of this arrangement is to hedge the Fund's dividend payment obligations with respect to the ATP. Pursuant to the Swap Arrangement, the Fund makes payments to Fleet on a monthly basis at a fixed annual rate. In exchange for such payment, Fleet makes payments to the Fund on a monthly basis at a variable rate determined with reference to the level of short-term interest rates from time to time. See "Description of Capital Stock."

The Fund is registered under the 1940 Act and was organized as a corporation under the laws of the State of Maryland on November 19, 1987. The Fund's address is 33 Broad Street, Boston, Massachusetts 02109, and its telephone number is (617) 263-6400. The Investment Adviser's address is 100 E. Pratt Street, Baltimore, Maryland 21202, and its telephone number is 1-410-345-2000.

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide high current income, while seeking to preserve stockholders' capital, through investment in a professionally managed, diversified portfolio of "high-yield" fixed-income securities, commonly known as "junk bonds." The Fund's investment objective and the restrictions described below under "Investment Restrictions" are fundamental policies and thus may not be changed without the affirmative vote of the holders of a majority of the outstanding shares of the Fund's Common Stock and a majority of the outstanding shares of the ATP, voting as separate classes, which means for each class the lesser of (a) more than 50% of such class or (b) 67% or more of such class present at a meeting at which more than 50% of the outstanding shares of such class are present or represented by proxy.

No assurance can be given that the Fund will attain its investment objective. Because of the high-risk nature and price volatility of the Fund's investments, as well as the Fund's leveraged structure, it may be difficult to achieve capital preservation on a consistent basis. Specifically, the Fund's cumulative total investment returns for an investment in Common Stock for one-, three- and five- year periods ended December 31, 2006 were 22.82%, 41.96% and 47.31%, respectively. See "The Fund" and "Risk Factors and Special Considerations."

Investment Strategy

The policies described below may be changed by the Fund without the approval of the Fund's stockholders.

The Fund seeks to achieve its investment objective by investing primarily in "high-yield" fixed-income securities rated in the lower categories by recognized rating agencies, consisting principally of fixed-income securities rated Ba or lower by Moody's or BB or lower by S&P and, subject to applicable rating agency guidelines, (see "Rating Agency Guidelines") non-rated securities deemed by the Investment Adviser to be of comparable quality. Because non-rated securities are not eligible for inclusion in the calculation of the discounted value of the Fund's assets under the current rating agency guidelines to which the Fund is subject, however, it is not presently anticipated that such securities will comprise a significant percentage of the Fund's investments, although the Fund reserves full flexibility in this regard. See "Rating Agency Guidelines." Under normal market conditions, the Fund will have at least 80% of its net assets, plus the amount of any borrowings for investment purposes, invested in securities rated BB or lower by S&P or Ba or lower by Moody's or non-rated securities deemed by the Investment Adviser to be of comparable quality. This policy may not be changed without providing stockholders with sixty days' notice. The average maturity of the Fund's portfolio is expected to be between six and ten years. The dollar weighted average of credit ratings of all bonds held by the Fund at March 31, 2007, computed on a monthly basis, is set forth below. This information reflects the average composition of the Fund's assets and is not necessarily representative of the Fund as of the current fiscal year or at any other time in the future.

Moody's Rating	**Percentage of Portfolio**
Aa	
A	
Baa	1.10%
Ba	27.98%
B	57.32%
Caa	11.96%
Ca	
C	
NR	1.64%
Total	100.00%

As of March 31, 2007, the weighted average maturity of the Fund's portfolio was approximately 7.20 years.

The Fund's portfolio reflects requirements established by Moody's and Fitch in connection with the issuance by such agencies of investment grade ratings for the Fund's ATP (referred to herein as the "Rating Agency Guidelines"). These guidelines relate, among other things, to industry and credit quality characteristics of issuers and specify various "discount factors" for debt securities (with the level of discount greater as the rating of a security becomes lower). Under the Rating Agency Guidelines, certain types of securities in which the Fund may otherwise invest consistent with its investment strategy are not eligible for inclusion in the calculation of the discounted value of the Fund's portfolio. Such instruments include, for example, securities rated CC/Ca or lower by the Rating Agencies, non-rated securities, private placements, non-U.S. securities, preferred or common stock, zero coupon or similar securities that do not provide for the periodic payment of interest in cash and other securities not within the investment guidelines. Accordingly, although the Fund reserves the right to invest in such securities to the extent set forth herein, they have not and it is anticipated that they will not constitute a significant portion of the Fund's portfolio. See "Rating Agency Guidelines."

The Rating Agency Guidelines require that the Fund maintain assets having an aggregate discounted value, determined on the basis of the guidelines, greater than the aggregate liquidation preference of the ATP plus specified liabilities, payment obligations and other amounts, as of periodic valuation dates. The Rating Agency Guidelines also require the Fund to maintain asset coverage for the ATP on a non-discounted basis of at least 200% as of the end of each month, and the 1940 Act requires such asset coverage as a condition to paying dividends on Common Stock. See "Description of Capital Stock Asset Maintenance." The effect of compliance with these guidelines may be to cause the Fund to invest in higher-quality assets and/or to maintain relatively substantial balances of highly liquid assets or to restrict the Fund's ability to make certain investments that would otherwise be deemed potentially desirable by the Investment Adviser, including private placements of other than

Rule 144A Securities as defined below, and to limit or delay the Fund's ability to reinvest cash in a rising "high-yield" market. See "The Fund" and "Risk Factors and Special Considerations Leverage." The Rating Agency Guidelines are subject to change from time to time with the consent of the relevant rating agency and would not apply if the Fund in the future elected not to use investment leverage consisting of senior securities rated by one or more rating agencies, although other similar arrangements might apply with respect to other senior securities that the Fund may issue.

There is no minimum rating requirement applicable to the fixed-income securities which may be acquired by the Fund. However, compliance with the Rating Agency Guidelines, under which securities rated below CCC/Caa are not eligible for inclusion in the calculation of the discounted value of the Fund's assets and other lower-rated securities are heavily discounted in such calculation, may have the effect of precluding or limiting investments in such issues.

"High-yield" bonds, the generic name for corporate bonds rated between BB/Ba and C/C by the Rating Agencies, are frequently issued by corporations in the growth stage of their development. Bonds which are rated BB/Ba, B/B, CCC/Caa, CC/Ca and C/C are regarded by the rating agencies, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligations. Such securities are also generally considered to be subject to greater risk than securities with higher ratings with regard to a deterioration of general economic conditions. Further information concerning the ratings of corporate bonds, including the rating categories of Moody's, Fitch and S&P is provided in Appendix A. "High-yield" securities held by the Fund may include securities received as a result of a corporate reorganization or issued as part of a corporate takeover. Securities issued to finance corporate restructurings may have special credit risks due to the highly leveraged conditions of the issuers, and such securities are usually subordinate to other securities issued by the issuer. In addition, such issuers may lose experienced management as a result of the restructurings. Finally, the market price of such securities may be more volatile to the extent that expected benefits from restructuring do not materialize.

Fixed-income securities which the Fund has the right to acquire include preferred stocks (limited to 20% of the Fund's total assets and subject to compliance with the Rating Agency Guidelines as described above) and all types of debt obligations having varying terms with respect to security or credit support, subordination, purchase price, interest payments and maturity. Such obligations may include, for example, bonds, debentures, notes, mortgage or other asset-backed instruments, equipment lease certificates, equipment trust certificates, conditional sales contracts, commercial paper, zero coupon securities and obligations issued or guaranteed by the United States government or any of its political subdivisions, agencies or instrumentalities (including obligations, such as repurchase agreements, secured by such instruments). Most debt securities in which the Fund will invest will bear interest at fixed rates. However, the Fund reserves the right to invest without limitation in fixed-income securities that have variable rates of interest or involve equity features, such as contingent interest or participations based on revenues, sales or profits (i.e., interest or other payments, often in addition to a fixed rate of return, that are based on the borrower's attainment of specified levels of revenues, sales or profits and thus enable the holder of the security to share in the potential success of the venture). The Fund also has the right to acquire common stock as part of a unit in connection with the purchase of debt securities consistent with the Fund's investment policies, although such investments are not eligible for inclusion in the calculation of the Fund's discounted value under the Rating Agency Guidelines.

The Fund may invest up to 20% of its total assets in illiquid securities (determined as of the time of investment). Securities that are eligible for resale under Rule 144A of the Securities Act of 1933, as amended, ("Rule 144A") are not included in this 20% limitation. Illiquid securities are defined by the Commission as those that cannot be sold in the ordinary course of business within seven days at approximately the value assigned to them by the Fund. Illiquid securities may offer higher yields than comparable publicly traded securities, but the Fund may not be able to sell these securities when the Investment Adviser considers it desirable to do so. Illiquid securities are generally eligible for inclusion in the discounted value of the portfolio for purposes of the Rating

Agency Guidelines of Moody's or Fitch in effect as of the date of this Prospectus, provided they are eligible for resale under Rule 144A ("Rule 144A Securities"). See "Rating Agency Guidelines."

The Fund is permitted to invest up to 20% of its total assets in zero coupon securities, although such securities also may not be included in calculating the discounted value of the Fund's portfolio under the Rating Agency Guidelines. Zero coupon securities pay no cash income but are purchased at a discount from their value at maturity. When held to maturity, their entire return comes from the difference between their purchase price and their maturity value. There may be special tax considerations associated with investing in securities structured as deferred interest, zero coupon or payment-in-kind securities. The Fund records the interest on these securities as income even though it receives no cash interest until each security's maturity date. The Fund will be required to distribute all or substantially all such amounts annually and may have to obtain the cash to do so by selling securities. Thus, to meet cash distribution obligations, the Fund may be required to liquidate a portion of its assets, which it would otherwise continue to hold, at a disadvantageous time. These distributions will be taxable to stockholders as ordinary income. In the case of securities structured as deferred interest, zero coupon or payment-in-kind securities, the market prices of such securities are affected to a greater extent by interest rate changes and, therefore, tend to be more volatile than securities which pay interest periodically and in cash.

The Fund may invest in U.S. dollar-denominated bonds sold in the United States by non-U.S. issuers ("Yankee bonds").

Notwithstanding any of the foregoing, when market conditions warrant a temporary defensive investment strategy, including when it is necessary to maintain compliance with the Rating Agency Guidelines (under which the Fund's ability to invest in lower-rated securities having relatively low discounted values may be restricted, particularly as the market values of portfolio holdings decline), the Fund may invest without limitation in money market instruments, including rated and (subject to compliance with the Rating Agency Guidelines) unrated commercial paper of domestic and foreign corporations, certificates of deposit, bankers' acceptances and other obligations of banks, repurchase agreements and short-term obligations issued or guaranteed by the United States government or its instrumentalities or agencies. The yield on these securities will tend to be lower than the yield on other securities to be purchased by the Fund. The Fund may also invest in securities rated higher than Ba by Moody's or BB by S&P or non-rated fixed-income securities of comparable quality when the difference in yields between quality classifications is relatively narrow or for temporary defensive purposes, including maintenance of applicable asset coverage requirements, when the Investment Adviser anticipates adverse market conditions. Investments in higher-rated issues may serve to lessen a decline in NAV but may also affect the amount of current income produced by the Fund, since the yields from such issues are usually lower than those from lower-rated issues.

As noted herein, the Fund has had a leveraged capital structure since its inception and, as of March 31, 2007, had outstanding 5,200 shares of preferred stock issued in four series, the ATP, having an aggregate liquidation preference of $130 million plus accumulated and unpaid dividends. The ATP is subject to optional redemption by the Fund. The Fund is required to redeem the ATP in whole or in part in the event the Fund fails to satisfy applicable asset coverage requirements and is required to redeem the ATP in whole in the event the Fund fails to maintain the Aaa/AAA Credit Rating (as defined below) for the ATP and such rating is not restored on a timely basis. See "Description of Capital Stock Mandatory Redemption." The Aaa/AAA Credit Rating is a rating for the ATP in the highest rating category of any two nationally recognized statistical rating organizations (as used in the Securities Exchange Act of 1934, as amended), one of which must be Moody's or S&P. Any such redemption will result in a loss of investment leverage and a reduction in Fund income, the effect of which will be borne exclusively by the holders of Common Stock. See "The Fund."

Investment Restrictions

The following investment restrictions are fundamental policies of the Fund, and may not be amended without the affirmative vote of the holders of a majority of the outstanding shares of the Fund's Common Stock and a majority of the outstanding shares of the ATP, voting as separate classes, which means for each class the lesser of (a) more than 50% of such class or (b) 67% or more of such class present at a meeting at which more than 50% of the outstanding shares of such class are present or represented by proxy. Under these restrictions, the Fund may not:

1. Borrow money (through reverse repurchase agreements or otherwise) or issue senior securities, except as permitted by Section 18 of the 1940 Act.

2. Pledge, hypothecate, mortgage or otherwise encumber its assets, except to secure borrowings permitted by restriction 1 above. Collateral arrangements with respect to margins for futures contracts and options are not deemed to be pledges or other encumbrances for purposes of this restriction.

3. Purchase securities on margin, except such short-term credits as may be necessary for the clearance of purchases and sales of securities and except that the Fund may make margin payments in connection with transactions in futures contracts and options.

4. Make short sales of securities or maintain a short position for the account of the Fund unless at all times when a short position is open the Fund owns an equal amount of such securities or owns securities which, without payment of any further consideration, are convertible into or exchangeable for securities of the same issue as, and in equal amount to, the securities sold short.

5. Underwrite securities issued by other persons except to the extent that, in connection with the disposition of its portfolio investments, the Fund may be deemed to be an underwriter under the federal securities laws.

6. Purchase or sell real estate (including real estate mortgage loans), although the Fund may purchase securities of issuers that deal in real estate, securities that are secured by interests in real estate and securities representing interests in real estate.

7. Purchase or sell commodities or commodity contracts, except that the Fund may purchase or sell financial futures contracts and related options.

8. Make loans, except by purchase of debt obligations in which the Fund may invest consistently with its investment policies, by entering into repurchase agreements with respect to not more than 25% of the value of its total assets, or through the lending of its portfolio securities with respect to not more than one-third of the value of its total assets.

9. Acquire more than 10% of the voting securities of any issuer.

10. Invest more than 25% of the value of its total assets in any one industry, provided that this limitation does not apply to obligations issued or guaranteed as to interest and principal by the United States government or its agencies or instrumentalities.

11. Buy or sell oil, gas or other mineral leases, rights or royalty contracts, although the Fund may purchase securities of issuers which deal in, represent interests in or are secured by interests in such leases, rights or contracts.

12. Make investments for the purpose of exercising control or management over the issuer of any security.

The Fund also will be subject to certain investment restrictions so long as the ATP remains outstanding, which may prohibit or limit certain practices that are otherwise authorized. See "Certain Investment Practices" below and "Rating Agency Guidelines."

Certain Investment Practices

The Fund and the Investment Adviser reserve the right to engage in certain investment practices described below in order to help achieve the Fund's investment objective. So long as the ATP is outstanding, the Fund may not utilize certain of the practices described below, such as entering into swap agreements, the making of securities loans and buying or selling futures contracts and options thereon, unless the Fund receives written confirmation from Moody's, Fitch or any other rating agency which is then rating the ATP and which so requires, that any such action will not impair the Aaa/AAA Credit Rating. Further, the Rating Agency Guidelines limit or have the effect of limiting the Fund's use of other investment practices described below, such as investments in non-U.S. securities, private placements (except Rule 144A Securities as discussed below) and options, to the extent such investments are not eligible for inclusion in the discounted value of the Fund's portfolio or the Rating Agency Guidelines specify terms and restrictions on such investments.

Rating Agency Restrictions. While the Fund has reserved the right to employ the investment practices described below, for so long as any of the ATP is outstanding and either Moody's or Fitch is rating the ATP, the Fund will not, unless it has received written confirmation from Moody's and/or Fitch, as applicable, that any such action would not impair the respective rating then assigned by Moody's or Fitch to the ATP, engage in any one or more of the following transactions: (i) purchase or sell futures contracts or options thereon with respect to portfolio securities or write unsecured put or uncovered call options on portfolio securities, engage in options transactions involving cross-hedging, or enter into any swap arrangement, other than the arrangement described herein for which the Fund has obtained consent of Moody's and Fitch; (ii) borrow money, except that the Fund may, without obtaining the written confirmation described above, borrow money for the purpose of clearing securities transactions; provided that the ATP Basic Maintenance Amount (as defined below under "Description of Capital Stock") would continue to be satisfied after giving effect to such borrowing and if the borrowing matures in not more than sixty days and is non-redeemable; (iii) except in connection with a refinancing of the ATP, issue any class or series of stock ranking prior to or on a parity with the ATP with respect to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Fund, or reissue any shares of ATP previously purchased or redeemed by the Fund; (iv) engage in any short sales of securities; (v) lend portfolio securities; or (vi) merge or consolidate into or with any other corporation.

Repurchase Agreements. The Fund may enter into repurchase agreements on up to 25% of the value of its total assets. A repurchase agreement is a contract under which the Fund acquires a security for a relatively short period (usually not more than one week) subject to the obligation of the seller to repurchase and the Fund to re-sell such security at a fixed time and price (representing the Fund's cost plus interest). It is the Fund's present intention to enter into repurchase agreements only with commercial banks and registered broker-dealers and only with respect to obligations of the United States government or its agencies or instrumentalities. Repurchase agreements may also be viewed as loans made by the Fund which are collateralized by the securities subject to repurchase. The Investment Adviser will monitor such transactions to ensure that the value of the underlying securities will be at least equal at all times to the total amount of the repurchase obligation, including the interest factor. If the seller defaults, the Fund could realize a loss on the sale of the underlying security to the extent that the proceeds of sale including accrued interest are less than the resale price provided in the agreement including interest. In addition, if the seller should be involved in bankruptcy or insolvency proceedings, the Fund may incur delay and costs in selling the underlying security or may suffer a loss of principal and interest if the Fund is treated as an unsecured creditor and required to return the underlying collateral to the seller's estate.

Reverse Repurchase Agreements. The Fund may enter into reverse repurchase agreements with respect to debt obligations which could otherwise be sold by the Fund. A reverse repurchase agreement is an instrument under which the Fund may sell an underlying debt instrument and simultaneously obtain the commitment of the purchaser (a commercial bank or a broker or dealer) to sell the security back to the Fund at an agreed upon price on an agreed upon date. The value of underlying securities will be at least equal at all times to the total amount of the resale obligation, including the interest factor. The Fund receives payment for such securities only upon physical delivery or evidence of book entry transfer by its custodian. Securities sold by the Fund under a reverse repurchase agreement must be either segregated pending repurchase or the proceeds must be segregated on the Fund's books and records pending repurchase. Reverse repurchase agreements could involve certain risks in the event of default or insolvency of the other party, including possible delays or restrictions upon the Fund's ability to dispose of the underlying securities. An additional risk is that the market value of securities sold by the Fund under a reverse repurchase agreement could decline below the price at which the Fund is obligated to repurchase them. The Fund will not hold more than 5% of the value of its total assets in reverse repurchase agreements.

When-Issued and Delayed Delivery Securities. From time to time, in the ordinary course of business, the Fund may purchase securities on a when-issued or delayed delivery basis (i.e., delivery and payment can take place a month or more after the date of the transaction). The purchase price and the interest rate payable on the securities are fixed on the transaction date. The securities so purchased are subject to market fluctuation, and no interest accrues to the Fund until delivery and payment take place. At the time the Fund makes the commitment to purchase securities on a when-issued or delayed delivery basis, it will record the transaction and thereafter reflect the value of such securities in determining its NAV. The Fund will make commitments for such when-issued transactions only with the intention of actually acquiring the securities. To facilitate such acquisitions, the Fund's custodian bank will maintain, in a separate account of the Fund, liquid assets from its portfolio, marked to market daily and having value equal to or greater than such commitments. On the delivery dates for such transactions, the Fund will meet its obligations from maturities or sales of the securities held in the separate account and/or from then available cash flow. If the Fund chooses to dispose of the right to acquire a when-issued security prior to its acquisition, it could, as with the disposition of other portfolio obligations, incur a gain or loss due to market fluctuation.

Permitted Investments in Direct Placement Securities. The Fund is permitted by its investment objective and policies to invest without limitation in direct placement securities. Direct placement securities are restricted securities and therefore are subject to certain of the following risks which would not apply to securities that were free for immediate public sale. In a private sale of restricted securities, which may involve protracted negotiations and a limited number of purchasers, the possibility of delay and the necessity of obtaining a commitment of investment intent from the purchasers might adversely affect the price of the securities. In a public offering, the delay resulting from registration may make it impossible for the Fund to sell securities at the most desirable time, and the price of the securities may decline between the time of the decision to sell and the time when the sale is accomplished. Because only the issuer of the securities can prepare and file a registration statement under the Securities Act of 1933, as amended (the "Securities Act"), the Fund may not be able to obtain registration at the most desirable time.

In view of the above risks, the proceeds to the Fund from the sale of restricted securities acquired by direct placement could be less than the proceeds from the sale of similar securities which were free for immediate public resale. If the Fund is required to liquidate portfolio investments to satisfy applicable asset coverage requirements, it may be required to dispose of direct placement securities at times or prices which are disadvantageous to the Fund.

Direct placement securities, unless they are Rule 144A Securities, are generally ineligible for inclusion in the calculation of the discounted value of the Fund's investment portfolio under the Rating Agency Guidelines with which the Fund will be required to comply for so long as the shares of ATP remain outstanding. The guidelines require the Fund to maintain portfolio assets eligible for inclusion in such calculation which have an aggregate discounted value in excess of the specified asset coverage levels and may therefore limit the Fund's ability to invest in direct placement securities.

Foreign Investments. The Fund may invest up to 10% of the value of its total assets in securities principally traded in foreign markets. In addition, subject to the Fund's basic investment strategy, the Fund may also purchase Eurodollar certificates of deposit issued by branches of U.S. banks. Foreign investments may involve risks not present to the same degree in domestic investments, such as future political and economic developments, the imposition of withholding taxes on interest income, seizure or nationalization of foreign deposits, the establishment of exchange controls and the adoption of other foreign governmental restrictions which might adversely affect the payment of principal of and interest on such obligations. Foreign securities may be less liquid and more volatile than U.S. securities, and foreign accounting and disclosure standards may differ from U.S. standards. In addition, settlement of transactions in foreign securities may be subject to delays, which could result in adverse consequences to the Fund including restrictions on the subsequent resale of such securities. The value of foreign investments may rise or fall because of changes in currency exchange rates.

Interest Rate Transactions. The Fund may enter into interest rate transactions, such as swaps, caps, collars and floors for the purpose or with the effect of hedging its portfolio and/or its payment obligations with respect to senior securities. The costs of any such interest rate transaction and the payment made or received by the Fund thereunder would be borne by or inure to the benefit of the Fund's common stockholders. If there is a default by the other party to such a transaction, the Fund will have contractual remedies pursuant to the agreements related to the transaction. The swap market has grown substantially in recent years with a large number of banks and investment banking firms acting both as principals and as agents utilizing standardized swap documentation. As a result, the swap market has become relatively liquid. The use of interest rate swaps is a highly specialized activity which involves investment techniques and risks different from those associated with ordinary portfolio securities transactions. If the Investment Adviser is incorrect in its forecasts of market values, interest rates and other applicable factors, the investment performance of the Fund would diminish compared with what it would have been if these investment techniques were not used. Moreover, even if the Investment Adviser is correct in its forecasts, there is a risk that the swap position may correlate imperfectly with the price of the asset or liability being hedged.

The Fund has entered into an interest payment swap arrangement with Fleet. The aggregate effect of this arrangement is to partially hedge the Fund's dividend payment obligations with respect to the ATP. Pursuant to the Swap Arrangement, the Fund makes payments to Fleet on a monthly basis at fixed annual rates while receiving Fleet payments at a variable rate determined with reference to the level of short-term interest rates from time to time. See "Description of Capital Stock."

The Fund makes dividend payments to the holders of the ATP on the basis of the results of periodic auctions in accordance with its terms without regard to the swap and would continue to do so in the event the swap is terminated. The Fund has agreed to terminate the arrangement in the event it fails to maintain certain asset coverage requirements. See "Rating Agency Guidelines."

Options. The Fund may write (sell) call options which are traded on national securities exchanges with respect to securities in its portfolio. The Fund may only write "covered" call options, that is, options on securities it holds in its portfolio or has an immediate right to acquire through conversion or exchange of securities held in its portfolio. The Fund reserves the right to write call options on its portfolio securities in an attempt to realize a greater current return than would be realized on the securities alone. The Fund may also write call options as a partial hedge against a possible market decline. In view of its investment objective, the Fund generally would write call options only in circumstances in which the Investment Adviser does not anticipate significant appreciation of the underlying security in the near future or has otherwise determined to dispose of the security. As the writer of a call option, the Fund receives a premium for undertaking the obligation to sell the underlying security at a fixed price during the option period, if the option is exercised. So long as the Fund remains obligated as a writer of a call option, it forgoes the opportunity to profit from increases in the market price of the underlying security above the exercise price of the option, except insofar as the premium represents such a profit (and retains the risk of loss should the value of the underlying security decline). The Fund may also enter into "closing purchase transactions" in order to terminate its obligation as a writer of a call option prior to the expiration of the option. Although the writing of call options only on national securities exchanges increases the likelihood that the Fund will be able to, make closing purchase transactions, there is no assurance that the Fund will be able to effect such transactions at any particular time or at any acceptable price. The writing of call options could result in increases in the Fund's portfolio turnover rate, especially during periods when market prices of the underlying securities appreciate.

For purposes of valuation of the Fund's assets under the Rating Agency Guidelines (see "Description of Capital Stock Asset Maintenance"): (i) if the Fund writes a call option, the underlying asset will be valued as follows: (a) if the option is exchange-traded and may be offset readily or if the option expires before the earliest possible redemption of the ATP, at the lower of the discounted value of the underlying security of the option and the exercise price of the option or (b) otherwise, it has no value; (ii) if the Fund writes a put option, the underlying asset will be valued as follows: the lesser of (a) exercise price and (b) the discounted value of the underlying security determined in accordance with Rating Agency Guidelines; and (iii) call or put option contracts which the Fund buys have no value. For so long as the ATP are rated by Moody's or Fitch: (i) the Fund will not engage in options transactions for leveraging or speculative purposes; (ii) the Fund will not write or sell any anticipatory contracts pursuant to which the Fund hedges the anticipated purchase of an asset prior to completion of such purchase; (iii) the Fund will not enter into an option transaction with respect to portfolio securities unless, after giving effect thereto, the Fund would continue to be in compliance with applicable rating agency asset coverage requirements (see "Description of Capital Stock Asset Maintenance"); (iv) the Fund shall write only exchange-traded options on exchanges approved by Moody's (if Moody's is then rating the ATP) and Fitch (if Fitch is then rating the ATP); and (v) there shall be a quarterly audit made of the Fund's options transactions, if any, by the Fund's independent accountants to confirm that the Fund is in compliance with these standards.

Futures Contracts and Related Options. The Investment Adviser does not currently intend that the Fund will invest in futures contracts or related options with respect to the portfolio. However, the Fund has reserved the right, subject to the approval of the Board of Directors, to purchase and sell financial futures contracts and options on such futures contracts for the purpose of hedging its portfolio securities (or portfolio securities which it expects to acquire) against anticipated changes in prevailing interest rates. This technique could be employed if the Investment Adviser anticipates that interest rates may rise, in which event the Fund could sell a futures contract to protect against the potential decline in the value of its portfolio securities. Conversely, if declining interest rates were anticipated, the Fund could purchase a futures contract to protect against a potential increase in the price of securities the Fund intends to purchase.

In the event the Fund determines to invest in futures contracts and options thereon, it will not purchase or sell such instruments if, immediately thereafter, the amount committed to margin plus the amount paid for premiums for unexpired options on futures contracts would exceed 5% of the value of the Fund's total assets. In addition, in accordance with the regulations of the Commodity Futures Trading Commission (the "CFTC") under which the Fund will be exempted from registration as a commodity pool operator, the Fund may only enter into futures contracts and options on futures contracts transactions for other than hedging purposes if immediately thereafter the sum of the amount of the initial margin deposits and premiums on open positions with respect to futures and options used for non-hedging purposes would exceed 5% of the market value of the Fund's net assets. There is no overall limitation on the percentage of the Fund's portfolio securities which may be subject to a hedge position. If the CFTC were to amend its regulations such that the Fund would be permitted to write options on futures contracts for income purposes without CFTC registration, the Fund would have the right to engage in such transactions for those purposes, subject to the approval of the Board of Directors. The extent to which the Fund may enter into transactions involving futures contracts also may be limited by the requirements of the Code for qualification as a regulated investment company.

Risks of Hedging Transactions. The use of options, financial futures and options on financial futures may involve risks not associated with other types of investments which the Fund intends to purchase, and it is possible that a portfolio that utilizes hedging strategies may perform less well than a portfolio that does not make use of such devices. Use of put and call options may result in losses to the Fund, force the sale of portfolio securities at inopportune times or for prices other than at current market values, limit the amount of appreciation the Fund can realize on its investments or cause the Fund to hold a security it might otherwise sell. The use of options and futures transactions entails certain other risks. In particular, the variable degree of correlation between price movements of futures contracts and price movements in the related portfolio position of the Fund creates the possibility that losses on the hedging instrument may be greater than gains in the value of the Fund's position. In addition, futures and options markets may not be liquid in all circumstances and certain over-the-counter options may have no markets. As a result, in certain markets, the Fund might not be able to close out a transaction without incurring substantial losses, if at all. Although the contemplated use of these futures contracts and options thereon should tend to minimize the risk of loss due to a decline in the value of the hedged position, at the same time they tend to limit any potential gain which might result from an increase in value of such position. Finally, the daily variation margin requirements for futures contracts and the sale of options thereon would create a greater ongoing potential financial risk than would purchases of options, where the exposure is limited to the cost of the initial premium.

Incurrence of Indebtedness. For so long as any of the ATP are outstanding, the Fund will not borrow money or issue senior securities representing indebtedness unless it has received written notice from Moody's (if Moody's is then rating the ATP) and Fitch (if Fitch is then rating the ATP) and any other rating agency which is then rating the ATP which so requires that such action would not impair the Aaa/AAA Credit Rating. For so long as any of the Fund's preferred stock, including the ATP, is outstanding, the lesser of (a) a vote of 67% of the shares of the Fund's preferred stock present at a meeting at which more than 50% of the outstanding shares of preferred stock entitled to vote is present or (b) a vote of more than 50% of the outstanding shares of preferred stock, in each case voting as a separate class, must approve any Fund borrowing. Preferred stockholder approval, however, is not required if the Fund borrows for temporary or emergency purposes in accordance with its investment policies and restrictions or for the purpose of clearing transactions. To the extent that the Fund does incur any borrowings, such borrowings would typically be senior in right of payment to the ATP and the Common Stock upon liquidation of the Fund.

Securities Loans. The Fund reserves the right to make secured loans of its portfolio securities amounting to not more than one-third of the value of its total assets, thereby realizing additional income. The risks in lending portfolio securities, as with other extensions of credit, consist of possible delays in recovery of the securities or possible loss of rights in the collateral should the borrower fail financially. As a matter of policy securities loans are made to unaffiliated broker-dealers pursuant to agreements requiring that loans be continuously secured by collateral in cash or short-term debt obligations at least equal at all times to the value of the securities subject to the loan. The borrower pays to the Fund an amount equal to any interest or dividends received on the securities subject to the loan. The Fund retains all or a portion of the interest received on investment of the cash collateral or receives a fee from the borrower. Although voting rights or rights to consent with respect to the loaned securities pass to the borrower, the Fund retains the right to call the loans at any time on reasonable notice, and it will do so in order that the securities may be voted by the Fund if the holders of such securities are asked to vote upon or consent to matters materially affecting the investment. The Fund may also call such loans in order to sell the securities involved.

RATING AGENCY GUIDELINES

The Fund intends at all times that, so long as any ATP is outstanding and Moody's and Fitch are then rating the ATP, the composition of its portfolio will reflect guidelines established by Moody's and Fitch in connection with obtaining the Aaa/AAA Credit Rating with respect to the ATP. Should the Fund determine to seek (and be successful in obtaining) a rating from any other rating agency or issue senior securities, other than the ATP, which are rated or otherwise subject to portfolio diversification or similar requirements, the composition of its portfolio would also reflect the guidelines and requirements established by any rating agency rating such securities or by the purchaser or purchasers of such securities. Moody's and Fitch, nationally recognized statistical rating organizations, issue ratings for various securities reflecting the perceived creditworthiness of such securities. The

Fund has paid certain fees to Moody's and Fitch for rating shares of the ATP. The guidelines described below have been developed independently by Moody's and Fitch in connection with issuance of asset-backed and similar securities, including debt obligations and adjustable rate preferred stocks, generally on a case-by-case basis through discussions with the issuers of these securities. The guidelines are designed to ensure that assets underlying outstanding debt or preferred stock will be sufficiently varied and will be of sufficient quality and amount to justify investment-grade ratings. The guidelines do not have the force of law, but have been adopted by the Fund in order to satisfy current requirements necessary for Moody's and Fitch to issue the above-described ratings for the ATP, which ratings are generally relied upon by institutional investors in purchasing such securities. In the context of a closed-end investment company such as the Fund, therefore, the guidelines provide a set of tests for portfolio composition and asset coverage which supplement (and in some cases are more restrictive than) the applicable requirements under the 1940 Act, and which accordingly affect significantly the management of the Fund's portfolio. A rating agency's guidelines will apply to the ATP only so long as such rating agency is rating *such* shares and *such* guidelines are subject to amendment with the consent of the relevant rating agency.

The Fund intends to maintain a discounted value for its portfolio ("Discounted Value") at least equal to the amount specified by each rating agency (the "ATP Basic Maintenance Amount"), the determination of which is as set forth under "Description of Capital Stock Asset Maintenance." Moody's and Fitch have each established separate guidelines for determining Discounted Value. To the extent any particular portfolio holding does not satisfy the applicable rating agency's guidelines, all or a portion of such holding's value will not be included in the calculation of Discounted Value (as defined by such rating agency). The Moody's and Fitch guidelines do not impose any limitations on the percentage of Fund assets that may be invested in holdings not eligible for inclusion in the calculation of the Discounted Value of the Fund's portfolio. The amount of such assets included in the portfolio at any time may vary depending upon the rating, diversification and other characteristics of the assets included in the portfolio which are eligible for inclusion in the Discounted Value of the portfolio under the Rating Agency Guidelines ("Eligible Assets").

Moody's Aaa Rating Guidelines

For purposes of calculating the Discounted Value of the Fund's portfolio under current Moody's guidelines, the fair market value of portfolio securities eligible for consideration under such guidelines ("Moody's Eligible Assets") must be discounted by certain discount factors set forth below ("Moody's Discount Factors"). The Discounted Value of a portfolio security under Moody's guidelines is the market value thereof determined in accordance with criteria provided by the relevant rating agency ("Market Value") divided by the Moody's Discount Factor. The Moody's Discount Factor with respect to securities other than those described below will be the percentage provided in writing by Moody's.

Corporate Debt Securities. Under current Moody's guidelines, portfolio securities that are corporate debt securities will not be included in the calculation of the Discounted Value of the Fund's portfolio unless (a) such securities are rated Caa or higher by Moody's; (b) the senior unsecured rating of the issuer's corporate bonds is higher than B3; (c) such securities provide for the periodic payment of interest in cash in U.S. dollars; (d) such securities do not provide for conversion or exchange into equity capital at any time over their lives; (e) for debt securities rated Bal and below, no more than 10% of the original amount of such issue may constitute Moody's Eligible Assets; (f) the issuer of such securities has not filed a petition seeking relief under U.S. Bankruptcy Code of which the issuer has given public notice; (g) the issuer of such securities is not in default on the payment of principal and interest on any of its fixed income obligations or the payment of dividends on any of its preferred stock; (h) the auditor's report to the most recently issued audited financial statements of such issuer includes an "unqualified opinion," as defined in applicable auditing standards; and (i) such securities have been registered under the Securities Act or are Rule 144A Securities as determined by the Corporation's adviser acting subject to the supervision of the Corporation's Board of Directors. Thus, the Moody's guidelines have the effect of prohibiting or significantly restricting investments in securities other than fixed-income obligations of U.S. issuers which are rated Caa or higher.

The Discounted Value of any Moody's Eligible Asset that is a corporate debt security is the percentage determined by reference to the rating on such asset with reference to the remaining term to maturity of such assets, in accordance with the table set forth below:

MOODY'S DISCOUNT FACTORS
CORPORATE DEBT SECURITIES

Remaining Term to Maturity	Rating Category						
Asset	**Aaa**	**Aa**	**A**	**Baa**	**Ba**	**B***	**Caa**
1 Year	112%	118%	123%	128%	139%	150%	260%
2 Years	118	124	130	135	147	158	260
3 Years	123	129	135	141	153	165	260
4 Years	129	135	141	148	160	172	260
5 Years	134	141	147	154	166	179	260
7 Years	142	149	155	162	176	189	260
10 Years	148	156	163	170	184	198	260
15 Years	153	161	168	175	190	205	260
20 Years	161	169	177	184	200	215	260
30 Years	162	170	178	185	201	216	260

* *Senior debt securities of an issuer rated B3 shall be deemed to be Caa rated securities for purposes of determining the applicable Moody's Discount Factor.*

The Moody's Discount Factor applied to Rule 144A Securities is (i) 130% of the Moody's Discount Factor which would apply were the securities registered under the Securities Act, if such securities are from issues of an original issue size less than $125 million and (ii) the Moody's Discount Factor which would apply were the securities registered under the Securities Act, if such securities are from issues of an original issue size of $125 million or more.

The Moody's guidelines impose minimum issue size, issuer and industry diversification and other requirements for purposes of determining Moody's Eligible Assets. Specifically, portfolio holdings as described below must be within the following diversification and issue size requirements in order to constitute Moody's Eligible Assets includable within the calculation of Discounted Value:

Asset Ratings[1]	**Maximum Single Issuer (%)[2,3]**	**Maximum Single Industry (%)[3,4]**	**Maximum Issue Size ($ in millions)[6]**
Aaa	100	100	100
Aa	20	60	100
A, Prime-1	10	40	100
Baa	6	20	100
Ba	4	12	50[5]
B1-B2	3	8	50[5]
B3 (Caa subordinate)	2	5	50[5]

See accompanying notes

(1) *Refers to the senior debt rating of asset.*

(2) *Companies subject to common ownership of 25% or more are considered as one name.*

(3) *Percentages represent a portion of the aggregate Market Value of corporate securities.*

(4) *Industries are determined according to industry classifications specified by Moody's ("Moody's Industry Classifications"). See below.*

(5) *Bonds from issues ranging from $50 million to $100 million are limited to 20% of the collateral pool.*

(6) *Except for preferred stock, which has a minimum issue size of $50 million.*

The Moody's Industry Classifications, for the purposes of determining Moody's Eligible Assets, mean each of the following industry classifications, determined with respect to particular issues in the discretion of the Fund:

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

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

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

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

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

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

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

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

Diversified/Conglomerate Manufacturing

Diversified/Conglomerate Service

Diversified Natural Resources, Precious Metals and Minerals: Fabricating, Distribution

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

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

Finance: Investment Brokerage, Leasing, Syndication, Securities

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

Grocery: Grocery Stores, Convenience Food Stores

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

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

Hotels, Motels, Inns and Gaming

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

Leisure, Amusement, Motion Pictures, Entertainment: Boating, Bowling, Billiards, Musical Instruments, Fishing, Photo Equipment, Records, Tapes, Sports, Outdoor Equipment (Camping), Tourism, Resorts, Games, Toy Manufacturing, Motion Picture Production Theaters, Motion Picture Distribution

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

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

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

Personal, Food and Miscellaneous Services

Printing, Publishing and Broadcasting: Graphic Arts, Paper, Paper Products, Business Forms, Magazines, Books, Periodicals, Newspapers, Textbooks, Radio, T.V., Cable Broadcasting Equipment

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

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

Telecommunications: Local, Long Distance, Independent, Telephone, Telegraph, Satellite, Equipment, Research, Cellular

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

Personal Transportation: Air, Bus, Rail, Car Rental

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

Sovereigns: Semi-sovereigns, Canadian Provinces, Supra-national Agencies

Where the Fund sells an asset and agrees to repurchase such asset in the future, the Discounted Value of such asset will constitute a Moody's Eligible Asset and the amount the Fund is required to pay upon repurchase of such asset will count as a liability for the purposes of the ATP Basic Maintenance Amount. Where the Fund purchases an asset and agrees to sell it to a third party in the future, cash receivable by the Fund thereby will constitute a Moody's Eligible Asset if the long-term debt of such other party is rated at least A2 by Moody's and such agreement has a term of 30 days or less; otherwise the Discounted Value of such asset will constitute a Moody's Eligible Asset. For the purposes of calculation of Moody's Eligible Assets, portfolio securities which have been called for redemption by the issuer thereof are valued at the lower of Market Value or the call price of such portfolio securities.

Notwithstanding the foregoing, an asset will not be considered a Moody's Eligible Asset to the extent that it has been irrevocably deposited for the payment of (i)(A) through (i)(F) under the definition of ATP Basic Maintenance Amount (see "Description of Capital Stock-Asset Maintenance") or it is subject to any material lien, mortgage, pledge, security interest or security agreement of any kind (collectively, "Liens"), except for (a) Liens which are being contested in good faith by appropriate proceedings and which Moody's has indicated to the Fund will not affect the status of such asset as a Moody's Eligible Asset, (b) Liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (c) Liens to secure payment for services rendered or cash advanced to the Fund by its investment adviser, the Fund's custodian, transfer agent or registrar or the auction agent for the ATP (the "Auction Agent") and (d) Liens by virtue of any repurchase agreement.

The effect of the foregoing discount factors may be to cause the Fund to invest in higher-rated securities than it would if it were not required to maintain specified asset coverage on a discounted basis. This may have the effect of reducing the yield on the portfolio. See "Risk Factors and Special Considerations."

Preferred Stock. Under current Moody's guidelines, portfolio securities that are preferred stocks will not be included in the calculation of Discounted Value of the Fund's portfolio unless (a) dividends on such preferred stock are cumulative, (b) such securities provide for the periodic payment of dividends thereon in cash in U.S. dollars and do not provide for conversion or exchange into, or have warrants attached entitling the holder to receive, equity capital at any time over the respective lives of such securities, (c) the issuer of such a preferred stock has common stock listed on either the New York Stock Exchange or the American Stock Exchange, (d) the issuer of such a preferred stock has a senior debt rating from Moody's of Baal or higher or a preferred stock rating from Moody's of Baa3 or higher and (e) such preferred stock has paid consistent cash dividends in U.S. dollars over the last three years or has a minimum rating of A1 (if the issuer of such preferred stock has other preferred issues outstanding that have been paying dividends consistently for the last three years, then a preferred stock without such a dividend history would also be eligible). In addition, the preferred stocks must have the following diversification requirements: (x) the preferred stock issue must be greater than $50 million and (y) the minimum holding by the Fund of each issue of preferred stock is $500,000 and the maximum holding of preferred stock of each issue is $5 million. In addition, preferred stocks issued by transportation companies will not be considered as Moody's Eligible Assets.

The Moody's Discount Factors for Moody's Eligible Assets that are preferred stock are (a) 152% for utility preferred stocks, (b) 197% for industrial/financial preferred stocks and (c) 350% for auction rate preferred stocks.

Other Moody's Eligible Assets. In addition to corporate debt securities and preferred stocks which satisfy the above requirements, Moody's Eligible Assets also include the following:

(i) cash (including, for this purpose, interest and dividends due on assets rated (A) Baa3 or higher by Moody's if the payment date is within five business days of the date on which the value of the portfolio is being determined for purposes of determining compliance with Moody's or Fitch's investment guidelines (a "Valuation Date")), (B) A2 or higher if the payment date is within thirty days of the Valuation Date, and (C) A1 or higher if the payment date is within the Exposure Period and receivables for Moody's Eligible Assets sold if the receivable is due within five business days of the Valuation Date, and if the trades which generated such receivables are (A) settled through clearing house firms with respect to which the Fund has received prior written authorization from Moody's or (B)(1) with counterparties having a Moody's long-term debt rating of at least Baa3 or (2) with counterparties having a Moody's short-term money market instrument rating of at least P-1;

(ii) short-term money market instruments (as defined by Moody's), so long as (A) such securities are rated at least Prime-1, (B) in the case of demand deposits, time deposits and overnight funds, the supporting entity is rated at least A2, or (C) in all other cases, the supporting entity (1) is rated A2 and the security matures within one month, (2) is rated Al and the security matures within three months, or (3) is rated at least Aa3 and the security matures within six months; provided, however, that for purposes of this definition, such instruments (other than commercial paper rated by S&P and not rated by Moody's) need not meet any otherwise applicable S&P rating criteria;

(iii) U.S. Treasury Securities and Treasury Strips (as defined by Moody's); and

(iv) financial contracts, as such term is defined in Section 3(c)(2)(B)(ii) of the 1940 Act, may be included in Moody's Eligible Assets, but, with respect to any financial contract, only upon receipt by the Fund of a writing from Moody's specifying any conditions on including such financial contract in Moody's Eligible Assets and assuring the Fund that including such financial contract in the manner so specified would not affect the credit rating assigned by Moody's to the ATP.

A Moody's Discount Factor of 100% will be applied to cash. The Moody's Discount Factor applied to Moody's Eligible Assets that are short-term money instruments (as defined by Moody's) will be (a) 100%, so long as portfolio securities mature or have a demand feature at par exercisable within 41 days of the relevant valuation date (the "Exposure Period"), (b) 115%, so long as such portfolio securities mature or have a demand feature at par not exercisable within the Exposure Period, and (c) 125%, if such securities are not rated by Moody's, so long as such portfolio securities are rated at least A-1 +/AA or SP-1 +/AA by S&P and mature or have a demand feature at par exercisable within the Exposure Period.

The Moody's Discount factors for Moody's Eligible Assets that are U.S. Treasury Securities and U.S. Treasury Strips are as follows:

U.S. Treasury Securities:

Remaining Term to Maturity	**Discount Factor**
1 year or less	107%
2 years or less (but longer than 1 year)	113
3 years or less (but longer than 2 years)	118
4 years or less (but longer than 3 years)	123
5 years or less (but longer than 4 years)	128
7 years or less (but longer than 5 years)	135
10 years or less (but longer than 7 years)	141
15 years or less (but longer than 10 years)	146
20 years or less (but longer than 15 years)	154
30 years or less (but longer than 20 years)	154
U.S. Treasury Strips:	
Remaining Term to Maturity	**Discount Factor**
1 year or less	107%
2 years or less (but longer than 1 year)	114
3 years or less (but longer than 2 years)	120
4 years or less (but longer than 3 years)	127
5 years or less (but longer than 4 years)	133
7 years or less (but longer than 5 years)	145
10 years or less (but longer than 7 years)	159
15 years or less (but longer than 10 years)	184
20 years or less (but longer than 15 years)	211
30 years or less (but longer than 20 years)	236

Fitch AAA Rating Guidelines

For purposes of calculating the Discounted Value of the Fund's portfolio under current Fitch guidelines, the fair market value of portfolio securities eligible for consideration under such guidelines ("Fitch Eligible Assets") must be discounted by certain discount factors set forth below (" Fitch Discount Factors"). The discounted value of a portfolio security under the Fitch guidelines ("Discounted Value") is the market value thereof determined as specified by Fitch ("Market Value") divided by the Fitch Discount Factor. The Fitch Discount Factor with respect to securities other than those described below will be the percentage provided in writing by Fitch.

Debt Securities. Under current Fitch guidelines, securities will not be deemed "Debt Securities" includable in the calculation of the Discounted Value of the Fund's portfolio unless (a) such securities are rated CCC or higher by Fitch or, if unrated by Fitch, rated Caa or higher by Moody's and CCC or higher by S&P; (b) such securities provide for the periodic payment of interest in cash in U.S. dollars; (c) such securities do not provide for conversion or exchange into equity capital at any time over their lives; (d) such securities have been registered under the Securities Act or are Rule 144A Securities as determined by the Fund's adviser acting subject to the supervision of the Fund's Board of Directors; (e) such securities are issued by (1) a U.S. corporation, (2) a corporation domiciled in Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea, Mexico, Spain, or the United Kingdom (the "Approved Foreign Nations"), (3) the government of any Approved Foreign Nation or any of its agencies, instrumentalities or political subdivisions (the debt securities of Approved Foreign Nation issuers being referred to collectively as "Foreign Bonds"), (4) a corporation domiciled in Canada or (5) the Canadian government or any of its agencies, instrumentalities or political subdivisions (the debt securities of Canadian issuers being referred to collectively as "Canadian Bonds"); and (f) in the case of Foreign and Canadian Bonds, such securities are denominated in U.S. dollars. Foreign Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. Similarly, Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. Notwithstanding the limitations in the two preceding sentences, Foreign Bonds and Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 30% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. In addition, bonds which are issued in connection with a reorganization under U.S. federal bankruptcy law ("Reorganization Bonds") will be considered Debt Securities constituting Fitch Eligible Assets if (a) they are rated CCC or higher by Fitch or, if unrated by Fitch, rated Caa or higher by Moody's and CCC or higher by S&P; (b) they provide for periodic payment of interest in cash in U.S. dollars; (c) they do not provide for conversion or exchange into equity capital at any time over their lives; (d) they have been registered under the Securities Act or are eligible for trading under Rule 144A as determined by the Fund's adviser acting subject to the supervision of the Fund's Board of Directors; (e) they were issued by a U.S. corporation; and (f) at the time of purchase at least one year had elapsed since the issuer's reorganization. Reorganization Bonds may also be considered Debt Securities constituting Fitch Eligible Assets if they have been approved by Fitch, which approval shall not be unreasonably withheld.

The discounted value of any Fitch Eligible Assets that is a corporate debt security constituting a Fitch Eligible Asset (see "Corporate Debt Securities," above) is the percentage determined by reference to (i) the rating on such asset (i.e., whether it is a Type I, Type II, Type III, Type IV, Type V, Type VI or Type VII Corporate Bond as defined below) and (ii) the remaining term to maturity of such assets, in accordance with the table set forth below. However, the Fitch Discount Factor that will be applied to: (A) Rule 144A Securities will be (i) 110% of the Fitch Discount Factor which would apply were the securities registered under the Securities Act, if such securities are from issues of $100 million or less and (ii) the Fitch Discount Factor which would apply were the securities registered under the Securities Act, if such securities are from issues of more than $100 million and (B) Foreign Bonds will be 120% of the Fitch Discount Factor which would apply were the securities issued by a U.S. corporation:

Type I Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.16
greater than 2 years, but less than or equal to 4 years	1.26
greater than 4 years, but less than or equal to 7 years	1.40
greater than 7 years, but less than or equal to 12 years	1.44
greater than 12 years, but less than or equal to 25 years	1.48
greater than 25 years, but less than or equal to 30 years	1.52
Type II Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.25
greater than 2 years, but less than or equal to 4 years	1.26
greater than 4 years, but less than or equal to 7 years	1.43
greater than 7 years, but less than or equal to 12 years	1.44
greater than 12 years, but less than or equal to 25 years	1.51
greater than 25 years, but less than or equal to 30 years	1.56
Type III Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.25
greater than 2 years, but less than or equal to 4 years	1.29
greater than 4 years, but less than or equal to 7 years	1.46
greater than 7 years, but less than or equal to 12 years	1.50
greater than 12 years, but less than or equal to 25 years	1.55
greater than 25 years, but less than or equal to 30 years	1.60

Type IV Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.27
greater than 2 years, but less than or equal to 4 years	1.32
greater than 4 years, but less than or equal to 7 years	1.52
greater than 7 years, but less than or equal to 12 years	1.57
greater than 12 years, but less than or equal to 25 years	1.63
greater than 25 years, but less than or equal to 30 years	1.69
Type V Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.32
greater than 2 years, but less than or equal to 4 years	1.36
greater than 4 years, but less than or equal to 7 years	1.59
greater than 7 years, but less than or equal to 12 years	1.65
greater than 12 years, but less than or equal to 25 years	1.72
greater than 25 years, but less than or equal to 30 years	1.80
Type VI Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.37
greater than 2 years, but less than or equal to 4 years	1.40
greater than 4 years, but less than or equal to 7 years	1.67
greater than 7 years, but less than or equal to 12 years	1.74
greater than 12 years, but less than or equal to 25 years	1.82
greater than 25 years, but less than or equal to 30 years	1.91
Type VII Debt Securities with remaining maturities of:	
less than or equal to 2 years	1.37
greater than 2 years, but less than or equal to 4 years	1.64
greater than 4 years, but less than or equal to 7 years	2.28
greater than 7 years, but less than or equal to 12 years	2.49
greater than 12 years, but less than or equal to 25 years	2.74
greater than 25 years, but less than or equal to 30 years	3.06

For purposes of the foregoing:

"Type I Debt Securities" means Debt Securities (as defined above) rated either AAA by Fitch or, if not rated by Fitch, rated AAA by S&P and Aaa by Moody's;

"Type II Debt Securities" means Debt Securities rated either at least AA- by Fitch or, if not rated by Fitch, rated at least AA- by S&P and at least Aa3 by Moody's which do not constitute Type I Debt Securities;

"Type III Debt Securities" means Debt Securities rated either at least A- by Fitch or, if not rated by Fitch, rated at least A- by S&P and at least A3 by Moody's which do not constitute Type I or Type II Debt Securities;

"Type IV Debt Securities" means Debt Securities rated either at least BBB- by Fitch or, if not rated by Fitch, rated at least BBB- by S&P and at least Baa3 by Moody's which do not constitute Type I, Type II or Type III Debt Securities;

"Type V Debt Securities" means Debt Securities rated either at least BB- by Fitch or, if not rated by Fitch, rated at least BB- by S&P and at least Ba3 by Moody's which do not constitute Type I, Type II, Type III or Type IV Debt Securities;

"Type VI Debt Securities" means Debt Securities rated either at least B- by Fitch or, if not rated by Fitch, rated at least B- by S&P and at least B3 by Moody's which do not constitute Type I, Type II, Type III, Type IV or Type V Debt Securities; and

"Type VII Debt Securities" means Debt Securities rated either at least CCC by Fitch or, if not rated by Fitch, rated at least CCC by S&P and at least Caa by Moody's which do not constitute Type I, Type II, Type III, Type IV, Type V or Type VI Debt Securities.

In addition, portfolio holdings as described below must be within the following diversification and issue size requirements in order to be included in Fitch Eligible Assets:

Type of Corporate Bond	**Maximum Single Issuer (%)[1,2]**	**Maximum Single Industry (%)[2,3]**	**Minimum Issue Size ($ in millions)**
Type I	100%	100%	$ 100
Type II	20	75	100
Type III[4]	10	50	100
Type IV	6	25	100
Type V	4	16	50[5]
Type VI	3	12	50[5]
Type VII	2	8	50[5]

See accompanying notes

(1) *Companies subject to common ownership of 25% or more are considered as one name.*

(2) *Percentages represent a portion of the aggregate Market Value of Debt Securities.*

(3) *Industries are determined according to industry classifications specified by Fitch ("Fitch Industry Classifications") (see below).*

(4) *Includes Short Term Money Market Instruments which do not constitute Type I or Type II Debt Securities and which have a maturity greater than the Exposure Period.*

(5) *Collateral bonds from issues ranging from $50 million to $100 million are limited to 20% of the collateral pool.*

Foreign and Canadian Bonds issued by governments of the Approved Foreign Nations and Canada or any of their agencies, instrumentalities, or political subdivisions assigned to the "Sovereigns" industry classification are not subject to any maximum single industry concentration limitation.

The Fitch Industry Classifications, for the purposes of determining Fitch Eligible Assets, mean the following industry classifications, determined with respect to particular issues in the discretion of the Fund:

Aerospace & Defense

Automobiles

Banking, Finance & Insurance

Building & Materials

Chemicals

Computers & Electronics

Consumer Products

Energy

Environmental Services

Farming & Agriculture

Food, Beverage & Tobacco

Healthcare & Pharmaceuticals

Industrial Machinery

Media, Leisure & Entertainment

Metals & Mining

Miscellaneous

Paper & Forest Products

Retail

Sovereigns

Textiles & Furniture

Transportation

Utilities

Other Fitch Eligible Assets. Other Fitch Eligible Assets include cash, certain receivables for Fitch Eligible Assets, interest and dividends due on certain assets rated not lower than Baa3 by Moody's or BBB- by S&P, U.S. Treasury Securities (as defined by Fitch) and Short-Term Money Market Instruments (as defined by Fitch). The Fitch Discount Factors for Fitch Eligible Assets that are U.S. Treasury Securities are as follows:

U.S. Treasury Securities with remaining maturities of:

less than or equal to 1 year	1.06
greater than 1 years, but less than or equal to 2 years	1.11
greater than 2 years, but less than or equal to 5 years	1.16
greater than 5 years, but less than or equal to 15 years	1.24
greater than 25 years, but less than or equal to 30 years	1.26

The Fitch Discount Factor applied to short-term portfolio securities will be (A) 100%, so long as such portfolio securities mature or have a demand feature at par exercisable within the Exposure Period and, (B) 125%, so long as such portfolio securities neither mature nor have a demand feature at par exercisable within the Exposure Period. A Fitch Discount Factor of 100% will be applied to cash.

Financial contracts, as such term is defined in Section 3(c)(2)(B)(ii) of the 1940 Act, may be included in Fitch Eligible Assets, but, with respect to any financial contract, only upon receipt by the Fund of a writing from Fitch specifying any conditions on including such financial contract in Fitch Eligible Assets and assuring the Fund that including such financial contract in the manner so specified would not affect the credit rating assigned by Fitch to the ATP.

Under Fitch's current guidelines, portfolio securities that are preferred stocks will not be deemed Fitch Eligible Assets.

When the Fund sells an asset and agrees to repurchase such asset in the future, the Discounted Value of such asset will constitute a Fitch Eligible Asset and the amount the Fund is required to pay upon repurchase of such asset will count as a liability for the purposes of the ATP Basic Maintenance Amount. Where the Fund purchases an asset and agrees to sell it to a third party in the future, cash receivable by the Fund thereby will constitute a Fitch's Eligible Asset if the long-term debt of such other party is rated at least A2 by Moody's and A by S&P and such agreement has a term of 30 days or less; otherwise the Discounted Value of such asset will constitute a Fitch Eligible Asset.

Notwithstanding the foregoing, an asset will not be considered a Fitch Eligible Asset to the extent that it has been irrevocably deposited for the payment of (i)(A) through (i)(F) under the definition of ATP Basic Maintenance Amount (see "Description of Capital Stock-Asset Maintenance") or it is subject to any material Lien, except for (a) Liens which are being contested in good faith by appropriate proceedings and which Fitch has indicated to the Fund will not affect the status of such asset as a Fitch Eligible Asset, (b) Liens for taxes that are not then due and payable or that can be paid thereafter without penalty, (c) Liens to secure payment for services rendered or cash advanced to the Fund by its investment adviser, the Fund's custodian, transfer agent or registrar or the Auction Agent and (d) Liens by virtue of any repurchase agreement.

The Board of Directors may, without approval of the Fund's stockholders, from time to time amend, alter or repeal any or all of the definitions which relate to the Moody's and Fitch guidelines and which generally establish the investment guidelines for the Fund's portfolio in the event the Fund receives written confirmation from the appropriate rating agency that any such amendment, alteration or repeal would not impair the rating then assigned to the ATP by such rating agency. In addition, the Board of Directors, without the vote or consent of the Fund's stockholders, may from time to time adopt, amend, alter or repeal any or all of additional or other definitions or add covenants and other obligations of the Fund (e.g., maintenance of a minimum liquidity level) or confirm the applicability of covenants and other obligations in connection with obtaining or maintaining the rating of Moody's, Fitch or any other rating agency with respect to the ATP. See "Description of Capital Stock Voting Rights."

RISK FACTORS AND SPECIAL CONSIDERATIONS

An investment in the Fund is subject to a number of risks and special considerations, including the following:

Dilution

You may experience an immediate dilution of the NAV of your shares of Common Stock. This is because the number of shares of Common Stock outstanding after the Offer will increase in a greater percentage than the increase in the size of the Fund's assets. For example, assuming that all Rights are exercised at the Estimated Subscription Price of $_______, the Fund's NAV per share (after payment of the estimated offering expenses) would be reduced by approximately $____ per share.

The fact that the Rights are transferable may reduce the effects of any dilution as a result of the Offer. You can transfer or sell your Rights. The cash received from the sale of Rights is partial compensation for any possible dilution. The Fund cannot give any assurance that a market for the Rights will develop or that the Rights will have any value.

You should also expect that if you do not fully exercise your Rights, you will, at the completion of the Offer, own a smaller proportional interest in the Fund than would otherwise be the case. The Fund cannot state precisely the amount of any such dilution in share ownership because the Fund does not know at this time what proportion of the Shares will be subscribed.

Leverage

The Fund is subject to significant risks as a result of its focus on investments in so called "junk bonds." See "High-Yield, High-Risk Investments" below. As the Fund's historical performance shows, the Fund's leveraged capital structure magnifies these risks, particularly in a declining market, while increasing the possibility for superior performance in a rising market. See "The Fund."

The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives and policies. These risks include a higher volatility of the NAV of the Common Stock and potentially more volatility in the market price of the Common Stock.

The ATP has prior claim to the income of the Fund and against the assets of the Fund in any potential liquidation. If the investment performance of the assets purchased with the proceeds of the ATP is less than the cost of the ATP and any related hedging arrangements, the NAV per Share will decrease more quickly than would otherwise be the case. Under these circumstances, Common Stock dividends may be reduced or eliminated. On the other hand, if the investment performance of those assets exceeds the cost of the leverage, the NAV per Share will increase more quickly than would otherwise be the case and Common Stock dividends may be increased. Changes in the NAV per Share tend to be reflected in its market price.

You, as holders of Common Stock, will bear any decline in the NAV of the Fund's investments. In an extreme case, if the Fund's current investment income were not sufficient to meet the cost of any leverage, it could be necessary for the Fund to liquidate certain of its investments, potentially reducing the NAV per Share. In addition, a decline in the value of the Fund's investments may have serious consequences under the Fund's asset coverage requirements, as discussed below under "Asset Coverage Requirements."

The following table illustrates the effect of leverage on the return of a holder of Common Stock. It assumes $130 million of ATP currently outstanding and a Fund portfolio of approximately $335 million. The purpose of the table is to assist you in understanding the effect of leverage. The figures appearing in the table are hypothetical and actual returns may be greater or lesser than those appearing in the table.

Assumed Return on Portfolio (net of expenses and costs of leverage)	-10%	-5%	0%	5%	10%
Corresponding Return to Holder of Common Stock*	-18.9%	-10.7%	-2.6%	5.6%	13.8%

If all of the Common Stock covered by the Rights is sold, the Fund expects that the Board of Directors will authorize the Fund to issue more ATP, so that the percentage of the Fund's assets representing leverage will be approximately the same as prior to the sale of that Common Stock, although there is no assurance that it will do so. Any such additional leverage would not require stockholder approval. See "The Offer" and "Description of Capital Stock."

High-Yield, High-Risk Investments

The Fund is designed for long-term investors who can accept the risks associated with its investment strategy and its leveraged structure. Investors should not rely on the Fund for their short-term financial needs. The value of the lower-quality securities in which the Fund invests will be affected by interest rate levels, general economic conditions, specific industry conditions and the creditworthiness of the individual issuer. Although the Fund seeks to reduce risk by portfolio diversification, credit analysis and attention to trends in the economy, industries and financial markets, these efforts will not eliminate risk.

The Fund will generally invest in securities that are rated below investment grade by recognized rating agencies or that are non-rated. The values of these lower-quality securities tend to reflect individual corporate developments or negative economic changes to a greater extent than higher-quality securities, which react primarily to fluctuations in market interest rates. Economic uncertainty and change generally results in increased volatility in the market prices and yields of lower-quality securities and thus, in the NAV of the Common Stock.

Securities rated below investment grade are considered by rating agencies, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation and thus are generally considered to involve greater credit risk than securities in the higher-rating categories. Changes by rating agencies in their ratings of any security in the Fund's portfolio may affect the value of the Fund's investments. Changes in the value of portfolio securities will not necessarily affect cash income derived from those securities, but will affect the NAV of the Common Stock. The credit ratings issued by rating agencies may not fully reflect the true risks of an investment. For example, credit ratings typically evaluate the safety of principal and interest payments, not market value risk. Also, rating agencies may be late in changing a credit rating to reflect changes in economic or company conditions that affect a security's market value. Although these ratings may be an initial screen in selecting investments, the Fund will rely primarily on the Investment Adviser's judgment, analysis and experience in evaluating the creditworthiness of an issuer. (See Appendix A for a description of credit agency ratings of lower-quality securities).

The lower-quality securities held by the Fund are frequently subordinated to "other debt" owed by the issuing entity. This generally means that if the Fund holds a security issued by a company that is unable to pay all of its obligations, the holders of the company's "senior debt," such as secured bank loans, will be paid before the Fund. The Fund may incur additional expenses if it is required to seek recovery upon a payment default on its portfolio holdings.

Some of the lower-quality securities in which the Fund invests were issued to raise funds in connection with the acquisition of companies in so-called "leveraged buy-out" transactions. The highly leveraged capital structure of such issuers may make them especially vulnerable to adverse changes in economic conditions.

Generally, when interest rates rise, the value of fixed-rate debt securities tends to decrease. On the other hand, when interest rates fall, the value of these security obligations tends to increase. If an issuer of a lower-quality security containing redemption or call rights exercises these rights when interest rates are declining, the Fund would have to reinvest the proceeds of the redeemed securities at current interest rates, which could result in a decreased return for holders of Common Stock.

The trading market for lower-quality securities tends to be less liquid than the market for higher-rated securities. At times, a major portion of an issue of lower-quality securities may be held by relatively few institutional purchasers. Although the Fund may consider securities to be liquid because of the availability of an institutional market, under negative market conditions or in the event of negative changes in the financial condition of the issuer, the Fund may find it more difficult to sell its securities or may be able to sell its securities only at prices lower than if the securities were more widely held. In those circumstances, the Fund may also find it more difficult to determine the correct value of securities when computing the Fund's NAV. The Fund, in most instances, utilizes an independent pricing service to determine the value of its securities. Securities for which market quotations are not readily available will be valued at fair value as determined in good faith by or as directed by the Board of Directors of the Fund.

Asset Coverage Requirements

The Fund is required to meet certain financial tests imposed by the 1940 Act and under the Rating Agency Guidelines. These are known as "asset coverage requirements." Higher-quality assets are given greater credit under the Rating Agency Guidelines, so the overall portfolio quality of the Fund may be higher, and the overall rate of return on portfolio holdings may be lower, than if the Fund were unleveraged. See "Description of Capital Stock Asset Maintenance."

Failure to meet any of the asset coverage requirements would have very serious consequences for the Fund. The Fund would not be allowed to declare dividends or other distributions on the Common Stock until it returned to compliance. Failure to pay dividends or distributions could cause serious tax problems for the Fund. See "Taxation." In an extreme situation, failure to pay two years worth of dividends on the ATP would give the holders of the ATP the right to elect a majority of the Directors until all accrued dividends had been provided for or paid.

To restore or maintain compliance with the asset coverage requirements, the Fund might have to redeem some or all of the ATP. Redeeming the ATP would reduce the Fund's leverage and could negatively affect potential returns on the Common Stock. An asset coverage problem under the Rating Agency Guidelines might also be addressed by changing the composition of its portfolio. This would probably involve additional transaction costs and losses or gains on the sale of portfolio securities. In addition, the value of higher-quality assets may react with greater volatility to interest rate changes than lower-quality assets. Later, if market conditions improved and high-yielding securities were available at attractive prices, the Rating Agency Guidelines might restrict the redeployment of assets from higher-quality assets to lower-quality, higher-yielding assets. Also, redeploying cash as the value of the Fund's assets rise involves significant transaction costs and possible delays, which further inhibits the Fund's ability to take advantage of a favorable investment environment. See "The Fund."

Premium/Discount From Net Asset Value

The Fund is a closed-end investment company. Closed-end investment companies differ from open-end investment companies (commonly referred to as "mutual funds") in that closed-end investment companies have a fixed capital base, whereas open-end companies issue securities redeemable at NAV at any time at the option of the stockholder and typically engage in a continuous offering of their shares. Shares of closed-end funds frequently trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that shares of the Fund will trade at a discount from NAV is a separate risk from the risk that the Fund's NAV will decrease. However, it should be noted that in some cases, shares of closed-end funds may trade at a premium. The Fund's shares have traded in the market above, at, and below NAV since the commencement of the Fund's operations. During the past three years, the Fund's shares have traded in the market at a premium and a discount to NAV at various times. See "Net Asset Value and Market Price Information" for the ranges of the market prices and the ranges of the net asset values of the shares of Common Stock for each calendar quarter since 1997. The Fund cannot predict whether the Shares will trade at a premium or a discount in the future.

The risk of purchasing shares of a closed-end investment company that might trade at a discount is more pronounced for investors who expect to sell their shares in a relatively short period of time. For these investors, any gain or loss on their investments may more dependent upon the existence of a premium or discount than upon portfolio performance.

Given the risks inherent in the Fund, investment in Shares should not be considered a complete investment program and is not appropriate for all investors. Investors should carefully consider their ability to assume these risks before exercising Rights.

MANAGEMENT OF THE FUND

Board of Directors

The management of the Fund, including general supervision of the duties performed by the Investment Adviser, is the responsibility of the Board of Directors. The Board of Directors consists of six individuals, four of whom are not "interested persons" as defined in the 1940 Act. During 2006, the Directors of the Fund met five times.

Set forth below are the Directors of the Fund who are not "interested persons" of the Fund within the meaning of Section 2(a)(19) of the 1940 Act, (the "Non-Interested Directors") as well as their principal occupations for at least the past five years, are as follows:

Name and Age	Positions(s) With the Fund[1]	Principal Occupation(s) During Past 5 Years	Other Directorships
Joseph L. Bower Date of Birth: 09/21/38	Director since 1988	Professor, Harvard Business School since 1963 - as Donald K. David Professor of Business Administration since 1986, Senior Associate Dean, Chair of the Doctoral Programs, Chair of the General Management Area, and currently, Chair of the General Manager Program.	Director of Anika Therapeutics, Inc., Sonesta International Hotels Corporation, Loews, Corporation (a conglomerate), and Brown Shoe Company, Inc., and Trustee of TH Lee-Putnam Emerging Opportunities Portfolio.

Name and Age	Positions(s) With the Fund[1]	Principal Occupation(s) During Past 5 Years	Other Directorships
Bernard J. Korman Date of Birth: 10/13/31	Director since 1987	Chairman of the Board of Directors of Philadelphia Health Care Trust (non-profit corporation supporting healthcare delivery, education and research).	Director of Omega Healthcare Investors, Inc. (real estate investment trust), Medical Nutrition USA, Inc. (develops and distributes nutritional products), and Nutramax Products, Inc. (a consumer healthcare products company).
Ernest E. Monrad Date of Birth: 05/30/30	Director since 1988	Trustee since 1960 and Chairman of the Trustees from 1969 to May 2001 of Northeast Investors Trust; Chairman, Assistant Treasurer and a Director since 1981 of Northeast Investors Growth Fund; Director and Vice President of Northeast Investment Management, Inc., until 12/31/06, and Director of Northeast Management & Research Company, Inc.	
Marguerite A. Piret Date of Birth: 5/10/48	Director since 2004	President and Chief Executive Officer, Newbury, Piret & Company, Inc., (an investment bank).	Trustee of Pioneer Funds.

(1) *The Fund is not part of any fund complex.*

The address of each Director is: c/o The New America High Income Fund, Inc., 33 Broad Street, Boston, Massachusetts 02109.

The Directors of the Fund who are "interested persons" of the Fund within the meaning of Section 2(a)(19) of the 1940 Act (the "Interested Directors"), as well as their principal occupations for at least the past five years, are set forth below:

Name and Age	Positions(s) With the Fund[1]	Principal Occupation(s) During Past 5 Years	Other Directorships
Robert F. Birch* Date of Birth: 03/12/36	Director and President since 1992	Mutual Fund Director	Director of Hyperion Funds, and Director of the Brandywine Funds.

Name and Age	Positions(s) With the Fund[1]	Principal Occupation(s) During Past 5 Years	Other Directorships
Richard E. Floor* Date of Birth: 08/03/40	Director and Secretary since 1987	Partner through his professional corporation with the law firm of Goodwin Procter LLP, Boston, Massachusetts.	Director of Affiliated Managers Group, Inc.

* *Messrs. Birch and Floor are deemed to be "Interested Directors" of the Fund because, in the case of Mr. Birch, he is the President of the Fund and, in the case of Mr. Floor, he is the Secretary of the Fund and a partner, through his professional corporation, of Goodwin Procter LLP, counsel to the Fund.*

(1) *The Fund is not part of any fund complex.*

The address of each Director is: c/o The New America High Income Fund, Inc., 33 Broad Street, Boston, Massachusetts 02109.

The Fund's Board of Directors consists of six members. Under the Fund's Articles and the 1940 Act, holders of the ATP are entitled to elect two Directors with the other three Directors elected by the holders of the Common Stock and the ATP voting as a single class, except in certain circumstances. In the event the Fund has no outstanding preferred stock, all of the Directors will be elected by the holders of the Common Stock. Since the Fund's inception, Messrs. Bower and Korman have been nominated for election as Directors by, and have been elected as Directors by the holders of, the Fund's outstanding preferred stock. Election of Directors is non-cumulative; accordingly, holders of a majority of the outstanding shares of Common Stock and ATP or a majority of the outstanding ATP may elect all of the Directors who are subject to election by them.

Executive Officer

Ellen E. Terry (Date of Birth 4/9/59), Vice President and Treasurer of the Fund since February 18, 1992, is the only executive officer of the Fund not named in the above table of interested Directors. Ms. Terry served as Acting President and Treasurer of the Fund from October 1991 through February 18, 1992, and as Vice President of the Fund prior to such time. Ms. Terry's address is: c/o The New America High Income Fund, 33 Broad Street, Boston, MA 02109. A Fund officer holds office until the officer's successor is duly elected and qualified, until the officer's death or until the officer resigns or has been removed.

Share Ownership of Management

The following table shows the beneficial ownership of the Fund's Common Stock by the Fund's Directors at January 31, 2007, based on information provided to the Fund by the Directors. As of December 31, 2006, the Fund's Directors and officers as a group beneficially owned 2,271,121 shares of the Fund's Common Stock, which constitutes 2.4% of the issued and outstanding shares of the Common Stock. No Director of the Fund owns shares of the Fund's ATP.

Name of Director	Dollar Range of Equity Securities in the Fund
Non-Interested Directors	
Joseph L. Bower	$ 50,001-$100,000
Bernard J. Korman	over $100,000
Ernest E. Monrad	over $100,000
Marguerite A. Piret	$ 10,001-$50,000
Interested Directors	
Robert F. Birch	over $100,000
Richard E. Floor	over $100,000

Compensation of Directors and Officers

During the fiscal year ended December 31, 2006, the Fund paid each Director a fee of $27,000 per year plus $2,000 per Directors' meeting (generally excluding brief telephonic meetings), together with actual out-of-pocket expenses relating to attendance at such meetings. In addition, Mr. Birch's compensation for services rendered to the Fund in his capacity as President for the calendar year ended December 31, 2006 was $117,300, and he currently receives an annual retainer of $110,000 plus an allowance of $7,400 for health insurance for his services to the Fund as President. Each member of the Fund's Audit and Nominating Committee, which consists of the Fund's non-interested Directors, receives $2,000 for each Audit and Nominating Committee meeting attended, other than meetings held on days on which there is also a Directors' meeting. Directors of the Fund received for the fiscal year ended December 31, 2006 aggregate remuneration of $210,000, exclusive of compensation paid to Mr. Birch for his services rendered to the Fund in his capacity as President. The following table summarizes the compensation paid to the Directors and officers of the Fund for the fiscal year ended December 31, 2006. The Fund does not provide remuneration in the form of pension or retirement benefits to any of its Directors or officers.

Name of Director or Officer	Aggregate Compensation from Fund	Pension or Retirement Benefits Accrued As Part of Fund Expenses	Estimated Annual Benefits Upon Retirement	Total Compensation from Fund[1]
Non-Interested Directors				
Joseph L. Bower	$ 35,000	None	none	$ 35,000
Bernard J. Korman	$ 35,000	None	none	$ 35,000
Ernest E. Monrad	$ 35,000	None	none	$ 35,000
Marguerite A. Piret	$ 35,000	None	none	

The Pre-Approval Policies and the types of audit and non-audit services pre-approved therein must be reviewed and ratified by the registrant s audit committee at least annually. The registrant s audit committee maintains full responsibility for the appointment, compensation, and oversight of the work of the registrant s principal accountant.

(e)(2) No services described in paragraphs (b)-(d) above were approved by the registrant s audit committee pursuant to the de minimis exception set forth in Rule 2-01(c)(7)(i)(C) of Regulation S-X.

(f) Not applicable.

(g) The following table presents (i) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the registrant by D&T for the registrant s fiscal years ended December 31, 2014 and December 31, 2015; and (ii) the aggregate non-audit fees (i.e., fees for audit-related, tax, and other services) billed to the Eaton Vance organization by D&T for the same time periods.

Fiscal Years Ended	12/31/14	12/31/15
Registrant	$ 9,310	$ 9,074
Eaton Vance[1]	$ 99,750	$ 56,434

(1) The investment adviser to the registrant, as well as any of its affiliates that provide ongoing services to the registrant, are subsidiaries of Eaton Vance Corp.

(h) The registrant s audit committee has considered whether the provision by the registrant s principal accountant of non-audit services to the registrant s investment adviser and any entity controlling, controlled by, or under common control with the adviser that provides ongoing services to the registrant that were not pre-approved pursuant to Rule 2-01(c)(7)(ii) of Regulation S-X is compatible with maintaining the principal accountant s independence.

Item 5. Audit Committee of Listed Registrants

The registrant has a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities and Exchange Act of 1934, as amended. William H. Park (Chair), Scott E. Eston, Cynthia E. Frost and Ralph F. Verni are the members of the registrant s audit committee.

Item 6. Schedule of Investments

Please see schedule of investments contained in the Report to Stockholders included under Item 1 of this Form N-CSR.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies

The Board of Trustees of the Trust has adopted a proxy voting policy and procedure (the Fund Policy), pursuant to which the Trustees have delegated proxy voting responsibility to the Fund s investment adviser and adopted the investment adviser s proxy voting policies and procedures (the Policies) which are described below. The Trustees will review the Fund s proxy voting records from time to time and will annually consider approving the Policies for the upcoming year. In the event that a conflict of interest arises between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund, the investment adviser will generally refrain from voting the proxies related to the companies giving rise to such conflict until it consults with the Board s Special Committee except as contemplated under the Fund Policy. The Board s Special Committee will instruct the investment adviser on the appropriate course of action.

The Policies are designed to promote accountability of a company s management to its shareholders and to align the interests of management with those shareholders. An independent proxy voting service (Agent), currently Institutional Shareholder Services, Inc., has been retained to assist in the voting of proxies through the provision of vote analysis, implementation and recordkeeping and disclosure services. The investment adviser will generally vote proxies through the Agent. The Agent is required to vote all proxies and/or refer then back to the investment adviser pursuant to the Policies. It is generally the policy of the investment adviser to vote in accordance with the recommendation of the Agent. The Agent shall refer to the investment adviser proxies relating to mergers and restructurings, and the disposition of assets, termination, liquidation and mergers contained in mutual fund proxies. The investment adviser will normally vote against anti-takeover measures and other proposals designed to limit the ability of shareholders to act on possible transactions, except in the case of closed-end management investment companies. The investment adviser generally supports management on social and environmental proposals. The investment adviser may abstain from voting from time to time where it determines that the costs associated with voting a proxy outweighs the benefits derived from exercising the right to vote or the economic effect on shareholders interests or the value of the portfolio holding is indeterminable or insignificant.

In addition, the investment adviser will monitor situations that may result in a conflict of interest between the Fund s shareholders and the investment adviser, the administrator, or any of their affiliates or any affiliate of the Fund by maintaining a list of significant existing and prospective corporate clients. The investment adviser s personnel responsible for reviewing and voting proxies on behalf of the Fund will report any proxy received or expected to be received from a company included on that list to the personal of the investment adviser identified in the Policies. If such personnel expects to instruct the Agent to vote such proxies in a manner inconsistent with the guidelines of the Policies or the recommendation of the Agent, the personnel will consult with members of senior management of the investment adviser to determine if a material conflict of interests exists. If it is determined that a material conflict does exist, the investment adviser will seek instruction on how to vote from the Special Committee.

Information on how the Fund voted proxies relating to portfolio securities during the most recent 12 month period ended June 30 is available (1) without charge, upon request, by calling 1-800-262-1122, and (2) on the Securities and Exchange Commission s website at http://www.sec.gov.

Item 8. Portfolio Managers of Closed-End Management Investment Companies

Eaton Vance Management (EVM or Eaton Vance) is the investment adviser to the Fund. EVM has engaged its affiliate, Parametric Portfolio Associates LLC (Parametric), as the sub-adviser to the Fund.

Michael A. Allison is responsible for managing the Fund s overall investment program, providing the sub-adviser with research support and supervising the performance of the sub-adviser and is responsible for the day-to-day management of EVM s responsibilities with respect to the Fund s investment portfolio. Mr. Allison is a Vice President of EVM, is a member of EVM s Equity Strategy Committee and has been a portfolio manager of the Fund since June 2015. Thomas C. Seto is the Parametric portfolio manager responsible for the day-to-day structuring and management of the Fund s common stock portfolio. Mr. Seto is Head of Investment Management at Parametric s Seattle Investment Center and has been a portfolio manager of the Fund since June 2005. Messrs. Allison and Seto have managed other Eaton Vance portfolios for more than five years. This information is provided as of the date of filing of this report.

The following table shows, as of the Fund s most recent fiscal year end, the number of accounts each portfolio manager managed in each of the listed categories and the total assets (in millions of dollars) in the accounts managed within each category. The table also shows the number of accounts with respect to which the advisory fee is based on the performance of the account, if any, and the total assets (in millions of dollars) in those accounts.

	Number of All Accounts	Total Assets of All Accounts	Number of Accounts Paying a Performance Fee	Total Assets of Accounts Paying a Performance Fee
Michael A. Allison				
Registered Investment Companies	14	$ 25,503.7	0	$ 0
Other Pooled Investment Vehicles	14	$ 7,893.6[1]	0	$ 0
Other Accounts	6	$ 42.2	0	$ 0
Thomas C. Seto				
Registered Investment Companies	27	$ 20,133.4[2]	0	$ 0
Other Pooled Investment Vehicles	9	$ 2,790.1	0	$ 0
Other Accounts	11,235	$ 53,120.0[3]	2	$ 967.3

(1) Certain of these Other Pooled Investment Vehicles invest a substantial portion of their assets either in a registered investment company or in a separate pooled investment vehicle managed by this portfolio manager or another Eaton Vance portfolio manager.

(2) This portfolio manager provides investment advice with respect to only a portion of the total assets of certain of these accounts. Only the assets allocated to this portfolio manager as of the Fund s most recent fiscal year end are reflected in the table.

(3) For Other Accounts that are part of a wrap account program, the number of accounts is the number of sponsors for which the portfolio manager provides advisory services rather than the number of individual customer accounts within each wrap account program.

The following table shows the dollar range of Fund shares beneficially by each portfolio manager as of the Fund s most recent fiscal year end.

Portfolio Manager	Dollar Range of Equity Securities Owned in the Fund
Michael A. Allison	$1 - $10,000
Thomas C. Seto	None

Potential for Conflicts of Interest. It is possible that conflicts of interest may arise in connection with a portfolio manager s management of a Fund s investments on the one hand and the investments of other accounts for which the portfolio manager is responsible on the other. For example, a portfolio manager may have conflicts of interest in allocating management time, resources and investment opportunities among the Fund and other accounts he or she advises. In addition, due to differences in the investment strategies or restrictions between a Fund and the other accounts, a portfolio manager may take action with respect to another account that differs from the action taken with respect to the Fund. In some cases, another account managed by a portfolio manager may compensate EVM or the sub-adviser based on the performance of the securities held by that account. The existence of such a performance based fee may create additional conflicts of interest for the portfolio manager in the allocation of management time, resources and investment opportunities. Whenever conflicts of interest arise, the portfolio manager will endeavor to exercise his or her discretion in a manner that he or she believes is equitable to all interested persons. EVM and the sub-adviser have adopted several policies and procedures designed to address these potential conflicts including a code of ethics and policies which govern EVM s and the sub-adviser s trading practices, including among other things the aggregation and allocation of trades among clients, brokerage allocation, cross trades and best execution.

Compensation Structure for EVM

Compensation of EVM s portfolio managers and other investment professionals has three primary components: (1) a base salary, (2) an annual cash bonus, and (3) annual stock-based compensation consisting of options to purchase shares of Eaton Vance Corp. s (EVC s) nonvoting common stock and restricted shares of EVC s nonvoting common stock. EVM s investment professionals also receive certain retirement, insurance and other benefits that are broadly available to EVM s employees. Compensation of EVM s investment professionals is reviewed primarily on an annual basis. Cash bonuses, stock-based compensation awards, and adjustments in base salary are typically paid or put into effect at or shortly after the October 31st fiscal year end of EVC.

Method to Determine Compensation. EVM compensates its portfolio managers based primarily on the scale and complexity of their portfolio responsibilities and the total return performance of managed funds and accounts versus the benchmark(s) stated in the prospectus, as well as an appropriate peer group (as described below). In addition to rankings within peer groups of funds on the basis of absolute performance, consideration may also be given to relative risk-adjusted performance. Risk-adjusted performance measures include, but are not limited to, the Sharpe ratio (Sharpe ratio uses standard deviation and excess return to determine reward per unit of risk). Performance is normally based on periods ending on the September 30th preceding fiscal year end. Fund performance is normally evaluated primarily versus peer groups of funds as determined by Lipper Inc. and/or Morningstar, Inc. When a fund s peer group as determined by Lipper or Morningstar is deemed by EVM s management not to provide a fair comparison, performance may instead be evaluated primarily against a custom peer group or market index. In evaluating the performance of a fund and its manager, primary emphasis is normally placed on three-year performance, with secondary consideration of performance over longer and shorter periods. A portion of the compensation payable to equity portfolio managers and investment professionals will be determined based on the ability of one or more accounts managed by such manager to achieve a specified target average annual gross return over a three year period in excess of the account benchmark. The cash bonus to be payable at the end of the three year term will be established at the inception of the term and will be adjusted positively or negatively to the extent that the average annual gross return varies from the specified target return. For funds that are tax-managed or otherwise have an objective of after-tax returns, performance is measured net of taxes. For other funds, performance is evaluated on a pre-tax basis. For funds with an investment objective other than total return (such as current income), consideration will also be given to the fund s success in achieving its objective. For managers responsible for multiple funds and accounts, investment performance is evaluated on an aggregate basis, based on averages or weighted averages among managed funds and accounts. Funds and accounts that have performance-based advisory fees are not accorded disproportionate weightings in measuring aggregate portfolio manager performance.

The compensation of portfolio managers with other job responsibilities (such as heading an investment group or providing analytical support to other portfolios) will include consideration of the scope of such responsibilities and the managers performance in meeting them.

EVM seeks to compensate portfolio managers commensurate with their responsibilities and performance, and competitive with other firms within the investment management industry. EVM participates in investment-industry compensation surveys and utilizes survey data as a factor in determining salary, bonus and stock-based compensation levels for portfolio managers and other investment professionals. Salaries, bonuses and stock-based compensation are also influenced by the operating performance of EVM and its parent company. The overall annual cash bonus pool is generally based on a substantially fixed percentage of pre-bonus adjusted operating income. While the salaries of EVM s portfolio managers are comparatively fixed, cash bonuses and stock-based compensation may fluctuate significantly from year to year, based on changes in manager performance and other factors as described herein. For a high performing portfolio manager, cash bonuses and stock-based compensation may represent a substantial portion of total compensation.

Compensation Structure for Parametric

Compensation of Parametric portfolio managers and other investment professionals has three primary components: (1) a base salary, (2) a cash bonus, and (3) annual stock-based compensation consisting of options to purchase shares of EVC nonvoting common stock, restricted shares of EVC nonvoting common stock and, for certain individuals, grants of profit participation interests in Parametric. Parametric investment professionals also receive certain retirement, insurance and other benefits that are broadly available to Parametric employees. Compensation of Parametric investment professionals is reviewed primarily on an annual basis. Stock-based compensation awards and adjustments in base salary and bonus are typically paid and/or put into effect at or shortly after fiscal year-end.

Method to Determine Compensation. Parametric seeks to compensate portfolio managers commensurate with their responsibilities and performance, and competitive with other firms within the investment management industry. The performance of portfolio managers is evaluated primarily based on success in achieving portfolio objectives for managed funds and accounts. The compensation of portfolio managers with other job responsibilities (such as product development) will include consideration of the scope of such responsibilities and the managers performance in meeting them.

Salaries, bonuses and stock-based compensation are also influenced by the operating performance of Parametric and EVC, its parent company. Cash bonuses available overall are determined based on a target percentage of Parametric profits. While the salaries of Parametric portfolio managers are comparatively fixed, cash bonuses and stock-based compensation may fluctuate substantially from year to year, based on changes in financial performance and other factors.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers

No such purchases this period.

Item 10. Submission of Matters to a Vote of Security Holders

No material changes.

Item 11. Controls and Procedures

(a) It is the conclusion of the registrant s principal executive officer and principal financial officer that the effectiveness of the registrant s current disclosure controls and procedures (such disclosure controls and procedures having been evaluated within 90 days of the date of this filing) provide reasonable assurance that the information required to be disclosed by the registrant has been recorded, processed, summarized and reported within the time period specified in the Commission s rules and forms and that the information required to be disclosed by the registrant has been accumulated and communicated to the registrant s principal executive officer and principal financial officer in order to allow timely decisions regarding required disclosure.

(b) There have been no changes in the registrant s internal controls over financial reporting during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant s internal control over financial reporting.

Item 12. Exhibits

(a)(1) Registrant s Code of Ethics Not applicable (please see Item 2).

(a)(2)(i) Treasurer s Section 302 certification.

(a)(2)(ii)	President s Section 302 certification.
(b)	Combined Section 906 certification.
(c)	Registrant s notices to shareholders pursuant to Registrant s exemptive order granting an exemption from Section 19(b) of the 1940 Act and Rule 19b-1 thereunder regarding distributions paid pursuant to the Registrant s Managed Distribution Plan.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eaton Vance Tax-Managed Buy-Write Opportunities Fund

By:	/s/ Michael A. Allison Michael A. Allison President
Date:	February 12, 2016

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By:	/s/ James F. Kirchner James F. Kirchner Treasurer
Date:	February 12, 2016
By:	/s/ Michael A. Allison Michael A. Allison President
Date:	February 12, 2016