

BOULDER GROWTH & INCOME FUND, INC.

STATEMENT OF ADDITIONAL INFORMATION

Boulder Growth & Income Fund, Inc. (the "Fund") is a closed-end, non-diversified management investment company. This Statement of Additional Information does not constitute a prospectus, but should be read in conjunction with the prospectus relating hereto dated May 16, 2008 (the "Prospectus"). This Statement of Additional Information does not include all information that a prospective investor should consider before participating in the rights offering (the "Offering") described in the Prospectus or otherwise purchasing the Fund's common stock. A copy of the Prospectus may be obtained without charge by calling the Fund's co-administrator (Fund Administrative Services, LLC) at (877) 561-7914. You may also obtain a copy of the Prospectus on the Securities and Exchange Commission's website (<http://www.sec.gov>). Capitalized terms used but not defined in this Statement of Additional Information have the meanings given to them in the Prospectus.

THE INFORMATION IN THIS STATEMENT OF ADDITIONAL INFORMATION 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 STATEMENT OF ADDITIONAL INFORMATION IS NOT AN OFFER TO SELL THESE SECURITIES AND IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

This Statement of Additional Information is dated May 16, 2008.

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THE FUND

From its inception in 1972 until 2002, the Fund was called USLife Income Fund, Inc. (the "Predecessor Fund"). The Predecessor Fund was managed to provide "a high level of current income," was virtually 100% invested in corporate bonds and was classified as a diversified fund under the Investment Company Act of 1940, as amended (the "1940 Act"). At a special stockholder meeting held in April 2002, stockholders approved changes in the Fund's name, in the investment objective to "total return" and in the Fund's classification from diversified to non-diversified, and eliminated or changed certain of the Fund's fundamental investment policies. See "Fundamental Policies" below. After the Fund implemented these changes, the Fund's advisers liquidated a substantial portion of the Fund's bond portfolio.

USE OF PROCEEDS

The proceeds of the Offering will be invested in accordance with the Fund's investment objective and policies as soon as practicable. The Advisers (defined below) anticipate that it may take up to six months for the Fund to invest substantially all of the net proceeds of this Offering in accordance with its investment objective and policies under current market conditions. Pending such investment, the Fund anticipates investing the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments. The increase in assets as a result in the Offering may also be used to help the Fund maintain the Distribution Policy (as defined below). The Distribution Policy permits the Fund's common stockholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically with respect to their common stock of the Fund without having to sell shares. See "Investment Policies and Restrictions – Other Investment Techniques and Policies – Level-Rate Distribution Policy" below.

INVESTMENT OBJECTIVE AND POLICIES

The Fund's investment objective is total return. The Fund seeks to produce both income and long-term capital appreciation by investing in a portfolio of equity and debt securities. The Fund invests primarily in common stocks, including dividend paying common stocks such as those issued by utilities, real estate investment trusts ("REITs") and registered investment companies ("RICs"). The Fund also invests in fixed income securities such as U.S. government securities, preferred stocks and bonds. The Fund invests primarily in securities of U.S.-based companies and to a lesser extent in foreign equity securities and sovereign debt, in each case denominated in foreign currency. The Fund has no restrictions on its ability to invest in foreign securities. The Fund is concentrated in Real Estate Related Companies, which means it must invest more than 25% of its total assets in REITs or the equity or debt securities of companies in or primarily servicing the real estate industry or deriving a substantial portion of their revenue from, or having a substantial portion of their assets invested in, real estate. No assurance can be given that the Fund will achieve its investment objective.

The Fund is a "non-diversified" investment company, as defined in the 1940 Act, which means that it is permitted to invest its assets in a more limited number of issuers than "diversified" investment companies. A diversified company may not, with respect to 75% of its total assets, invest more than 5% of its total assets in the securities of any one issuer and may not own more than 10% of the outstanding voting securities of any one issuer. However, under Subchapter M of the Internal Revenue Code of 1986, as amended (the "Code"), (A) not more than 25% of the Fund's total assets may be invested in securities of any one issuer (other than U.S. government securities and RICs) or of any two or more issuers controlled by the Fund which may be deemed to be engaged in the same, similar or related trades or businesses, and (B) with respect to 50% of the total value of the Fund's portfolio, (i) the Fund must limit to 5% the portion of its assets invested in the securities of a single issuer (other than U.S. government securities and RICs), and (ii) the Fund may not own more than 10% of the outstanding voting securities of any one issuer (other than U.S. government securities and RICs). The Fund intends to concentrate its common stock investments in a few issuers and to take large positions in those issuers, consistent with being a "non-diversified" fund. As a result, the Fund may be subject to a greater risk of loss than a diversified fund or a fund that has diversified its investments more broadly. Taking larger positions is also likely to increase the volatility of the Fund's NAV, reflecting fluctuation in the value of large Fund holdings.

Under normal market conditions, the Fund intends to invest at least 80% of its net assets in common stocks, primarily domestic common stocks and secondarily in foreign common stocks denominated in foreign currencies. The Fund's investments in common stocks may include, but is not limited to, RICs whose objective is income, REITs, and other dividend-paying common stocks. The portion of the Fund's assets that are not invested in common stocks may be invested in fixed income securities, cash equivalents and other income-producing securities. The term "fixed income securities" includes, but is not limited to, corporate bonds, U.S. government securities, notes, bills, debentures, preferred stocks, convertible securities, bank debt obligations, repurchase agreements and short-term money market obligations.

The portion of the Fund's assets that are not invested in common stocks may be invested in fixed income securities (including bonds, U.S. government securities, notes, bills, debentures, preferred stocks, convertible securities, bank debt obligations, repurchase agreements and short-term money market obligations), cash equivalents and income-producing common stocks. Under normal circumstances, the Fund will have 20% or less of its total assets in cash or cash equivalents. The Fund may, for temporary defensive purposes, allocate a higher portion of its assets to cash and cash equivalents. For this purpose, cash equivalents consist of, but are not limited to, short-term (less than twelve months to maturity) U.S. government securities, certificates of deposit and other bank obligations, investment grade corporate bonds other debt instruments and repurchase agreements. When the Fund takes temporary defensive positions it may have difficulty achieving its investment objective.

INVESTMENT POLICIES AND RESTRICTIONS

INDUSTRY CONCENTRATION POLICY. The Fund has adopted a concentration policy pursuant to which it must, under normal market conditions, invest more than 25% of its total assets in Real Estate Related Companies. The Fund must obtain stockholder approval prior to changing this policy. Real Estate Related Companies include, but are not limited to: REITs and other closed-end registered investment companies that invest primarily in REITs; home builders; real estate developers; property management companies; real estate brokerage companies; commercial and industrial construction companies; financial companies who make or service real estate mortgages and/or construction loans; title, homeowners and builders risk insurance companies; manufacturers, distributors and retailers of construction materials and/or building supplies; lumber, paper, forest products, and other companies with significant real estate holdings; holding companies of any of these companies; and any other companies that the Fund's advisers reasonably determine are "real estate related companies". Although the Fund may invest in Real Estate Related Companies of any size, it currently intends to invest in such companies with market capitalizations of greater than \$500 million. Although the Fund generally invests in U.S.-based Real Estate Related Companies, such companies may invest directly or indirectly in non-U.S. properties, and the Fund may make direct investments in foreign Real Estate Related Companies.

FUNDAMENTAL POLICIES. A number of the Fund's investment policies, listed below, are "fundamental" policies (the "Fundamental Policies"), which means that the policies may not be changed without the approval of the holders of a majority of the Fund's outstanding voting securities (which for this purpose and under the 1940 Act means the lesser of (i) 67% of the shares represented at a meeting at which more than 50% of the outstanding shares are represented or (ii) more than 50% of the outstanding shares). The Fund may not:

1. Issue any senior securities except as permitted under the 1940 Act.
2. Invest in the securities of companies conducting their principal business activity in the same industry if, immediately after such investment, the value of its investments in such industry would exceed 25% of the value of its total assets; provided that this limitation will not apply to Real Estate Related Companies.
3. Participate on a joint or a joint and several basis in any trading account in securities, except that the Fund may, to the extent permitted by rules, regulations or orders of the SEC, combine orders with others for the purchases and sales of securities in order to achieve the best overall execution.
4. Purchase or sell interests in oil, gas or other mineral exploration or development programs.
5. Purchase or sell real estate, except that the Fund may purchase or sell REITs and securities secured by real estate or interests therein issued by companies owning real estate or interests therein.
6. Purchase or sell commodities or commodity contracts.
7. Make loans other than through the purchase of debt securities in private placements and the loaning of portfolio securities.
8. Borrow money in an amount exceeding the maximum permitted under the 1940 Act.
9. Underwrite securities of other issuers, except insofar as it may be deemed to be an underwriter in selling a portfolio security which may require registration under the Securities Act of 1933.
10. Invest more than 30% of the value of its total assets in securities which have been acquired through private placements.
11. Purchase or retain the securities of any issuer, if, to the Fund's knowledge, those officers and directors of the Fund or its investment adviser who individually own beneficially more than 1/2 of 1% of the outstanding securities of such issuer, together own beneficially more than 5% of such outstanding securities.
12. Pledge, mortgage or hypothecate its assets except in connection with permitted borrowing and to the extent related to transactions in which the Fund is authorized to engage.

With the exception of the Fund's investment objective (i.e., total return), Concentration Policy and Fundamental Policies, all other policies, statements, objectives, terms and conditions may be changed by the Fund's Board of Directors (the "Board") without stockholder approval. Limitations on investments expressed in percentages are measured and are applicable only at the time of investment. They are not measured or applied on an ongoing basis. There is no requirement for the Fund to sell or change its portfolio investments resulting from changes in valuations to such investments.

INVESTMENT POLICIES AND TECHNIQUES

The following information supplements the discussion of the Fund's investment objective, policies and techniques that are described in the Prospectus.

PORTFOLIO INVESTMENTS. Under normal market conditions, the Fund intends to invest at least 80% of its net assets in common stocks, primarily domestic common stocks and secondarily in foreign common stocks denominated in foreign currencies. The Fund's investments in common stocks may include, but is not limited to, RICs whose objective is income, REITs, and other dividend-paying common stocks. The portion of the Fund's assets that are not invested in common stocks may be invested in fixed income securities, cash equivalents and other income-producing securities. The term "fixed income securities" includes but is not limited to corporate bonds, U.S. government securities, notes, bills, debentures, preferred stocks, convertible securities, bank debt obligations, repurchase agreements and short-term money market obligations.

COMMON STOCKS. The Fund may invest all or any portion of its assets in common stock. Common stock is defined as shares of a corporation that entitle the holder to a pro rata share of the profits of the corporation, if any, without preference over any other stockholder or class of stockholders, including holders of the corporation's preferred stock and other senior equity. Common stock usually carries with it the right to vote and frequently an exclusive right to do so. Holders of common stock also have the right to participate in the assets of the corporation upon liquidation after all other claims are paid or provided for.

In selecting common stocks for investment, the Fund expects to focus primarily on U.S.-based companies and secondarily on the common stock of foreign companies denominated in foreign currencies. The Fund is permitted to invest without limitation in companies outside the U.S. Generally, target companies will have consistent high returns on equity, while using modest amounts of debt relative to their industries. The Fund seeks investments in businesses which the Fund's investment advisers, Boulder Investment Advisers, LLC ("BIA") and Stewart West Indies Trading Company, Ltd. d/b/a Stewart Investment Advisers ("SIA") (collectively the "Advisers"), understand, which have fairly predictable and improving future earnings, and most importantly, are priced reasonably relative to the businesses' earnings and anticipated growth in earnings. The Fund will not necessarily focus its investments in "large-cap", "mid-cap" or "small-cap" companies since the Advisers believe it would be unwise to impose such investment limitations.

Investments in small or middle capitalization companies involve greater risk than is customarily associated with larger, more established companies due to the greater business risks of small size, limited markets and financial resources, narrow product lines and the frequent lack of depth of management. The securities of small or medium-sized companies are often traded over-the-counter, and may not be traded in volumes typical of securities traded on a national securities exchange. Consequently, the securities of smaller companies may have limited market stability and may be subject to more abrupt or erratic market movements than securities of larger, more established companies or the market averages in general.

When the Fund makes an investment in a common stock, it will likely make a significant investment and typically hold it for a long period of time. In the long run, the Fund believes that value investing produces superior total returns. However, value stocks can remain undervalued for long periods of time and may never reach what the Advisers believe are their full intrinsic values, or, as with any security may decline in value. In addition, value stocks may fall out of favor with investors and may under-perform growth stocks during given periods.

The Advisers may purchase stock of an issuer paying an unusually large dividend and, after the stock begins trading ex-dividend, sell the stock at a loss, thereby allowing the Fund to offset gains realized on other securities sold during the year. The Advisers enter into such transactions only when they believe that there is a high probability of realizing an economic profit for the Fund. This investment strategy may result in slightly higher portfolio turnover and transaction costs.

REAL ESTATE INVESTMENT TRUSTS. As a matter of investment policy, the Fund is concentrated in Real Estate Related Companies, which means it will, under normal market conditions, invest more than 25% of its total assets in such companies. The Fund must obtain stockholder approval prior to changing this policy. Real Estate Investment Trusts or REITs are included in the definition of Real Estate Related Companies and comprise a substantial portion of the Fund's assets. REITs invest primarily in commercial real estate or real estate-related loans. A REIT is not taxed on income distributed to its stockholders or unit-holders if it complies with regulatory requirements relating to its organization, ownership, assets and income, and with a regulatory requirement that it distribute to its stockholders or unit-holders at least 90% of its taxable income for each taxable year. Generally, REITs can be classified as equity REITs, mortgage REITs and hybrid REITs. Equity REITs invest the majority of their assets directly in real property and derive their income primarily from rents and capital gains from appreciation realized through property sales. Mortgage REITs invest the majority of their assets in real estate mortgages and derive their income primarily from interest payments. Hybrid REITs combine the characteristics of both equity and mortgage REITs. By investing in REITs indirectly through the Fund, stockholders will

bear not only the proportionate share of the expenses of the Fund, but also, indirectly, similar expenses of underlying REITs. The Fund invests in REITs primarily for income.

The Fund may be subject to certain risks associated with the direct investments of the REITs. REITs may be affected by changes in their underlying properties and by defaults by borrowers or tenants. Mortgage REITs may be affected by the quality of the credit extended. Furthermore, REITs are dependent on specialized management skills. Some REITs may have limited diversification and may be subject to risks inherent in financing a limited number of properties. REITs depend generally on their ability to generate cash flow to make distributions to stockholders or unit-holders, and may be subject to defaults by borrowers and to self-liquidations. In addition, a REIT may be affected by its failure to qualify for tax-free pass-through of income under the Code or its failure to maintain exemption from registration under the 1940 Act.

REGISTERED INVESTMENT COMPANIES. The Fund may invest in securities issued by Registered Investment Companies (“RICs”) subject to such limitations, restrictions and conditions as imposed by Federal law. The common stock of closed-end RICs can trade at a substantial discount to the underlying NAV of the RIC, and the Fund may, from time to time, invest in common stocks issued by RICs when they are trading at discounts or when the Advisers otherwise deem market conditions appropriate. The Fund intends to normally invest in RICs that pay dividends. RICs that pay regular dividends typically own interest rate sensitive securities, which tend to increase in value when interest rates decline, and decrease in value when interest rates increase. To the extent that the Fund invests in RICs, the Fund’s stockholders will incur expenses with respect to both the Fund and that portion of the Fund’s assets invested in other RICs. However, as common stocks of closed-end RICs can trade at substantial discounts to their underlying net asset values, the Advisers may deem the underlying expense of investing in a particular RIC to have minimal impact when compared to the discount at which the Fund may buy their shares. The NAV and market value of common stock issued by RICs will fluctuate with the value of the underlying assets. The Fund may invest in the auction market preferred stock of other closed-end funds primarily as a means of investing the Fund’s cash for the short-term in higher yielding alternatives to repurchase agreements or US treasury securities. The Fund will consider investing cash in these instruments, and other short-term money market type alternatives, when the yield spread is adequately attractive over repurchase agreements and US treasuries. The Fund generally will invest in auction market preferred stocks that are rated AAA although it may invest in lower rated securities from time to time.

Recent rules under the 1940 Act permit the Fund to invest more than 10% of its assets in other RICs with certain restrictions including: (i) a 3% limitation on acquiring the total outstanding voting shares of any other single RIC, (ii) voting shares of acquired RICs in accordance with certain stockholder principles, and (iii) not acquiring shares of other RICs with the purpose of requiring the acquired RIC to redeem greater than one percent of that RIC’s outstanding shares in a period of less than 30 days. As a result of new rules under the 1940 Act, and consistent with the Fund’s investment objectives, the Fund may invest a greater percentage of its assets in RICs subject to any restrictions or limitations imposed by Federal law.

BONDS. Prior to April 26, 2002, the Fund was called USLife Income Fund, Inc. and was virtually 100% invested in corporate bonds. Since the Fund changed its investment objective on April 26, 2002, the Advisers have liquidated the Fund’s entire bond portfolio.

Bonds, or fixed income securities, are debt obligations issued by the U.S. government and its agencies, corporations, municipalities and other borrowers. The market values of fixed income investments will change in response to interest rate changes and other factors. During periods of falling interest rates, the values of outstanding fixed income securities generally rise. Conversely, during periods of rising interest rates, the values of such securities generally decline. Changes by recognized rating agencies in the rating of any fixed income security and in the ability of an issuer to make payments of interest and principal also affect the value of these investments. Changes in the value of portfolio securities will not necessarily affect cash income derived from these securities, but will affect the Fund’s NAVs.

Corporations issue bonds and notes to raise money for working capital or for capital expenditures such as plant construction, equipment purchases and expansion. In return for the money loaned to the corporation, the corporation promises to pay bondholders interest and to repay the principal amount of the bond or note.

PREFERRED STOCKS. The Fund may invest in preferred securities. Preferred securities are equity securities, but they typically have many characteristics of fixed income securities, such as a fixed dividend payment rate and/or a preference over the issuer’s common shares as to the payment of dividends and/or the distribution of assets upon liquidation. However, because preferred stocks are equity securities, they may be more susceptible to risks traditionally associated with equity investments than fixed income securities. Unlike common stock, preferred securities typically do not have general voting rights.

Fixed rate preferred stocks have fixed dividend rates. They can be perpetual, with no mandatory redemption date, or issued with a fixed mandatory redemption date. Certain issues of preferred stock are convertible into other equity securities.

Perpetual preferred stocks provide a fixed dividend throughout the life of the issue, with no mandatory retirement provisions, but may be callable. Sinking fund preferred stocks provide for the redemption of a portion of the issue on a regularly scheduled basis with, in most cases, the entire issue being retired at a future date. The value of fixed rate preferred stocks can be expected to vary inversely with interest rates. Adjustable rate preferred stocks have a variable dividend rate which is determined periodically, typically quarterly, according to a formula based on a specified premium or discount to the yield on particular U.S. Treasury securities, typically the highest base-rate yield of one of three U.S. Treasury securities: the 90-day Treasury bill; the 10-year Treasury note; and either the 20-year or 30-year Treasury bond or other index. The premium or discount to be added to or subtracted from this base-rate yield is fixed at the time of issuance and cannot be changed without the approval of the holders of the adjustable rate preferred stock. Some adjustable rate preferred stocks have a maximum and a minimum rate and in some cases are convertible into common stock.

Auction rate preferred stocks pay dividends that adjust based on periodic auctions. Such preferred stocks are similar to short-term corporate money market instruments in that an auction rate preferred stockholder has the opportunity to sell the preferred stock at par in an auction, normally conducted at least every 49 days, through which buyers set the dividend rate in a bidding process for the next period. The dividend rate set in the auction depends on market conditions and the credit quality of the particular issuer. Typically, the auction rate preferred stock's dividend rate is limited to a specified maximum percentage of an external commercial paper index as of the auction date. Further, the terms of the auction rate preferred stocks generally provide that they are redeemable by the issuer at certain times or under certain conditions.

Recently, the liquidity crisis in the credit markets spilled over into the auction rate preferred market, disrupting trading in ARPS and resulting in widespread failed auctions. A failed auction occurs when there are too few buyers willing to bid on and purchase ARPS at the periodic auction, typically held every 7 or 28 days. Generally in a failed auction, because there are too few buyers, holders of the ARPS are unable to sell their shares and therefore must remain holders of the ARPS, although they continue to be paid interest on the shares they hold, typically at a higher interest rate (e.g., a "fail rate"). Although fail rates are intended in part to mitigate the inconvenience and temporary illiquidity of failed auctions, holders like the Fund must continue to hold the ARPS until a subsequent successful auction is conducted or the issuer redeems the ARPS. Consequently, holders of ARPS like the Fund will have to hold ARPS until liquidity returns to the auction rate preferred market and successful auctions are held, or until the issuers of the ARPS elect to redeem. The Fund cannot predict when or if the liquidity issues affecting the auction rate preferred market will be resolved and thus is not able to predict when it will be able to liquidate its ARPS holdings. As of April 30, 2008 the Fund held approximately \$17.9 million of ARPS.

The Fund may, from time to time, invest in preferred securities that are rated, or whose issuer's senior debt is rated, investment grade by Moody's and Standard & Poor's ("S&P") at the time of investment, although the Fund is not limited to investments in investment grade preferred securities. In addition, the Fund may acquire unrated issues that the Advisers deem to be comparable in quality to rated issues in which the Fund is authorized to invest.

MONEY MARKET INSTRUMENTS. Under normal conditions, the Fund may hold up to 20% of its assets in cash or money market instruments. The Fund intends to invest in money market instruments pending investments in common stocks, to serve as collateral in connection with certain investment techniques, and to hold as a reserve pending the payment of dividends to investors. When the Advisers believe that economic circumstances warrant a temporary defensive posture, the Fund may invest without limitation in short-term money market instruments.

Money market instruments that the Fund may acquire will be securities rated in the highest short-term rating category by Moody's Investors Service ("Moody's") or S&P or the equivalent from another major rating service, securities of issuers that have received such ratings with respect to other short-term debt or comparable unrated securities. Money market instruments in which the Fund typically expects to invest include: U.S. government securities; bank obligations (including certificates of deposit, time deposits and bankers' acceptances of U.S. or foreign banks); commercial paper rated P-1 by Moody's or A-1 by S&P; and repurchase agreements.

REPURCHASE AGREEMENTS. The Fund may invest temporarily, without limitation, in repurchase agreements, which are agreements pursuant to which securities are acquired by the Fund from a third party with the understanding that they will be repurchased by the seller at a fixed price on an agreed date. These agreements may be made with respect to any of the portfolio securities in which the Fund is authorized to invest. Repurchase agreements may be characterized as loans secured by the underlying securities. The Fund may enter into repurchase agreements with (i) member banks of the Federal Reserve System having total assets in excess of \$500 million and (ii) securities dealers, provided that such banks or dealers meet certain creditworthiness standards. The resale price reflects the purchase price plus an agreed upon market rate of interest which is unrelated to the coupon rate or date of maturity of the purchased security. The collateral is marked to market daily. Such agreements permit the Fund to keep all its assets earning interest while retaining "overnight" flexibility in pursuit of investments of a longer term nature.

The use of repurchase agreements involves certain risks. For example, if the seller of securities under a repurchase agreement defaults on its obligation to repurchase the underlying securities, as a result of its bankruptcy or otherwise, the Fund will seek to dispose of such securities, which action could involve costs or delays. If the seller becomes insolvent and subject to liquidation or reorganization under applicable bankruptcy or other laws, the Fund's ability to dispose of the underlying securities may be restricted. Finally, it is possible that the Fund may not be able to substantiate its interest in the underlying securities. To minimize this risk, the securities underlying the repurchase agreement will be held by the custodian at all times in an amount at least equal to the repurchase price, including accrued interest. If the seller fails to repurchase the securities, the Fund may suffer a loss to the extent proceeds from the sale of the underlying securities are less than the repurchase price.

GOVERNMENT SECURITIES. The Fund may invest in securities that include direct obligations of the United States and obligations issued by U.S. government agencies and instrumentalities ("Government Securities"). Included among direct obligations of the United States are Treasury bills, Treasury notes and Treasury bonds, which differ principally in terms of their maturities. Securities issued by U.S. government agencies and instrumentalities are: securities that are supported by the full faith and credit of the United States (such as Government National Mortgage Association certificates); securities that are supported by the right of the issuer to borrow from the U.S. Treasury (such as securities of Federal Home Loan Banks); and securities that are supported by the credit of the instrumentality (such as Federal National Mortgage Association and Federal Home Loan Mortgage Corporation bonds). No assurance can be given that the U.S. government will provide financial support in the future to U.S. government agencies, authorities or instrumentalities that are not supported by the full faith and credit of the United States. Securities guaranteed as to principal and interest by the U.S. government, its agencies, authorities or instrumentalities include (i) securities for which the payment of principal and interest is backed by an irrevocable letter of credit issued by the U.S. government or any of its agencies, authorities or instrumentalities; and (ii) participations in loans made to non-U.S. governments or other entities that are so guaranteed. The secondary market for certain of these participations is limited and therefore may be regarded as illiquid.

ZERO COUPON SECURITIES. The Fund may invest up to 10% of its total assets in zero coupon securities issued by the U.S. government, its agencies or instrumentalities as well as custodial receipts or certificates underwritten by securities dealers or banks that evidence ownership of future interest payments, principal payments or both on certain government securities. Zero coupon securities pay no cash income to their holders until they mature and are issued at substantial discounts from their value at maturity. When held to maturity, their entire return comes from the difference between their purchase price and their maturity value. Because interest on zero coupon securities is not paid on a current basis, the values of securities of this type are subject to greater fluctuations than are the values of securities that distribute income regularly and may be more speculative than such securities. Accordingly, the values of these securities may be highly volatile as interest rates rise or fall. In addition, the Fund's investments in zero coupon securities will result in special tax consequences. Although zero coupon securities do not make interest payments, for tax purposes a portion of the difference between a zero coupon security's maturity value and its purchase price is taxable income of the Fund each year.

Custodial receipts evidencing specific coupon or principal payments have the same general attributes as zero coupon Government Securities but are not considered to be Government Securities. Although typically under the terms of a custodial receipt the Fund is authorized to assert its rights directly against the issuer of the underlying obligation, the Fund may be required to assert through the custodian bank such rights as may exist against the underlying issuer. Thus, in the event the underlying issuer fails to pay principal and/or interest when due, the Fund may be subject to delays, expenses and risks that are greater than those that would have been involved if the Fund had purchased a direct obligation of the issuer. In addition, in the event that the trust or custodial account in which the underlying security has been deposited is determined to be an association taxable as a corporation, instead of a non-taxable entity, the yield on the underlying security would be reduced in respect of any taxes paid.

BORROWINGS. The Fund reserves the right to borrow funds to the extent permitted by its Fundamental Policies. See "Fundamental Policies" above. The proceeds of borrowings may be used for any valid purpose, including, without limitation, liquidity, investing and repurchases of capital stock of the Fund. The Fund may borrow money only in an amount up to one-third of the value of the Fund's total assets. Borrowing is a form of leverage and, in that respect, entails risks, including volatility in net asset value, market value and income available for distribution.

LENDING OF SECURITIES. The Fund is authorized to lend securities it holds to brokers, dealers and other financial organizations. Loans of the Fund's securities, if and when made, may not exceed 33-1/3% of the Fund's total assets. The Fund's loans of securities will be collateralized by cash, letters of credit or Government Securities that will be maintained at all times in a segregated account with the Fund's custodian in an amount at least equal to the current market value of the loaned securities.

By lending its portfolio securities, the Fund can increase its income by continuing to receive interest on the loaned securities, by investing the cash collateral in short-term instruments or by obtaining yield in the form of interest paid by the

borrower when Government Securities are used as collateral. The risk in lending portfolio securities, as with other extensions of credit, consists of the possible delay in recovery of the securities or the possible loss of rights in the collateral should the borrower fail financially. The Fund will adhere to the following conditions whenever it lends its securities: (i) the Fund must receive at least 100% cash collateral or equivalent securities from the borrower, which will be maintained by daily marking-to-market; (ii) the borrower must increase the collateral whenever the market value of the securities loaned rises above the level of the collateral; (iii) the Fund must be able to terminate the loan at any time; (iv) the Fund must receive reasonable interest on the loan, as well as any dividends, interest or other distributions on the loaned securities and any increase in market value; (v) the Fund may pay reasonable fees approved by its board of directors, including, for example, fees to (a) the custodian in connection with support of the lending activities, (b) the loan or placing broker for arranging the securities loan, and/or (iii) the borrower for participating in the loan transaction; and (c) voting rights on the loaned securities may pass to the borrower, except that, if a material event adversely affecting the investment in the loaned securities occurs, the Board must terminate the loan and regain the Fund's right to vote the securities.

SHORT SALES AGAINST THE BOX. The Fund may make short sales of securities in order to reduce market exposure and/or to increase its income if at all times when a short position is open, the Fund owns an equal or greater amount of such securities or owns preferred stock, debt or warrants convertible or exchangeable into an equal or greater number of the shares of common stocks sold short. Short sales of this kind are referred to as short sales "against the box." The broker-dealer that executes a short sale generally invests the cash proceeds of the sale until they are paid to the Fund. Arrangements may be made with the broker-dealer to obtain a portion of the interest earned by the broker on the investment of short sale proceeds. The Fund will segregate the securities against which short sales against the box have been made in a special account with its custodian. Not more than 10% of the Fund's net assets (taken at current value) may be held as collateral for such sales at any one time.

ILLIQUID SECURITIES. The Fund may invest in illiquid securities. Historically, illiquid securities have included securities subject to contractual or legal restrictions on resale because they have not been registered under the 1933 Act, securities which are otherwise not readily marketable and repurchase agreements having a maturity of longer than seven days. Restricted securities are securities that may not be sold freely to the public absent registration under the 1933 Act, or an exemption from registration. The Fund has no limitation on the amount of its assets that may be invested in securities which are not readily marketable or are subject to restrictions on resale, although it may not invest more than 30% of the value of its total assets in securities which have been acquired through private placement.

The Board has delegated the function of making day-to-day determinations of liquidity to the Advisers pursuant to guidelines approved by the Board. The Fund is a closed-end fund which means that managing liquidity for the purpose of stockholder redemptions is not an issue as it might otherwise be with an open-end fund. Accordingly, the Advisers are not constrained in this regard in their day-to-day management of the portfolio, knowing that redemptions are not an issue. Moreover, a majority of the securities in the Fund, both historically and currently, are exchange-traded securities with relatively good liquidity. In the few cases where the liquidity of certain securities is less so, the Advisers will take into account a number of factors in reaching liquidity decisions, including, but not limited to: (1) the frequency of trades for the security, (2) the number of dealers willing and ready to purchase and sell the security, (3) whether any dealers have agreed to make a market in the security, (4) the number of other potential purchasers for the security, and (5) the nature of the securities and the nature of the marketplace trades.

WHEN-ISSUED, DELAYED DELIVERY AND FORWARD COMMITMENT TRANSACTIONS. The Fund may purchase and sell securities, including Government Securities, on a when-issued, delayed delivery or forward commitment basis. Typically, no income accrues on securities the Fund has committed to purchase prior to the time delivery of the securities is made, although the Fund may earn income on securities it has segregated.

When purchasing a security on a when-issued, delayed delivery, or forward commitment basis, the Fund assumes the rights and risks of ownership of the security, including the risk of price fluctuations, and takes such fluctuations into account when determining its NAV. Because the Fund is not required to pay for the security until the delivery date, these risks are in addition to the risks associated with the Fund's other investments. If the Fund remains substantially fully invested at a time when when-issued, delayed delivery, or forward commitment purchases are outstanding, the purchases may result in a form of leverage.

When the Fund has sold a security on a when-issued, delayed delivery, or forward commitment basis, the Fund does not participate in future gains or losses with respect to the security. If the other party to a transaction fails to deliver or pay for the securities, the Fund could miss a favorable price or yield opportunity or could suffer a loss. The Fund may dispose of or renegotiate a transaction after it is entered into, and may sell when-issued, delayed delivery or forward commitment securities before they are delivered, which may result in a capital gain or loss. There is no percentage limitation on the extent to which the Fund may purchase or sell securities on a when-issued, delayed delivery, or forward commitment basis.

OTHER INVESTMENT TECHNIQUES AND POLICIES

AMPS LEVERAGE. The Fund is leveraged with 1,000 shares of auction market preferred stock (the "AMPS"). The AMPS are senior to the common stock and result in the financial leveraging of the common stock. Dividends on AMPS are cumulative. The Fund is required to meet certain asset coverage tests with respect to the AMPS. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the AMPS at a redemption price of \$25,000 per share plus an amount equal to the accumulated and unpaid dividends on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset requirements could restrict the Fund's ability to pay dividends to common stock stockholders and could lead to sales of portfolio securities at inopportune times. Nevertheless, the Fund's management believes that well-managed leverage can have a beneficial effect on common stockholders' total return. Leverage can provide enough additional income to pay a substantial portion of Fund expenses, if there is enough of a positive spread between the borrowed money and the return on the assets acquired with such monies. Use of leverage may have a number of adverse effects on the Fund and its stockholders, including: (i) leverage may magnify market fluctuations in the Fund's underlying holdings, thus causing a disproportionate change in the Fund's NAV; (ii) the Fund's cost of leverage may exceed the return on the underlying securities acquired with the proceeds of the leverage, thereby diminishing rather than enhancing the return to stockholders and generally making the Fund's total return to such stockholders more volatile; (iii) the Fund may be required to sell investments in order to meet dividend or interest payments on the debt or preferred stock when it may be disadvantageous to do so; and (iv) leveraging through the issuance of preferred stock requires that the holders of the preferred stock have class voting rights on various matters that could make it more difficult for the holders of the common stock to change the investment objective or fundamental policies of the Fund, to convert it to an open-end fund or make certain other changes.

Although the Fund will focus its use of leverage on producing income, the Fund may also purchase other income-producing securities (e.g., RICs, REITs and dividend-paying common stocks) or non-dividend-paying common stocks for long-term appreciation. The Fund is limited in its use of leverage to the maximum amount permitted pursuant to Section 18 of the 1940 Act.

RISKS ASSOCIATED WITH LEVERAGE. The AMPS leverage (or any other leverage) will create an opportunity for increased return but, at the same time, will involve special risk considerations. Leveraging will magnify declines as well as increases in the net asset value of the common stock and in the net return on the Fund's portfolio. Although the principal of the Fund's AMPS is fixed, the Fund's assets may change in value during the time the AMPS are outstanding, thus increasing exposure to capital risk. To the extent the return derived from the assets obtained with the AMPS proceeds exceeds the interest and other expenses that the Fund will have to pay, the Fund's net return will be greater than if AMPS leverage was not used. Conversely, however, if the return from the assets obtained with the AMPS proceeds is not sufficient to cover the dividends and cost of the AMPS, the net return of the Fund will be less than if AMPS leverage was not used, and therefore the amount available for distribution to the Fund's stockholders as dividends will be reduced.

In February 2008, the recent liquidity crisis in the credit markets spilled over into the auction rate preferred market, disrupting trading in auction market preferred stock ("ARPS") (similar to the AMPS) and resulting in widespread failed auctions of ARPS. The Fund's most recent AMPS auction similarly failed on April 28, 2008, and as of the date of this Statement of Additional Information, there has not been a successful subsequent auction. A failed auction occurs when there are too few buyers willing to bid on and purchase the ARPS at the periodic auction. Generally in a failed auction, because there are too few buyers, holders of ARPS are unable to sell and therefore must remain holders of the ARPS, although they continue to be paid interest on the shares they hold, typically at a higher interest rate. In the case of the AMPS, this higher rate is referred to as the "Maximum Applicable Rate". The Maximum Applicable Rate is intended in part to mitigate the inconvenience and temporary illiquidity of failed auctions, although the holder must continue to hold the AMPS until a subsequent successful auction is conducted or the issuer redeems the ARPS.

In the case of the AMPS, the Maximum Applicable Rate depends on the credit rating assigned to the AMPS and the duration of the dividend period. Currently, the AMPS have a Fitch rating of "AAA", a Moody's rating of "Aaa" and a 28-day dividend period. This corresponds with a Maximum Applicable Rate which is the higher of 125% of the reference rate (i.e., the 30-day London Inter-Bank Offered Rate or "LIBOR") or 1.25% plus the reference rate. As of May 9, 2008, the Maximum Applicable Rate for the Fund was 4.113%. As a point of reference, prior to the first failed AMPS auction, the rate paid by the Fund was 4.40%. Although the Maximum Applicable Rate presently paid by the Fund is relatively low compared to the rate set at its most recent successful auction, these circumstances could abruptly change if short-term interest rates increase. In such event, the Maximum Applicable Rate could also increase substantially.

Additionally, should the credit rating assigned to the AMPS be downgraded, the Maximum Applicable Rate paid by the Fund would increase depending on the revised credit rating. For example, should the AMPS' credit rating be downgraded to A+ by Fitch and/or to A1 by Moody's, the Maximum Applicable Rate payable by the Fund would increase to the higher

of 200% of the reference rate (i.e., LIBOR) or 2.00% plus the reference rate. In no instance would the Maximum Applicable Rate exceed the greater of 300% of the reference rate or 3.00% plus the reference rate.

All attendant costs of the AMPS leverage (e.g., auction agent and brokerage fees, dividends to AMPS stockholders, etc.) are borne by the Fund's common stockholders. The issuance of AMPS by the Fund may have costs and present other risks for common stockholders, including: (i) leverage may magnify market fluctuations in the Fund's underlying holdings, thus causing a disproportionate change in the Fund's NAV; (ii) the Fund's cost of leverage may exceed the return on the underlying securities acquired with the proceeds of the leverage, thereby diminishing rather than enhancing the return to stockholders and generally making the Fund's total return to such stockholders more volatile; (iii) the Fund may be required to sell investments in order to meet dividend or interest payments on the debt or preferred stock it has issued when it may be disadvantageous to do so; (iv) leveraging through the issuance of preferred stock requires that the holders of the preferred stock have class voting rights on various matters that could make it more difficult for common stockholders to change the investment objective or fundamental policies of the Fund, to convert it to an open-end fund or make certain other changes; and (v) the Fund may be forced to redeem some or all of the AMPS at inopportune times due to a decline in market value of Fund investments.

Additionally, the AMPS stockholders have a "dividend preference" for their shares meaning that, should the Fund decide to liquidate the AMPS, the Fund, or both, AMPS stockholders would receive first priority in payment of their liquidation preference, or \$25,000 per share, plus accrued and unpaid dividends, before the Fund's common stockholders would receive payment on the value of their liquidated shares. The net result may be that common stockholders receive an amount per share upon liquidation of the Fund that is reduced by the liquidation preference plus accrued and unpaid dividends first paid to AMPS stockholders. This reduced amount could be less than the current market value if the Fund is trading at a premium to its net asset value at the time of such liquidation.

BORROWING THROUGH REPURCHASE AGREEMENTS. The Fund may borrow by entering into reverse repurchase agreements with any member bank of the Federal Reserve System and any broker-dealer or any foreign bank that has been determined by the Advisers to be creditworthy. Under a reverse repurchase agreement, the Fund would sell securities and agree to repurchase them at a mutually agreed date and price. At the time the Fund enters into a reverse repurchase agreement, it will establish and maintain a segregated account with its custodian or a designated sub-custodian, containing cash or liquid obligations having a value not less than the repurchase price (including accrued interest). Reverse repurchase agreements involve the risk that the market value of the securities purchased with the proceeds of the sale of securities received by the Fund may decline below the price of the securities the Fund is obligated to repurchase. In the event the buyer of securities under a reverse repurchase agreement files for bankruptcy or becomes insolvent, the buyer or its trustee or receiver may receive an extension of time to determine whether to enforce the Fund's obligation to repurchase the securities, and the Fund's use of the proceeds of the reverse repurchase agreement may effectively be restricted pending the decision. Any reverse repurchase agreements entered into by the Fund will be treated as borrowings for purposes of calculating the Fund's borrowing limitation.

LEVEL-RATE DISTRIBUTION POLICY. In May 2006 stockholders voted in favor of, and the Fund adopted, a level-rate distribution policy (the "Distribution Policy"). A level-rate distribution policy allows a fund to provide a regular, periodic (but not assured) distribution to its common stockholders which is not dependent on the amount of income earned or capital gains realized by the fund. An equity fund, such as the Fund, is designed for investors to participate in a professionally managed portfolio of equity investments. Over the long-term, equity investments have historically provided higher total returns than fixed income investments such as bonds. However, unlike most fixed income funds, which pay stockholders a regular dividend based on the fund's investment income, equity funds generally pay only one dividend per year consisting of a relatively small amount of net investment income and any net realized capital gains. A level-rate distribution permits a fund to distribute a predetermined monthly amount, regardless of when or whether income is earned or capital gains are realized. However, the practice of making distributions that exceed income earned or capital gains realized can result in the Fund making distributions that consist of a return of capital. A level-rate distribution policy recognizes that many investors are willing to accept the potentially higher asset volatility of equity investments, but would prefer that a consistent level of cash distributions are available to them each month for reinvestment or other purposes of their choosing.

The Distribution Policy initially provided for monthly distributions at the rate of \$0.10 per Share per month, or \$1.20 per Share annually, which represented a 14.9% annual distribution rate relative to the Fund's NAV at the time. In February 2007, because the NAV of the Fund had increased substantially since the Distribution Policy was adopted, and the Board wished to maintain a similar annual distribution rate to that originally adopted, the Fund increased the distribution rate to \$0.115 per Share per month, or \$1.38 per Share annually, representing a 14.6% annual distribution rate relative to the Fund's NAV at the time. At its quarterly meeting in January 2008, the Board considered and resolved to maintain the current distribution rate at \$0.115 per Share per month, or \$1.38 per Share annually, representing 15.7% of the Fund's most recent market price (as of May 9, 2008) and 17.5% of the Fund's most recent NAV, both on an annualized basis. For the five-year period ending December 31, 2007, the Fund returned 15.9% on its NAV on an annualized basis. The annual

distribution rate under the Distribution Policy is reviewed periodically by the Board and generally will not exceed the annual long term performance of the Fund based on a rolling 5-year performance history, subject to the Board's discretion to suspend, modify or terminate the Distribution Policy at any time. In conducting its review of the annual distribution rate and the Fund's performance history, the Board will take into account, among other factors, that during 2002, the first year the Advisers served as investment advisers to the Fund, the Fund's portfolio consisted primarily of bonds that were below investment grade, and that the Fund recognized significant losses as these investments were liquidated and the proceeds invested in common stocks consistent with the Fund's new objective of total return.

Exemptive relief from the SEC is not required in the near term in order to continue the Distribution Policy. The Fund has applied to the SEC for exemptive relief from Section 19(b) of the 1940 Act and Rule 19b-1 under the 1940 Act to enable the Fund to continue the Distribution Policy over the long term. Section 19(b) of the 1940 Act limits an investment company's ability to make multiple distributions of net realized long-term capital gains each year, subject to certain exceptions contained in Rule 19b-1. Historically, investment companies that wished to implement a managed distribution policy requiring multiple capital gain distributions per year routinely received exemptive relief from Section 19(b). However, as of the date of this Prospectus, the SEC has not responded either favorably or unfavorably to the Fund's request for exemptive relief originally filed in 2004 and amended in January 2007. It is generally believed that the SEC has imposed a moratorium on granting this type of request for exemptive relief over concerns that inadequate disclosures by investment companies regarding sources of distributions (e.g., net investment income, net long-term capital gain, return of capital) have resulted in fund investors not understanding that distributions may include a return of capital and do not necessarily represent a dividend yield.

For the fiscal year ended November 30, 2007, the Distribution Policy did not violate Section 19(b) because the Fund had capital loss carry-forwards that were used to offset the Fund's realized net capital gains and all gains not otherwise offset were paid to Common Stockholders in the calendar-year-end distribution. Accordingly, only one distribution was made pursuant to the Distribution Policy which consisted of net long-term capital gains in compliance with Section 19(b). The Fund may similarly have net realized gains for the fiscal year ending November 30, 2008. In such case, unless the Fund (i) realizes capital losses prior to November 30, 2008, in an amount sufficient to offset all realized gains for the Fund's fiscal year or (ii) obtains exemptive relief from the SEC from Section 19(b) of the 1940 Act and Rule 19b-1 under the 1940 Act prior to November 30, 2008, so it can characterize a portion of its previous distributions as realized capital gains, the Fund would be required to distribute the entire amount of its net realized capital gains for the fiscal year to its stockholders in December 2008. The per share amount of any such net realized capital gains distribution may be greater than the per share amount at which monthly distributions previously have been made pursuant to the Distribution Policy, and therefore could shrink the Fund's assets more quickly than would otherwise be the case.

There are certain risks and negative impacts associated with the Distribution Policy:

- The Distribution Policy may impact the way in which the Fund is managed. The Advisers do not expect to make significant changes to the makeup of the Fund's portfolio or seek to invest in "high yielding" securities as a result of the Distribution Policy. The Fund may carry a slightly higher cash balance from time to time in order to fulfill the distribution payments. If the Fund carries higher cash balances during rising equity markets, the Fund's performance may be negatively affected relative to other equity funds. Conversely, carrying higher cash balances during declining equity markets may positively affect the Fund's performance. To avoid Code and 1940 Act requirements to make distributions in excess of the Distribution Policy, the Advisers expect to manage the portfolio slightly differently than in the absence of the Distribution Policy, but in a manner consistent with the Fund's investment objective and policies. For example, the Advisers may realize a loss in a security by selling it in order to offset realized capital gains, whereas, absent the Distribution Policy, the Advisers may not have realized the loss. The Advisers also may increase the Fund's position in a security with an unrealized loss, and subsequently sell the tax lot with the higher tax cost basis 31 days or more after the purchase to avoid a wash sale, leaving the Fund with approximately the same position in the security but with a lower tax cost basis. The Advisers may also purchase stock of an issuer paying an unusually large dividend and, after the stock begins trading ex-dividend, sell the stock at a loss, thereby allowing the Fund to offset gains realized on other securities sold during the year. The Advisers enter into such transactions only when they believe that there is a high probability of realizing an economic profit for the Fund. The investment strategies described above were utilized by the Advisers prior to the implementation of the Distribution Policy to realize losses for the Fund in an effort to be tax efficient, and may result in slightly higher portfolio turnover and transaction costs. The Fund may have a slightly higher portfolio turnover rate than other similar equity funds due to the periodic need to liquidate securities for the purpose of making payments under the Distribution Policy and the strategy of purchasing stocks paying unusually large dividends as discussed above. The Advisers will not hold positions with unrealized capital gains that they believe should be sold based on their fundamental analysis of the underlying issuer. The Advisers believe it would be better to discontinue the Distribution Policy than to see unrealized gains turn into unrealized

losses. The Fund may have net realized gains for the fiscal year ending November 30, 2008. In such case, unless the Fund (i) realizes capital losses prior to November 30, 2008, in an amount sufficient to offset all realized gains for the Fund's fiscal year or (ii) obtains exemptive relief from the SEC from Section 19(b) of the 1940 Act and Rule 19b-1 under the 1940 Act prior to November 30, 2008 so it can characterize a portion of its previous distributions as realized capital gains, the Fund would be required to distribute the entire amount of its net realized capital gains for the fiscal year to its stockholders in December 2008. The per share amount of any such net realized capital gains distribution may be greater than per share amount at which monthly distributions previously have been made pursuant to the Distribution Policy, and therefore could shrink the Fund's assets more quickly than would otherwise be the case. The Advisers may utilize the investment strategies described above to realize capital losses in an amount sufficient to offset the Fund's realized capital gains for the fiscal year.

- The Distribution Policy is subject to modification, suspension or termination at any time by the Board. Because the Distribution Policy was implemented without an exemption under Section 19(b) of the 1940 Act and Rule 19b-1, the Fund must have the flexibility to modify, suspend or terminate the Distribution Policy immediately if the Board deems such action to be in the best interests of the Fund and its stockholders.

As discussed above, the annual distribution rate under the Distribution Policy is reviewed periodically by the Board and generally will not exceed the average annual long term performance of the Fund based on a rolling 5-year performance history. If the Fund's long term performance declines, the Board will make a corresponding reduction in the annual distribution rate under the Distribution Policy. In addition, the SEC may impose conditions on any grant of exemptive relief from Section 19(b) that require the Board to consider adjusting the annual distribution rate on a more frequent basis under certain circumstances.

- A modification, suspension or termination of the Distribution Policy could result in a concurrent reduction or cessation of the \$0.115 per Share monthly distribution presently paid to Common Stockholders. If the Distribution Policy was suspended or terminated, the Fund would revert back to its prior practice of distributing only net investment income and net realized capital gains at the end of its fiscal year. A modification, suspension or termination of the Distribution Policy could have the effect of abruptly creating a trading discount (if the Fund is trading at or above NAV) or widening an existing trading discount.
- If the Fund's annual total return is less than the annual distribution, the Distribution Policy could have the effect of shrinking the assets of the Fund and thus increasing the Fund's expense ratio (i.e., the Fund's fixed expenses will be spread over a smaller pool of assets). The Board has determined that the annual distribution rate should not exceed the average annual long term performance of the Fund based on a rolling 5-year performance history. However, there may be interim periods where the annual distribution rate exceeds the short-term return on the Fund's NAV, which could shrink the assets of the Fund. In addition, if the Fund does not obtain exemptive relief from Section 19(b) prior to the end of its fiscal year and the Board elects to characterize the Fund's final distribution for the calendar year as including all net capital gain realized during the year, such distribution could shrink the Fund's assets more quickly than would otherwise be the case if the per share amount of any such net realized capital gains distribution is greater than per share amount at which monthly distributions previously have been made pursuant to the Distribution Policy.
- A distribution which contains a return of capital, which the Fund expects generally to be the case, will result in added record keeping for Common Stockholders. Return of capital is not taxable to Common Stockholders in the year it is paid. However, Common Stockholders will need to reduce the cost basis of their stock by the amount of the return of capital so that, when they sell the stock, they will have properly accounted for the return of capital. Such an adjustment will cause a Common Stockholder's gain to be more, or their loss to be less, as the case may be. For example, if a Common Stockholder purchased stock in the Fund for \$7.00 per Share and then receives dividends from the Fund which have \$1.00 per Share return of capital, and then the stockholder subsequently sells his Shares for \$7.50 per Share, his gain will be \$1.50 per Share, since he would have adjusted his cost basis downward by \$1.00 per Share (from \$7.00 to \$6.00 per Share). Common Stockholders who hold their stock in non-taxable accounts such as IRA's will not need to make any such adjustments. Common Stockholders should contact their own tax advisor if they have questions regarding the tax treatment of the distributions under the Distribution Policy.

PERIODIC RIGHTS OFFERINGS. The Fund has conducted several rights offerings in the past and is likely to continue to conduct rights offerings in the future. The Fund conducted a one-for-one rights offering in 2002, which doubled the number of common shares outstanding at the time and resulted in approximately \$24.35 million in net proceeds to the Fund. Over a period of approximately 4½ months following the offering, the Fund invested the proceeds in accordance with its investment objectives. The Fund conducted a one-for-three rights offering in September 2007, which resulted in the issuance of approximately 3.8 million common shares and approximately \$32.8 million in net proceeds to the Fund. As of

April 30, 2008, the Fund has invested approximately 48% of these proceeds. During this period, the market has declined with the S&P 500 Index down approximately 8%. Pending investment in accordance with its investment objective, the Fund has invested some of the proceeds in short-term securities issued by the U.S. government or its agencies or instrumentalities or in high quality, short-term or long-term debt obligations or money market instruments. Some of these investments have included investments in the ARPS (auction rate preferred securities) of other issuers. As of April 30, 2008, the Fund had invested approximately \$17.9 million, or approximately 12% of its assets, in ARPS of four different issuers. Although the auctions for these ARPS have recently failed, the Fund continues to receive dividend payments from these securities which conform to the Advisers' expected return on these types of investments.

MANAGEMENT OF THE FUND

The business and affairs of the Fund are managed under the direction of the Board of Directors. Accordingly, the Board is responsible for the overall management of the Fund, including supervision of the duties performed by the Advisers. There are five Directors of the Fund. Two of the Directors are "interested persons" of the Fund (as defined in the 1940 Act). The Directors who are not "interested persons" of the Fund are referred to herein as "Independent Directors." See "Management of the Fund" in the Prospectus for additional information about the Directors and officers of the Fund.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS

The following table sets forth certain information regarding the beneficial ownership of the Fund's shares as of May 9, 2008, by each person who is known by the Fund to beneficially own 5% or more of the Fund's common stock.

Name and Address* of Owner	Number of Shares	Number of Shares	Percentage
	Directly Owned	Beneficially Owned	Beneficially Owned
Ernest Horejsi Trust No. 1B (the "EH Trust")	2,395,174	2,395,174	15.7%
Badlands Trust Company, LLC		---**	15.7%
Stewart R. Horejsi Trust No. 2		---**	15.7%
Aggregate Shares Owned**	2,395,174	2,395,174	15.7%

* The address of each listed owner is c/o Badlands Trust Company, LLC ("Badlands"), Resolution Plaza, 1029 West Third Street, Suite 400, Anchorage, Alaska 99501.

** Excludes shares owned by the EH Trust. Badlands is one of three trustees of the EH Trust. Badlands is a private trust company organized under the laws of Alaska and is wholly owned by the Stewart R. Horejsi Trust No. 2, an irrevocable trust organized by Stewart R. Horejsi for the benefit of his issue. The managers of Badlands are Larry L. Dunlap, Stephen C. Miller, Laura Rhodenbaugh, Laura Tatoes, and Ron Kukes, each of whom disclaim beneficial ownership of shares owned by the EH Trust. Mr. Miller is an officer and manager of Badlands. Because two of the Trust's trustees are required in order for the Trust to vote or exercise dispositive authority with respect to shares owned by the Trust, Mr. Miller disclaims beneficial ownership of such shares.

Information as to beneficial ownership in the previous paragraph has been obtained from a representative of the beneficial owners; all other information as to beneficial ownership is based on reports filed with the Securities and Exchange Commission (the "SEC") by such beneficial owners.

As of May 15, 2008 Cede & Co., a nominee partnership of the Depository Trust Fund, held of record, but not beneficially, 14,496,409 shares or 94.9% of common stock outstanding and 1,000 shares or 100% of the AMPS outstanding.

As of May 9, 2008 officers and Directors of the Fund, as a group, owned 2,440,275 shares of the Fund's common stock (including the aggregate shares of common stock owned by the EH Trust as set forth above), and 0 shares of AMPS, representing 15.98% of common stock outstanding and 0% of AMPS.

OWNERSHIP OF THE FUND BY DIRECTORS

Set forth in the following table are the current members of the Board together with the dollar range of equity securities beneficially owned by each Director as of May 9, 2008, as well as the aggregate dollar range of the Fund's equity securities in all funds overseen in the Fund's family of investment companies (i.e., other funds managed by BIA and SIA and which hold themselves out as related companies).

	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities in All Funds in the Family of Investment Companies
<i>Independent Directors</i>		
Dr. Dean L. Jacobson	\$10,001 to \$50,000	\$50,001 to \$100,000
Richard I. Barr	\$10,001 to \$50,000	Over \$100,000
Joel W. Looney	\$50,001 to \$100,000	Over \$100,000
<i>Interested Directors</i>		
John S. Horejsi	Over \$100,000†	Over \$100,000
Susan L. Ciciora	Over \$100,000†	Over \$100,000

† 2,395,174 shares of the Fund are held by the EH Trust, with respect to which Mr. Horejsi and Ms. Ciciora are discretionary beneficiaries. Accordingly, Mr. Horejsi and Ms. Ciciora may be deemed to have indirect beneficial ownership of such Shares. Mr. Horejsi and Ms. Ciciora disclaim all such beneficial ownership. Ms. Ciciora directly owns 15,000 shares of the Fund. Mr. Horejsi does not directly own any shares of the Fund.

None of the Independent Directors or their family members owned beneficially or of record any securities of the Advisers or any person directly or indirectly controlling, controlled by, or under common control with the Advisers.

DIRECTOR AND OFFICER COMPENSATION

The following table sets forth certain information regarding the compensation of the Independent Directors for the fiscal year ended November 30, 2007. No persons other than the Independent Directors, as set forth below, currently receive compensation from the Fund for acting as a Director or officer. Directors and officers of the Fund do not receive pension or retirement benefits from the Fund.

Name of Person and Position with the Fund	Aggregate Compensation from the Fund	Total Compensation from the Fund and Fund Complex Paid to Directors
Richard I. Barr, Director	\$25,500	\$89,000 (4 funds)
Dr. Dean Jacobson, Director	\$25,500	\$85,000 (4 funds)
Joel W. Looney, Director and Chairman of the Board	\$31,500	\$102,000 (4 funds)
Susan L. Ciciora, Director	\$0	\$0
John S. Horejsi, Director	\$0	\$0

Each Director of the Fund who was not a director, officer or employee of one of the Advisers, or any of their affiliates, receives a fee of \$8,000 per annum plus \$3,000 for each in person meeting, \$500 for each Audit Committee meeting and \$500 for each telephonic meeting of the Board. In addition, the Chairman of the Board and the Chairman of the Audit Committee receives \$1,000 per meeting. Each non-interested Director of the Fund is reimbursed for travel and out-of-pocket expenses associated with attending Board and Committee meetings. The Board held thirteen meetings (nine of which were held by telephone conference call) during the fiscal year ended November 30, 2007. Each Director currently serving in such capacity for the entire fiscal year attended at least 75% of the meetings of Directors and any Committee of which he is a member. The aggregate remuneration paid to the Directors of the Fund for acting as such during the fiscal year ended November 30, 2007 amounted to \$82,500.

COMMITTEES OF THE BOARD OF DIRECTORS

AUDIT COMMITTEE. The Fund has an audit committee consisting solely of all of the Fund’s Independent Directors (i.e., Messrs. Looney, Barr and Jacobson) (the “Audit Committee”). The purpose of the Audit Committee is to assist Board oversight of the integrity of the Fund’s financial statements, the Fund’s compliance with legal and regulatory requirements, the independent auditor’s qualifications and independence and the performance of the Fund’s independent auditors. The Audit Committee reviews the scope and results of the Fund’s annual audit with the Fund’s independent accountants and recommends the engagement of such accountants. Management, however, is responsible for the preparation, presentation and integrity of the Fund’s financial statements, and the independent accountants are responsible for planning and carrying out proper audits and reviews. The Board of Directors adopted a written charter for the Audit Committee on January 23, 2002 and most recently amended the Charter on January 25, 2008 to add The Denali Fund Inc. A copy of the Audit Committee Charter was attached as an exhibit to the Fund’s proxy statement dated March 8, 2007.

The Audit Committee is composed entirely of the Fund’s independent Directors, consisting of Messrs. Jacobson, Barr, and Looney. The Board of Directors has determined that Joel Looney qualifies as an “audit committee financial expert,” as defined under the Securities and Exchange Commission’s Regulation S-K, Item 401(h). The Audit Committee is in compliance with applicable rules of the listing requirements for closed-end fund audit committees; including the requirement that all members of the audit committee be “financially literate” and that at least one member of the audit committee have “accounting or related financial management expertise,” as determined by the Board. The Audit Committee is required to conduct its operations in accordance with applicable requirements of the Sarbanes-Oxley Act and the Public Company Accounting Oversight Board, and the members of the Audit Committee are subject to the fiduciary duty to exercise reasonable care in carrying out their duties. Each member of the Audit Committee is independent, as that term is defined by the NYSE Listing Standards. The Audit Committee met twice during the fiscal year ended November 30, 2007.

In connection with the audited financial statements as of and for the period ended November 30, 2007 included in the Fund’s Annual Report for the period ended November 30, 2007 (the “Annual Report”), at meetings held on January 17, 2008 and January 25, 2008, the Audit Committee considered and discussed the audited financial statements with management and the independent accountants, and discussed the audit of such financial statements with the independent accountants.

The Audit Committee has received the written disclosures and letter from the independent accountants required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with the independent accountants their independence. The Audit Committee discussed with the independent accountants the accounting principles applied by the Fund and such other matters brought to the attention of the Audit Committee by the independent accountants required by Statement of Auditing Standards No. 61, Communications With Audit Committees, as currently modified or supplemented.

The members of the Audit Committee are not professionally engaged in the practice of auditing or accounting and are not employed by the Fund in any accounting, financial management or internal control capacity. Moreover, the Audit Committee relies on and makes no independent verification of the facts presented to it or representations made by management or the independent accountants. Accordingly, the Audit Committee's oversight does not provide an independent basis to determine that management has maintained appropriate accounting and financial reporting principles and policies, or internal controls and procedures, designed to assure compliance with accounting standards and applicable laws and regulations. Furthermore, the Audit Committee's considerations and discussions referred to above do not provide assurance that the audit of the Fund's financial statements has been carried out in accordance with generally accepted accounting standards or that the financial statements are presented in accordance with generally accepted accounting principles.

NOMINATING COMMITTEE. The Board of Directors has a nominating committee (the "Nominating Committee") consisting of Messrs. Looney, Jacobson and Barr, which is responsible for considering candidates for election to the Board in the event a position is vacated or created. Each member of the Nominating Committee is independent, as that term is defined by the NYSE Listing Standards. The Nominating Committee did not meet during the fiscal year ended November 30, 2007.

The Nominating Committee does not have a formal process for identifying candidates. The Nominating Committee takes into consideration such factors as it deems appropriate when nominating candidates. These factors may include judgment, skill, diversity, experience with investment companies and other organizations of comparable purpose, complexity, size and subject to similar legal restrictions and oversight, the interplay of the candidate's experience with the experience of other Board members, and the extent to which the candidate would be a desirable addition to the Board and any committees thereof. The Nominating Committee will consider all qualified candidates in the same manner. The Nominating Committee may modify its policies and procedures for director nominees and recommendations in response to changes in the Fund's circumstances, and as applicable legal or listing standards change.

The Nominating Committee will consider director candidates recommended by stockholders (if a vacancy were to exist) and submitted in accordance with applicable law and the following procedures. Pursuant to the Fund's Bylaws, at any annual meeting of the stockholders, only business that has been properly brought before the meeting will be conducted. To be properly brought before the annual meeting, the business must be (i) specified in the notice of meeting, (ii) by or at the direction of the Board, or (iii) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before the annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the Secretary of the Fund. To be timely, a stockholder's notice must be delivered to the Secretary of the Fund no later than 5:00 p.m., Mountain Time, on the 120th day prior to the first anniversary of the date of mailing of the notice for the preceding year's annual meeting. However, if the date of the annual meeting is advanced or delayed by more than 30 days from the first anniversary of the date of the preceding year's annual meeting, for notice by the stockholder to be timely, it must be delivered not later than 5:00 p.m., Mountain Time, on the later of the 120th day prior to the date of such annual meeting or the tenth day following the day on which public announcement of the date of such meeting is first made. The public announcement of a postponement or adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder's notice as described above.

Pursuant to the Fund's Bylaws, such stockholder's notice shall set forth as to each individual whom the stockholder proposes to nominate for election or reelection as a director, (A) the name, age, business address and residence address of such individual, (B) the class, series and number of any shares of stock of the Fund that are beneficially owned by such individual, (C) the date such shares were acquired and the investment intent of such acquisition, (D) whether such stockholder believes any such individual is, or is not, an "interested person" of the Fund, as defined in the 1940 Act and information regarding such individual that is sufficient, in the discretion of the Board or any committee thereof or any authorized officer of the Fund, to make such determination and (E) all other information relating to such individual that is required to be disclosed in solicitations of proxies for election of directors in an election contest (even if an election contest is not involved), or is otherwise required, in each case pursuant to Regulation 14A (or any successor provision) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the rules thereunder (including such individual's written consent to being named in the proxy statement as a nominee and to serving as a director if elected).

INVESTMENT ADVISERS AND OTHER SERVICE PROVIDERS

The Fund is co-advised by Boulder Investment Advisers, LLC (“BIA”) and Stewart West Indies Trading Company, Ltd. d/b/a Stewart Investment Advisers (“SIA”) (collectively, the “Advisers”). The Advisers have been providing advisory services to the Fund since January 2002, to Boulder Total Return Fund, Inc. since March 1999, and to The Denali Fund Inc. since October 26, 2007 (on an interim basis until the advisory agreements were approved by stockholders of that Fund as of February 22, 2008). As of April 30, 2008, the Advisers had a total of \$627.8 million in assets under management.

BOULDER INVESTMENT ADVISERS, LLC. BIA was formed on April 8, 1999, as a Colorado limited liability company and is registered as an investment adviser under the Investment Advisers Act of 1940, as amended. Stewart R. Horejsi is an employee of and investment manager for both Advisers and has extensive experience managing common stocks for the Fund as well as for the various other trusts and entities affiliated with the Horejsi family (the “Horejsi Affiliates”). The members of BIA are Evergreen Atlantic, LLC, whose address is 2344 Spruce Street, Suite A, Boulder CO 80302, and the Lola Brown Trust No. 1B (the “LB Trust”), whose address is c/o Badlands Trust Company, LLC, Resolution Plaza, 1029 West Third Street, Suite 400, Anchorage, Alaska 99501 (the “Members”). Each of the Members hold a 50% interest in BIA. The Members are “affiliated persons” of the Fund (as that term is defined in the 1940 Act). Mr. Horejsi and John S. Horejsi and Susan L. Ciciora, Mr. Horejsi’s son and daughter, respectively, and the Fund’s two “interested” Directors, are discretionary beneficiaries under the LB Trust as well as under other Horejsi Affiliates which own Evergreen Atlantic, LLC. Accordingly, as a result of this relationship, each of Stewart R. Horejsi, John S. Horejsi and Susan L. Ciciora may directly or indirectly benefit from the relationship between the Fund and BIA.

STEWART INVESTMENT ADVISERS. SIA is a Barbados international business company incorporated on November 12, 1996. SIA is wholly owned by the Stewart West Indies Trust (the “West Indies Trust”), an irrevocable trust domiciled in Alaska and established by Mr. Horejsi in 1996 primarily to benefit his issue. The West Indies Trust’s address is c/o Badlands Trust Company, LLC, Resolution Plaza, 1029 West Third Street, Suite 400, Anchorage, Alaska 99501. Mr. Horejsi is not a beneficiary under the West Indies Trust. However, John S. Horejsi and Susan L. Ciciora, Mr. Horejsi’s son and daughter, respectively, and the Fund’s “interested” Directors, are discretionary beneficiaries under the West Indies Trust and thus, as a result of this relationship, may directly or indirectly benefit from the relationship between SIA and the Fund.

SIA is not domiciled in the United States and substantially all of its assets are located outside the United States. As a result, it may be difficult to realize judgments of courts of the United States predicated upon civil liabilities under federal securities laws of the United States. The Fund has been advised that there is substantial doubt as to the enforceability in Barbados of such civil remedies and criminal penalties as are afforded by the federal securities laws of the United States. Pursuant to the advisory agreement between SIA and the Fund, SIA has appointed the Secretary of the Fund (presently Stephanie Kelley in Boulder, Colorado) as its agent for service of process in any legal action in the United States, thus subjecting it to the jurisdiction of the United States courts.

CO-ADVISORY AGREEMENTS. The Advisers and the Fund are parties to investment co-advisory agreements dated as of April 26, 2002 (the “Advisory Agreements”). Under the terms of the Advisory Agreements, the Advisers provide advisory services regarding asset allocation, manage the investment of the Fund’s assets and provide such investment research, advice and supervision, in conformity with the Fund’s investment objective and policies, as necessary for the operations of the Fund. The Advisory Agreements provide, among other things, that the Advisers will bear all expenses in connection with the performance of their services under the Advisory Agreements.

The Advisory Agreements provide that the Fund shall pay to the Advisers for their services an aggregate monthly fee at the annual rate of 1.25% of the Fund’s average monthly net assets, including the principal amount of leverage, if any (the “Adviser Fee”). The Adviser Fee is higher than the fees paid by most similarly situated U.S. investment companies. Under the terms of the Advisory Agreements, the Advisers share the Adviser Fee as determined by the Advisers and approved by the Board from time to time. Presently, BIA and SIA receive 25% and 75%, respectively, of the Adviser Fee. Although the Advisers intend to devote such time and effort to the business of the Fund as they deem reasonably necessary to perform their respective duties to the Fund, the services of the Advisers are not exclusive and the Advisers may provide similar services to other investment companies and other clients and may engage in other activities. At a regular meeting of the Board held on January 25, 2008, the Advisers agreed to a waiver of advisory fees at certain “break-point” levels such that, in the future, the Adviser Fee would be calculated at the annual rate of 1.25% on asset levels up to \$400 million, 1.10% on assets levels between \$400-\$600 million; and 1.00% on asset levels exceeding \$600 million.

The Advisory Agreements provide that the Advisers shall not be liable for any error of judgment or mistake of law or omission or any loss suffered by the Fund in connection with the matters to which the agreements relate, although the agreements do not protect or purport to protect the Advisers against any liability to the Fund to which the Advisers would otherwise be subject by reason of willful misfeasance, bad faith or gross negligence on their part in the performance of their

duties or from reckless disregard by them of their obligations and duties under the agreements. Each Advisory Agreement also provides for indemnification by the Fund of the Advisers and their partners, members, officers, employees, agents and control persons for liabilities incurred by them in connection with their services to the Fund, subject to certain limitations and conditions.

PORTFOLIO MANAGERS. Stewart R. Horejsi is the Fund's primary investment manager and, together with Carl D. Johns, the Fund's Vice President and Treasurer, is responsible for the day-to-day management of the Fund's assets. Mr. Horejsi is primarily responsible for the Fund's asset allocation and Mr. Johns, also Vice President and Treasurer of BIA, is responsible for research and managing the Fund's fixed income portfolio. Messrs. Horejsi and Johns are referred to herein as the "Portfolio Managers". The Portfolio Managers act as the portfolio managers with respect to the Fund and two other registered investment companies, the Boulder Total Return Fund, Inc. ("BTF") and The Denali Fund ("DNY"). As of April 30, 2008, BTF had total assets, including leverage, of approximately \$352.3 million and DNY had total assets, including leverage, of approximately \$126.8 million. Mr. Horejsi also acts as a financial consultant to the Horejsi Affiliates and manages their portfolios of equities having an aggregate value of approximately \$892.4 million as of December 31, 2007.

The Portfolio Managers are compensated with fixed salaries which are established based on a number of considerations, including, among others, job and portfolio performance, industry compensation and comparables, and years of experience and service with the Adviser. The Portfolio Managers are reviewed from time to time and their salaries may be adjusted based on their recent and long-term job performance and cost of living increases. Generally, the Portfolio Managers do not receive bonuses. Conflicts of interest may arise in connection with the Portfolio Managers' management of the Fund's investments. This is because the Portfolio Managers also serve as portfolio managers to BTF, DNY and the other accounts described above that may have investment objectives identical or similar to those of the Fund. See "Potential Conflicts of Interest" below.

Mr. Horejsi does not directly own any shares of the Fund. However, the EH Trust, which has engaged Mr. Horejsi as a financial consultant and of which Mr. Horejsi is a discretionary beneficiary, holds 2,395,174 shares of the Fund as of May 9, 2008. Accordingly, Mr. Horejsi may be deemed to have indirect beneficial ownership of such shares which have a dollar range in excess of \$1 million. Mr. Horejsi disclaims all such beneficial ownership. Mr. Johns holds between \$10,001 and \$50,000 of the shares of the Fund as of May 9, 2008.

FUND ADMINISTRATIVE SERVICES, LLC. Fund Administrative Services, LLC ("FAS") is the Fund's co-administrator. FAS is a Colorado limited liability company formed in 1994. Its principal place of business is 2344 Spruce Street, Suite A, Boulder, Colorado 80302 and it has offices in Kansas at 200 S. Santa Fe #4, Salina, Kansas 67401. The members of FAS are the LB Trust (50%) and Evergreen Atlantic, LLC (50%). Stewart R. Horejsi, the Fund's portfolio manager, his son John S. Horejsi and his daughter Susan L. Ciciora, the Fund's "interested" Directors, are discretionary beneficiaries of the LB Trust, and of the trusts which own Evergreen Atlantic, LLC. The officers of FAS are Stephen C. Miller, manager; Carl Johns, assistant manager; Laura Rhodenbaugh, secretary/treasurer; and Stephanie Kelley, assistant secretary. Since January of 2002, FAS has been providing certain administrative and executive management services to the Fund, including among other things negotiation of service provider contracts, oversight of service providers, maintenance of the Fund's policies and procedures, and provision of compliance, legal and fund accounting services. FAS has also provided such administrative and executive management services to Boulder Total Return Fund, Inc. since March of 1999, to First Financial Fund, Inc. since August of 2003 and DNY since October of 2007.

The Fund and FAS are parties to an administration agreement dated February 1, 2004. Under the administration agreement, the Fund pays FAS a monthly fee calculated at an annual rate of 0.20% of the value of the Fund's average monthly net assets up to \$250 million; 0.18% of the Fund's average monthly net assets on the next \$150 million; and, 0.15% on the value of the Fund's average monthly assets over \$400 million. FAS has agreed to cap the Fund's total administration costs at 0.30% (including administration, co-administration, transfer agent and custodian fees), and therefore waives a portion of its fee should the total monthly administration expenses exceed 0.30% on an annualized basis.

STATE STREET BANK AND TRUST COMPANY. State Street Bank and Trust Company (formerly known as Investors Bank & Trust Company) ("State Street"), located at 200 Clarendon Street, Boston, Massachusetts 02116, serves as the Fund's co-administrator and custodian. On February 4, 2007, State Street Corporation ("SSC") entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") with Investors Financial Services Corp. ("IFSC"), the parent company of Investors Bank & Trust Company. Pursuant to the Reorganization Agreement, IFSC merged into SSC effective July 2, 2007. As co-administrator, State Street provides certain services including fund accounting and preparation of materials for Board meetings. Under an administration agreement and custody agreement between the Fund and State Street, the Fund pays State Street a combined monthly fee for both co-administrative and custodian services calculated at an annual rate of 0.058% of the value of the Fund's average monthly total net assets (including the principal amount of leverage, if any) up to \$300 million and 0.04% on the value of the Fund's average monthly total net assets over \$300 million, or a minimum monthly fee of \$10,500. Presently, because of the level of the Fund's average monthly total net

assets, the Fund pays the minimum of \$10,500 monthly. In addition, State Street receives certain out-of-pocket expenses, transaction fees and certain charges for securities transactions. All customary fees of the custodian are paid by the Fund.

COMPENSATION TO THE ADVISERS AND ADMINISTRATORS

Information is provided in this Statement of Additional Information and the Prospectus concerning the Advisers and Administrator and their agreements with the Fund. The amounts paid to such persons during the last three fiscal years or, if shorter, the period during which the entity was retained to provide services to the Fund are as follows:

Name of Entity	Fees Paid by the Fund†			
	fiscal	2005	2006	2007
Boulder Investment Advisers, LLC		\$333,197	\$376,193	\$419,482
Stewart Investment Advisers		\$999,592	\$1,128,580	\$1,258,446
Fund Administrative Services, LLC		\$160,788	\$192,411	\$234,229
State Street Bank and Trust Company (formerly known as Investors Bank & Trust Company)		\$135,839	\$144,255	\$143,128

† All figures are on a cash basis.

DURATION AND TERMINATION OF THE INVESTMENT ADVISORY AGREEMENTS

The terms of the Advisory Agreements were approved by the Board at a regular meeting of the Board held on January 25, 2008, including a majority of the Directors who are not parties to the agreement or “interested persons” of any such party (as such term is defined in the 1940 Act).

Each Advisory Agreement will continue in effect without a term so long as its continuation is specifically approved at least annually by both (i) the vote of a majority of the Board or the vote of a majority of the outstanding voting securities of the Fund (as such term is defined in the 1940 Act) and (ii) by the vote of a majority of the directors who are not parties to such Advisory Agreement or interested persons (as such term is defined in the 1940 Act) of any such party, cast in person at a meeting called for the purpose of voting on such approval. Any of the Advisory Agreements may be terminated as a whole at any time by the Fund, without the payment of any penalty, upon the vote of a majority of the Board or a majority of the outstanding voting securities of the Fund or by the Advisers on 60 days' written notice by either party to the other. Except as otherwise provided by order of the SEC or any rule or provision of the 1940 Act, each of the Advisory Agreements will terminate automatically in the event of its assignment (as such term is defined in the 1940 Act and the rules thereunder).

POTENTIAL CONFLICTS OF INTEREST

The Fund is managed by the Advisers, who also serve as investment advisers to two other closed-end investment companies with investment objectives somewhat identical or similar to those of the Fund. Mr. Horejsi also manages a substantial portfolio of securities for the Horejsi Affiliates. Securities frequently meet the investment objectives of the Fund, the Horejsi Affiliates and such other funds and accounts. In such cases, the decision to recommend a purchase to one fund or account rather than another is based on a number of factors. The determining factors in most cases are the amount of securities of the issuer then outstanding, the value of those securities and the market for them. Other factors considered in the investment recommendations include other investments that each fund or account presently has in a particular industry and the availability of investment funds in each fund or account. It is possible that at times identical securities will be held by more than one fund and/or account. However, positions in the same issue may vary and the length of time that any fund or account may choose to hold its investment in the same issue may likewise vary.

To the extent that more than one of the funds or accounts managed by the Advisers seeks to acquire the same security at about the same time, the Fund may not be able to acquire as large a position in such security as it desires or it may have to pay a higher price for the security. However, with respect to the Horejsi Affiliates and the other private account managed by the Advisers, the Horejsi Affiliates and such other private account have consented to allow the funds managed by the Adviser to complete their transactions in any particular security before the Horejsi Affiliates or such other private account will be allowed to transact in such security, thus giving the funds managed by the Advisers the first opportunity to trade in a particular security. The Fund may not be able to obtain as large an execution of an order to sell or as high a price for any particular portfolio security if the Advisers decide to sell on behalf of another account the same portfolio security at the

same time. On the other hand, if the same securities are bought or sold at the same time by more than one fund or account, the resulting participation in volume transactions could produce better executions for the Fund. In the event more than one account purchases or sells the same security on a given date, the purchases and sales will normally be made as nearly as practicable on a pro rata basis in proportion to the amounts desired to be purchased or sold by each account. Although the other fund managed by the Advisers may have the same or similar investment objectives and policies as the Fund, its portfolio does not generally consist of the same investments as the Fund and its performance results are likely to differ from those of the Fund.

PROXY VOTING

The Board has delegated to BIA the authority to vote proxies on behalf of the Fund. The Board has approved the proxy voting guidelines of the Fund and will review the guidelines and suggest changes they deem advisable. A summary of the Fund's and BIA's proxy voting policies and procedures are attached to this Statement of Additional Information as Appendix A. Information regarding how the Fund voted proxies relating to portfolio securities during the most recent 12-month period ended June 30 is available without charge, upon request, by calling FAS at 1-877-561-7914, and on the Securities and Exchange Commission's website, at www.sec.gov.

CODE OF ETHICS

The Fund and the Advisers have adopted a joint code of ethics pursuant to Rule 17j-1 under the 1940 Act that is applicable to officers, directors and designated employees of the Fund and the Advisers, as applicable (the "Code of Ethics"). The Code of Ethics permits such personnel to engage in personal securities transactions for their own account, including securities that may be purchased or held by the Fund, and is designed to prescribe means reasonably necessary to prevent conflicts of interest from arising in connection with personal securities transactions. The Code of Ethics is on file with, and is available from, the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-(202)-942-8090. The Code of Ethics is also available on the EDGAR database on the Commission's internet website at <http://www.sec.gov>. Copies of the Code of Ethics may be obtained, after paying a duplicating fee, by electronic request to the following e-mail address: publicinfo@sec.gov, or by writing the Commission's Public Reference Section, Washington, D.C. 20549-0102.

PORTFOLIO TRANSACTIONS, BROKERAGE ALLOCATION AND OTHER PRACTICES

All orders for the purchase or sale of portfolio securities are placed on behalf of the Fund by the Advisers pursuant to authority contained in the Advisory Agreements. The Advisers seek best execution in selecting brokers and dealers to effect the Fund's transactions and negotiating prices and any brokerage commissions. The Fund may purchase certain money market instruments directly from an issuer, in which case no commissions or discounts are paid. No separate brokerage commission is typically paid on bond transactions, which are typically executed on a principal basis, in contrast to common stock transactions, where brokerage commissions are the norm. The Fund paid approximately \$56,000, \$55,000, and \$42,000 in brokerage commissions for the fiscal years ended November 30, 2005, 2006 and 2007, respectively.

The Advisers are responsible for effecting the Fund's securities transactions and will do so in a manner it deems fair and reasonable to stockholders of the Fund and not according to any formula. The Advisers' primary considerations in selecting the manner of executing a securities transaction for the Fund are prompt execution of orders, the size and breadth of the market for the security, the reliability, integrity, financial condition and execution capability of the firm, the difficulty in executing the order, and the best net price. The Advisers have established procedures whereby it monitors, periodically evaluates and reports to the Board the cost and quality of execution services provided by brokers selected by the Advisers to execute transactions for the Fund. The evaluation is made primarily based on a comparison of commissions charged by other broker with similar capabilities and trade execution.

There are many instances when, in the judgment of the Advisers, more than one firm can offer comparable execution services. In selecting among such firms, consideration may be given to those firms which supply research and other services in addition to execution services (often referred to as "soft dollars"), although the Fund does not typically rely on such research. The Fund has adopted a policy to deal with such "soft dollar" arrangements as follows:

(a) All soft dollar arrangements affecting the Funds must fall within the safe harbor of Section 28(e) of the Securities Exchange Act, as amended, as determined by the Funds' chief compliance officer.

- (b) All soft dollar transactions must be disclosed to the Boards on a quarterly basis.
- (c) When third party research is obtained with soft dollars, the Advisers must maintain documentation that the research directly assists the Advisers in their management of the Funds' portfolios.
- (d) The Advisers must disclose any other benefits that the Advisers or their affiliates or other clients might receive regarding the soft dollar benefits.
- (e) The Advisers must test and document that brokers who provide soft dollar research have the capability to provide best execution taking into consideration the broker's financial responsibility, responsiveness, the commission rate or spread involved, and the range of services offered by such broker.

Although the Advisory Agreements contain no restrictions on portfolio turnover, it is not the Fund's policy to engage in transactions with the objective of seeking profits from short-term trading. The annual portfolio turnover rate of the Fund is generally less than 50%, excluding securities having a maturity of one year or less. Because it is difficult to accurately predict portfolio turnover rates, actual turnover may be higher or lower. Higher portfolio turnover results in increased Fund expenses, including brokerage commissions, dealer mark-ups and other transaction costs on the sale of securities and on the reinvestment in other securities. For the fiscal years ended November 30, 2006 and November 30, 2007, the Fund's portfolio turnover rates were 35% and 49%, respectively.

REPURCHASE OF SHARES

The Fund is a closed-end investment company and therefore its common stockholders do not have the right to cause the Fund to redeem their shares. Instead, the Fund's common shares trade in the open market at a price that is a function of several factors, including NAV, dividend stability, relative demand for and supply of such shares in the market, general market and economic conditions, dividend stability, dividend levels (which are in turn affected by expenses), and other factors. Because shares of a closed-end investment company may frequently trade at prices lower than NAV (a "Discount"), the Board may consider actions that might be taken to reduce or eliminate any material Discount in respect of common shares, which may include the repurchase of such shares in the open market or in private transactions, the making of a tender offer for such shares at NAV, or the conversion of the Fund to an open-end investment company. The Board may decide not to take any of these actions. In addition, there can be no assurance that share repurchases or tender offers, if undertaken, will reduce any Discount.

Since the Fund has issued the AMPS, the Fund's ability to repurchase shares of, or tender for, its common stock may be limited by the asset coverage requirements of the 1940 Act and by asset coverage and other requirements imposed by various rating agencies. No assurance can be given that the Board will decide to undertake share repurchases or tenders or, if undertaken, that repurchases and/or tender offers will result in the Fund's common stock trading at a price that is close to, equal to or above NAV. The Fund may borrow to finance repurchases and/or tender offers. Any tender offer made by the Fund for its shares may be at a price equal to or less than the NAV of such shares. Any service fees incurred in connection with any tender offer made by the Fund will be borne by the Fund and will not reduce the stated consideration to be paid to tendering stockholders.

Subject to its investment limitations, the Fund may borrow to finance the repurchase of common shares or to make a tender offer. Interest on any borrowings to finance share repurchase transactions or the accumulation of cash by the Fund in anticipation of share repurchases or tenders will reduce the Fund's net income. Any share repurchase, tender offer or borrowing that might be approved by the Board would have to comply with the Exchange Act and the 1940 Act and the rules and regulations under each of those Acts.

Although the decision to take action in response to a Discount will be made by the Board at the time it considers such issue, it is the Board's present policy, which may be changed by the Board, not to authorize repurchases of common shares or a tender offer for such shares if (1) such transactions, if consummated, would (a) result in the delisting of the common shares from the NYSE, or (b) impair the Fund's status as a regulated investment company under the Code (which would make the Fund a taxable entity, causing the Fund's income to be taxed at the corporate level in addition to the taxation of stockholders who receive dividends from the Fund) or as a registered closed-end investment company under the 1940 Act; (2) the Fund would not be able to liquidate portfolio securities in an orderly manner and consistent with the Fund's investment objective and policies in order to repurchase shares; or (3) there is, in the Board's judgment, any (a) material legal action or proceeding instituted or threatened challenging such transactions or otherwise materially adversely affecting the Fund, (b) general suspension of or limitation on prices for trading securities on the NYSE, (c) declaration of a banking moratorium by Federal or state authorities or any suspension of payment by U.S. banks in which the Fund invests, (d) material limitation affecting the Fund or the issuers of its portfolio securities by Federal or state authorities on the extension of credit by lending institutions or on the exchange of foreign currency, (e) commencement of war, armed hostilities or

other international or national calamity directly or indirectly involving the United States, or (f) other event or condition which would have a material adverse effect (including any adverse tax effect) on the Fund or its stockholders if shares were repurchased. The Board may in the future modify these conditions in light of experience.

The repurchase by the Fund of its common shares at prices below NAV will result in an increase in the net asset value of those shares that remain outstanding. However, there can be no assurance that share repurchases or tenders at or below net asset value will result in the Fund's common shares trading at a price equal to their NAV. Nevertheless, the fact that the Fund's shares may be the subject of repurchase or tender offers at NAV from time to time, or that the Fund may be converted to an open-end company, may be helpful in reducing any spread between market price and NAV that might otherwise exist.

In addition, a purchase by the Fund of its common shares will decrease the Fund's total assets, which would likely have the effect of increasing the Fund's expense ratio. Any purchase by the Fund of its common shares at a time when AMPS are outstanding will increase the leverage applicable to the outstanding common shares then remaining and decrease the asset coverage of the AMPS.

Before deciding whether to take any action if the common shares trade below NAV, the Board would likely consider all relevant factors, including the extent and duration of the Discount, the liquidity of the Fund's portfolio, the impact of any action that might be taken on the Fund or its stockholders and market considerations. Based on these considerations, even if the Fund's shares should trade at a Discount, the Board may determine that, in the interest of the Fund and its stockholders, no action should be taken.

FEDERAL INCOME TAX MATTERS

The following is a summary discussion of certain U.S. federal income tax consequences that may be relevant to a stockholder acquiring, holding and disposing of common shares. This discussion does not address the tax consequences to stockholders that are subject to special rules, including, without limitation, banks and financial institutions, insurance companies, dealers in securities or foreign currencies, foreign stockholders, tax-exempt or tax-deferred plans, accounts, or entities, or investors who engage in constructive sale or conversion transactions. In addition, the discussion does not address state, local or foreign tax consequences, and it does not address any tax consequences other than U.S. federal income tax consequences. The discussion reflects applicable tax laws of the United States as of the date of this Statement of Additional Information, which tax laws may be changed or subject to new interpretations by the courts, Treasury or the Internal Revenue Service (the "IRS") retroactively or prospectively. No attempt is made to present a detailed explanation of all U.S. federal income tax concerns affecting the Fund or its stockholders, and the discussion set forth herein does not constitute tax advice. Investors are urged to consult their own tax advisers to determine the specific tax consequences to them of investing in the Fund, including the applicable federal, state, local and foreign tax consequences to them and the effect of possible changes in tax laws.

As required by U.S. Treasury Regulations governing tax practice, you are hereby advised that any written tax advice contained herein was not written or intended to be used (and cannot be used) by any taxpayer for the purpose of avoiding penalties that may be imposed under the Code. Any person reviewing this discussion should seek advice based on such person's particular circumstances from an independent tax adviser.

The Fund has qualified and elected to be treated each year as a "regulated investment company" under Subchapter M of the Code and to comply with applicable distribution requirements so that it generally will not pay U.S. federal income tax on income of the Fund, including net capital gains, distributed to stockholders. In order to qualify as a regulated investment company under Subchapter M of the Code, which qualification this discussion assumes, the Fund must, among other things, derive at least 90% of its gross income for each taxable year from dividends, interest, payments with respect to securities loans, gains from the sale or other disposition of stock, securities or foreign currencies, or other income (including gains from options, futures and forward contracts) derived with respect to its business of investing in such stock, securities or currencies (the "90% income test"). In addition to satisfying the requirements described above, the Fund must satisfy an asset diversification test in order to qualify as a regulated investment company. Under this test, at close of each quarter of the Fund's taxable year, at least 50% of the value of the Fund's assets must consist of cash and cash items (including receivables), U.S. Government securities, securities of other regulated investment companies, and securities of other issuers (as to which the Fund must not have invested more than 5% of the value of the Fund's total assets in securities of any one such issuer and as to which the Fund must not have held more than 10% of the outstanding voting securities of any one such issuer), and no more than 25% of the value of its total assets may be invested in the securities (other than U.S. Government securities and securities of other regulated investment companies) of any one issuer, or of two or more issuers which the Fund controls and which are engaged in the same or similar or related trades or businesses.

Net income derived from an interest in a "qualified publicly traded partnership," as defined in the Code, is treated as qualifying income for purposes of the 90% income test, and for the purposes of the diversification requirements described above, the outstanding voting securities of any issuer includes the equity securities of a qualified publicly traded partnership and no more than 25% of the value of a regulated investment company's total assets may be invested in the securities of one or more qualified publicly traded partnerships. In addition, the separate treatment for publicly traded partnerships under the passive loss rules of the Code applies to a regulated investment company holding an interest in a qualified publicly traded partnership, with respect to items attributable to such interest.

If the Fund qualifies as a regulated investment company and, for each taxable year, it distributes to its stockholders an amount equal to or exceeding the sum of (i) 90% of its "investment company taxable income" as that term is defined in the Code (which includes, among other things, dividends, taxable interest, and the excess of any net short-term capital gains over net long-term capital losses, as reduced by certain deductible expenses) and (ii) 90% of the excess of its gross tax-exempt interest, if any, over certain disallowed deductions, the Fund generally will not be subject to U.S. federal income tax on any income of the Fund, including "net capital gain" (the excess of net long-term capital gain over net short-term capital loss), distributed to stockholders. However, if the Fund has met such distribution requirements but chooses not to distribute some portion of its investment company taxable income or net capital gain, it generally will be subject to U.S. federal income tax at regular corporate rates on the amount retained. The Fund intends to distribute at least annually all or substantially all of its investment company taxable income, net tax-exempt interest, and net capital gain. If for any taxable year the Fund did not qualify as a regulated investment company, it would be treated as a corporation subject to U.S. federal income tax and all distributions out of earnings and profits would be taxed to stockholders as ordinary income. In addition, the Fund could be required to recognize unrealized gains, pay taxes and make distributions (which could be subject to interest charges) before requalifying as a regulated investment company.

Under the Code, the Fund will be subject to a nondeductible 4% U.S. federal excise tax on a portion of its undistributed taxable ordinary income and capital gains if it fails to meet certain distribution requirements with respect to each calendar year. The Fund intends to make distributions in a timely manner and accordingly does not expect to be subject to the excise tax, but as described below, there can be no assurance that the Fund's distributions will be sufficient to avoid entirely this tax.

Assuming that the Fund has sufficient earnings and profits, dividends from investment company taxable income are taxable as ordinary income and distributions from net capital gain, if any, that are designated as capital gain dividends are taxable as long-term capital gains for U.S. federal income tax purposes without regard to the length of time the stockholder has held shares of the Fund. Since the Fund's income is derived primarily from interest, dividends of the Fund from its investment company taxable income generally will not constitute "qualified dividend income" for federal income tax purposes and thus will not be eligible for the favorable federal long-term capital gain tax rates on qualified dividend income. In addition, the Fund's dividends are not expected to qualify for any dividends-received deduction that might otherwise be available for certain dividends received by stockholders that are corporations. Capital gain dividends distributed by the Fund to individual stockholders generally will qualify for the maximum 15% U.S. federal tax rate on long-term capital gains. Under current law, the maximum 15% U.S. federal tax rate on qualified dividend income and long-term capital gains will cease to apply to taxable years beginning after December 31, 2010.

Distributions by the Fund in excess of the Fund's current and accumulated earnings and profits will be treated as a return of capital to the extent of (and in reduction of) the stockholder's tax basis in its shares and any such amount in excess of that basis will be treated as gain from the sale of shares, as discussed below. The U.S. federal income tax status of all distributions will be reported to stockholders annually. If the Fund retains any net capital gain for a taxable year, the Fund may designate the retained amount as undistributed capital gains in a notice to stockholders who, if subject to U.S. federal income tax on long-term capital gains, (i) will be required to include in income for U.S. federal income tax purposes, as long-term capital gain, their proportionate shares of such undistributed amount, and (ii) will be entitled to credit their proportionate shares of the tax paid by the Fund on the undistributed amount against their U.S. federal income tax liabilities, if any, and to claim refunds to the extent the credit exceeds such liabilities.

Although dividends generally will be treated as distributed when paid, any dividend declared by the Fund as of a record date in October, November or December and paid during the following January will be treated for U.S. federal income tax purposes as received by stockholders on December 31 of the calendar year in which it is declared. In addition, certain other distributions made after the close of a taxable year of the Fund may be "spilled back" and treated as paid by the Fund (except for purposes of the 4% excise tax) during such taxable year. In such case, stockholders generally will be treated as having received such dividends in the taxable year in which the distributions were actually made.

If the Fund invests in certain pay-in-kind securities, zero coupon securities, deferred interest securities or, in general, any other securities with original issue discount (or with market discount if the Fund elects to include market discount in income currently), the Fund generally must accrue income on such investments for each taxable year, which generally will

be prior to the receipt of the corresponding cash payments. However, the Fund must distribute, at least annually, all or substantially all of its investment company taxable income and net tax-exempt interest, including such accrued income, to stockholders to qualify as a regulated investment company under the Code and avoid U.S. federal income and excise taxes. Therefore, the Fund may have to dispose of its portfolio securities under disadvantageous circumstances to generate cash, or may have to borrow the cash, to satisfy distribution requirements.

The Fund may invest significantly in debt obligations that are in the lowest rating categories or are unrated, including debt obligations of issuers not currently paying interest or who are in default. Investments in debt obligations that are at risk of or in default present special tax issues for the Fund. Tax rules are not entirely clear about issues such as when the Fund may cease to accrue interest, original issue discount or market discount, when and to what extent deductions may be taken for bad debts or worthless securities, how payments received on obligations in default should be allocated between principal and income and whether exchanges of debt obligations in a workout context are taxable. These and other issues will be addressed by the Fund, in the event it invests in such securities, in order to seek to ensure that it distributes sufficient income to preserve its status as a regulated investment company and does not become subject to U.S. federal income or excise tax.

If the Fund utilizes leverage through borrowing or issuing AMPS, a failure by the Fund to meet the asset coverage requirements imposed by the 1940 Act or by any rating organization that has rated such leverage, or additional restrictions that may be imposed by certain lenders on the payment of dividends or distributions potentially could limit or suspend the Fund's ability to make distributions on its common shares. Such a limitation or suspension or limitation could prevent the Fund from distributing at least 90% of its investment company taxable income and net tax-exempt interest as is required under the Code and therefore might jeopardize the Fund's qualification for taxation as a regulated investment company under the Code and/or might subject the Fund to the 4% excise tax discussed above. Upon any failure to meet such asset coverage requirements, the Fund may, in its sole discretion, purchase or redeem shares of preferred stock in order to maintain or restore the requisite asset coverage and avoid the adverse consequences to the Fund and its stockholders of failing to satisfy the distribution requirement. There can be no assurance, however, that any such action would achieve these objectives. The Fund will endeavor to avoid restrictions on its ability to distribute dividends.

For U.S. federal income tax purposes, the Fund is permitted to carry forward an unused net capital loss for any year to offset its capital gains, if any, for up to eight years following the year of the loss. To the extent subsequent capital gains are offset by such losses, they would not result in U.S. federal income tax liability to the Fund and are not expected to be distributed as such to stockholders.

At the time of an investor's purchase of Fund shares, a portion of the purchase price may be attributable to realized or unrealized appreciation in the Fund's portfolio or undistributed taxable income of the Fund. Consequently, subsequent distributions by the Fund with respect to these shares from such appreciation or income may be taxable to such investor even if the trading value of the investor's shares is, as a result of the distributions, reduced below the investor's cost for such shares and the distributions economically represent a return of a portion of the investment.

Foreign exchange gains and losses realized by the Fund in connection with certain transactions involving foreign currency-denominated debt securities, certain options and futures contracts relating to foreign currency, foreign currency forward contracts, foreign currencies, or payables or receivables denominated in a foreign currency are subject to Section 988 of the Code, which generally causes such gains and losses to be treated as ordinary income and losses and may affect the amount, timing and character of distributions to stockholders. Under Treasury regulations that may be promulgated in the future, any gains from such transactions that are not directly related to the Fund's principal business of investing in stock or securities (or its options contracts or futures contracts with respect to stock or securities) may have to be limited in order to enable the Fund to satisfy the 90% income test. If the net foreign exchange loss for a year were to exceed the Fund's investment company taxable income (computed without regard to such loss), the resulting ordinary loss for such year would not be deductible by the Fund or its stockholders in future years.

Sales and other dispositions of Fund shares are taxable events for stockholders that are subject to tax. Stockholders should consult their own tax advisers with reference to their individual circumstances to determine whether any particular transaction in Fund shares is properly treated as a sale for tax purposes, as the following discussion assumes, and the tax treatment of any gains or losses recognized in such transactions. In general, if Fund shares are sold, the stockholder will recognize gain or loss equal to the difference between the amount realized on the sale and the stockholder's adjusted tax basis in the shares sold. Such gain or loss will be treated as long-term capital gain or loss if the shares sold were held for more than one year and otherwise generally will be treated as short-term capital gain or loss. Any loss realized by a stockholder upon the sale or other disposition of shares with a tax holding period of six months or less will be treated as a long-term capital loss to the extent of any amounts treated as distributions of long-term capital gains with respect to such shares. Losses on sales or other dispositions of shares may be disallowed under "wash sale" rules in the event substantially identical shares of the Fund are purchased (including those made pursuant to reinvestment of dividends and/or capital gains

distributions) within a period of 61 days beginning 30 days before and ending 30 days after a redemption or other disposition of shares. In such a case, the disallowed portion of any loss generally would be included in the U.S. federal tax basis of the shares acquired in the other investments. The ability to otherwise deduct capital losses may be subject to other limitations under the Code.

Under Treasury regulations, if a stockholder recognizes a loss with respect to shares of \$2 million or more for an individual stockholder, or \$10 million or more for a corporate stockholder, in any single taxable year (or a greater amount over a combination of years), the stockholder must file with the IRS a disclosure statement on Form 8886. Stockholders who own portfolio securities directly are in many cases excepted from this reporting requirement but, under current guidance, stockholders of regulated investment companies are not excepted. A stockholder who fails to make the required disclosure to the IRS may be subject to substantial penalties. The fact that a loss is reportable under these regulations does not affect the legal determination of whether or not the taxpayer's treatment of the loss is proper. Stockholders should consult with their tax advisers to determine the applicability of these regulations in light of their individual circumstances.

Options written or purchased and futures contracts entered into by the Fund on certain securities, indices and foreign currencies, as well as certain forward foreign currency contracts, may cause the Fund to recognize gains or losses from marking-to-market even though such options may not have lapsed, been closed out, or exercised, or such futures and forward contracts may not have been performed or closed out. The tax rules applicable to these contracts may affect the characterization of some capital gains and losses realized by the Fund as long-term or short-term. Certain options, futures and forward contracts relating to foreign currencies may be subject to Section 988, as described above, and accordingly may produce ordinary income or loss. Additionally, the Fund may be required to recognize gain if an option, futures contract, short sale or other transaction that is not subject to the mark-to-market rules is treated as a "constructive sale" of an "appreciated financial position" held by the Fund under Section 1259 of the Code. Any net mark-to-market gains and/or gains from constructive sales may also have to be distributed to satisfy the distribution requirements referred to above even though the Fund may receive no corresponding cash amounts, possibly requiring the disposition of portfolio securities or borrowing to obtain the necessary cash. Losses on certain options, futures or forward contracts and/or offsetting positions (portfolio securities or other positions with respect to which the Fund's risk of loss is substantially diminished by one or more options, futures or forward contracts) may also be deferred under the tax straddle rules of the Code, which may also affect the characterization of capital gains or losses from straddle positions and certain successor positions as long-term or short-term. Certain tax elections may be available that would enable the Fund to ameliorate some adverse effects of the tax rules described in this paragraph. The tax rules applicable to options, futures, forward contracts and straddles may affect the amount, timing and character of the Fund's income and gains or losses and hence of its distributions to stockholders.

The federal income tax treatment of the Fund's investment in transactions involving swaps, caps, floors, and collars and structured securities is uncertain and may be subject to recharacterization by the IRS. To the extent the tax treatment of such securities or transactions differs from the tax treatment expected by the Fund, the timing or character of income recognized by the Fund could be affected, requiring the Fund to purchase or sell securities, or otherwise change its portfolio, in order to comply with the tax rules applicable to regulated investment companies under the Code.

The IRS has taken the position that if a regulated investment company has two classes or more of shares, it must designate distributions made to each class in any year as consisting of no more than such class's proportionate share of particular types of income, including ordinary income and net capital gain. A class's proportionate share of a particular type of income is determined according to the percentage of total dividends paid by the regulated investment company to such class. Consequently, if both common shares and AMPS are outstanding, the Fund intends to designate distributions made to the classes of particular types of income in accordance with the classes' proportionate shares of such income. Thus, the Fund will designate dividends constituting capital gain dividends and other taxable dividends in a manner that allocates such income between the holders of common shares and AMPS in proportion to the total dividends paid to each class during the taxable year, or otherwise as required by applicable law.

The Fund may be subject to withholding and other taxes imposed by foreign countries, including taxes on interest, dividends and capital gains with respect to its investments in those countries, which would, if imposed, reduce the yield on or return from those investments. Tax conventions between certain countries and the U.S. may reduce or eliminate such taxes in some cases. The Fund does not expect to satisfy the requirements for passing through to its stockholders their pro rata shares of qualified foreign taxes paid by the Fund, with the general result that stockholders would not be entitled to any deduction or credit for such taxes on their own tax returns.

Federal law requires that the Fund withhold (as "backup withholding") 28% of reportable payments, including dividends, capital gain distributions and the proceeds of redemptions and exchanges or repurchases of Fund shares, paid to stockholders who have not complied with IRS regulations. In order to avoid this withholding requirement, stockholders must certify on their Account Applications, or on separate IRS Forms W-9, that the Social Security Number or other Taxpayer Identification Number they provide is their correct number and that they are not currently subject to backup

withholding, or that they are exempt from backup withholding. The Fund may nevertheless be required to withhold if it receives notice from the IRS or a broker that the number provided is incorrect or backup withholding is applicable as a result of previous underreporting of interest or dividend income.

The description of certain U.S. federal tax provisions above relates only to U.S. federal income tax consequences for stockholders who are U.S. persons, i.e., U.S. citizens or residents or U.S. corporations, partnerships, trusts or estates, and who are subject to U.S. federal income tax. Investors other than U.S. persons may be subject to different U.S. tax treatment, including a non-resident alien U.S. withholding tax at the rate of 30% or at a lower treaty rate on amounts treated as ordinary dividends from the Fund and, unless an effective IRS Form W-8BEN or other authorized withholding certificate is on file, to backup withholding at the rate of 28% on certain other payments from the Fund. Under the provisions the 2004 Tax Act, dividends paid by the Fund to non-U.S. stockholders that are derived from short-term capital gains and qualifying net interest income (including income from original issue discount and market discount), and that are properly designated by the Fund as "interest-related dividends" or "short-term capital gain dividends," are generally not subject to U.S. withholding tax, provided that the income would not be subject to federal income tax if earned directly by the non-U.S. stockholder. In addition, pursuant to the 2004 Tax Act, distributions of the Fund attributable to gains from sales or exchanges of "U.S. real property interests" (as defined in the Code and regulations) (including certain U.S. real property holding corporations) are generally subject to U.S. withholding tax and may give rise to an obligation on the part of the non-U.S. stockholder to file a United States tax return. The provisions contained in the 2004 Tax Act relating to distributions to stockholders who are non-U.S. persons generally apply to distributions with respect to taxable years of the Fund beginning after December 31, 2004 and before January 1, 2008 and there can be no guarantee that these provisions will be extended. Stockholders should consult their own tax advisers on these matters and on state, local, foreign and other applicable tax laws.

PERFORMANCE-RELATED, COMPARATIVE AND OTHER INFORMATION

PERFORMANCE-RELATED INFORMATION. From time to time, in advertisements, sales literature or reports to stockholders, the past performance of the Fund may be illustrated and/or compared with that of other investment companies with similar investment objectives. For example, yield or total return of the Fund's shares may be compared to averages or rankings prepared by Lipper, Inc., a widely recognized independent service which monitors mutual fund performance; the S&P 500 Index; the Dow Jones Industrial Average; or other comparable indices or investment vehicles. In addition, the performance of the Fund's shares may be compared to alternative investment or savings vehicles and/or to indices or indicators of economic activity, e.g., inflation or interest rates. The Fund may also include securities industry or comparative performance information generally and in advertising or materials marketing the Fund's shares. Performance rankings and listings reported in newspapers or national business and financial publications, such as Barron's, Business Week, Consumers Digest, Consumer Reports, Financial World, Forbes, Fortune, Investors Business Daily, Kiplinger's Personal Finance Magazine, Money Magazine, New York Times, Smart Money, USA Today, U.S. News and World Report, The Wall Street Journal and Worth, may also be cited (if the Fund is listed in any such publication) or used for comparison, as well as performance listings and rankings from various other sources including Bloomberg Financial Markets, CDA/Wiesenberg, Donoghue's Mutual Fund Almanac, Ibbotson Associates, Investment Company Data, Inc., Johnson's Charts, Kanon Bloch Carre and Co., Lipper, Inc., Micropal, Inc., Morningstar, Inc., Schabacker Investment Management and Towers Data Systems, Inc. In addition, from time to time, quotations from articles from financial publications such as those listed above may be used in advertisements, in sales literature or in reports to stockholders of the Fund. The Fund may also present, from time to time, historical information depicting the value of a hypothetical account in one or more classes of the Fund since inception.

Past performance is not indicative of future results. At any time in the future, yields and total return may be higher or lower than past yields and total return, and there can be no assurance that any historical results will continue.

THE ADVISERS. From time to time, the Advisers may use, in advertisements or information furnished to present or prospective stockholders, information regarding the Advisers including, without limitation, information regarding their investment style, countries of operation, organization, professional staff, clients (including other registered investment companies), assets under management and performance record. These materials may refer to opinions or rankings of the Advisers' overall investment management performance contained in third-party reports or publications.

FINANCIAL STATEMENTS

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM. The statements of assets and liabilities, statement of operations, statement of investments, and financial highlights of the Fund as of November 30, 2007, incorporated by

reference into this Statement of Additional Information, have been audited by Deloitte & Touche LLP ("Deloitte"), the Fund's independent registered public accounting firm, as set forth in its report thereon appearing elsewhere herein, and is included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing. Deloitte & Touche USA LLP, located at 555 17th Street, Denver, Colorado, has served as the Fund's independent registered public accounting firm since July 2006. The Audit Committee of the Board will select the Fund's independent accountants for the Fund's fiscal year ending November 30, 2008 at the Board's regular quarterly meeting in July 2008. The financial statements and report of the independent registered public accounting firm incorporated by reference into this Statement of Additional Information have been so incorporated and the financial highlights included in the prospectus have been so included in reliance upon the report of Deloitte given on their authority as experts in auditing and accounting.

INCORPORATION BY REFERENCE. The Fund's audited Portfolio of Investments and Statement of Assets and Liabilities dated November 30, 2007; audited Statement of Operations and Statement of Changes in Net Assets for the year ended November 30, 2007; and report of the independent registered public accounting firm for the year ended November 30, 2007, are included in the Fund's Annual Report for the fiscal year ended November 30, 2007, and incorporated herein by reference. You may request a free copy of this Statement of Additional Information or the Fund's annual and semi-annual reports, request other information about the Fund, or make stockholder inquiries by calling FAS at (877) 561-7914 or by writing to the Fund. This Statement of Additional Information and annual and semi-annual reports are also available free of charge on the Fund's website (<http://www.boulderfunds.net>) and on the Securities and Exchange Commission's website (<http://www.sec.gov>), which also contains other information about the Fund. You may also email requests for these documents to publicinfo@sec.gov or make a request in writing to the Securities and Exchange Commission's Public Reference Section, Washington, D.C. 20549-0102. The Fund's registration number under the 1940 Act is 811-02328.

ADDITIONAL INFORMATION

A Registration Statement on Form N-2, including amendments thereto, relating to the shares offered hereby, has been filed by the Fund with the Securities and Exchange Commission, Washington, D.C. The prospectus and this Statement of Additional Information do not contain all of the information set forth in the Registration Statement, including any exhibits and schedules thereto. For further information with respect to the Fund and the shares offered hereby, reference is made to the Registration Statement. Statements contained in the prospectus and this Statement of Additional Information as to the contents of any contract or other document referred to are not necessarily complete and in each instance reference is made to the copy of such contract or other document filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference.