NEW AMERICA HIGH INCOME FUND INC
Form N-2
October 16, 2007

As filed with the Securities and Exchange Commission on October 16, 2007

1933 Act File No. 333-
1940 Act File No. 811-05399

U.S. SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM N-2

(Check appropriate box or boxes)

x REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

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

o REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY ACT OF 1940

x Amendment No. 33

THE NEW AMERICA HIGH INCOME FUND, INC.

Exact Name of Registrant as Specified in Charter

33 Broad Street, Boston, Massachusetts 02109
Address of Principal Executive Offices (Number, Street, City, State, Zip Code)

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

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

With copies to:

David C. Mahaffey, Esq.
Sullivan & Worcester LLP

1666 K Street, NW
Washington, DC 20006

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT

Title of Securities Being Registered	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
Auction Term Preferred Stock, $1.00 par value	1,000 shares	$ 25,000	$ 25,000,000(1)	$ 767.50

(1) Estimated solely for the purpose of calculating the registration fee.

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

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

SUBJECT TO COMPLETION
PRELIMINARY PROSPECTUS DATED

$25,000,000
THE NEW AMERICA HIGH INCOME FUND, INC.
AUCTION TERM PREFERRED STOCK (ATP)
1,000 SHARES, SERIES
LIQUIDATION VALUE - $25,000 PER SHARE

The New America High Income Fund, Inc. (the Fund) is offering 1,000 shares of ATP Series at a price per share of $25,000 plus accumulated dividends, if any, from the Date of Original Issue, (the newly issued shares of ATP Series or new shares of ATP Series) which will increase the number of shares of its ATP Series Outstanding to . The Fund currently has Outstanding 1,400 shares of ATP Series A, 1,000 shares of ATP Series B, 1,800 shares of ATP Series C and 1,000 shares of ATP Series D. Unless otherwise indicated, references to the ATP in this prospectus (the Prospectus) are to the ATP Series A, ATP Series B, ATP Series C and ATP Series D. The Fund is a diversified, closed-end management investment company with a leveraged capital structure. The Fund s investment objective is to provide high current income, while seeking to preserve stockholders capital, through investment in a professionally managed, diversified portfolio of high-yield fixed-income securities (commonly known as junk bonds). The Fund invests primarily in high-yield fixed-income securities rated in the lower categories by established rating agencies and non-rated securities deemed by the Fund s investment adviser to be of comparable quality. The Fund cannot ensure that it will achieve its investment objective. **An investment in the ATP involves certain risks and special considerations and may not be appropriate for all investors. See Risk Factors and Special Considerations beginning on page of this Prospectus**.

This Prospectus sets forth concisely the information about the Fund that a prospective investor should know before investing and should be retained for future reference. A Statement of Additional Information, dated , 2007, containing additional information regarding the Fund has been filed with the Securities and Exchange Commission (the Commission) and is hereby incorporated by reference in its entirety into this Prospectus. You may obtain a free copy of the Statement of Additional Information, the table of contents of which appears on page of this Prospectus, by calling the Fund collect at (617) 263-6400 or by writing to the Fund at 33 Broad Street, Boston, Massachusetts 02109. You may also obtain the Statement of Additional Information and other information regarding the Fund on the Commission s website at http://www.sec.gov.

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

	Price to Public(1)	Sales Load(2)	Proceeds to the Fund(1)(3)
Per Share	$ 25,000	$	$
Total	$ 25,000,000	$	$

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(1) Plus accumulated dividends, if any, from the Date of Original Issue.

(2) The Fund and the Investment Adviser have agreed to indemnify the Underwriter against certain liabilities under the Securities Act. See Underwriting.

(3) Before deducting offering expenses payable by the Fund, estimated at $.

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The shares of the ATP Series offered by this Prospectus are offered by (or the Underwriter), subject to prior sale, withdrawal, cancellation or modification of the Offering without notice and to certain further conditions. The newly issued shares of ATP Series will not be offered on any national securities exchange. The Underwriter expects to deliver the shares of newly issued ATP Series to Broker-Dealers in book entry form through the Securities Depository, on or about , 2007.

The date of this Prospectus is , 2007.

The dividend rate for the initial Dividend Period for the shares of the ATP Series issued pursuant to the Offering will be % per annum. For each Dividend Period following the initial Dividend Period, the dividend rate on the shares of ATP Series will be the Applicable Rate for such series in effect from time to time as determined, except as described herein, on the basis of Orders placed in an Auction conducted on the Business Day preceding the commencement of such Dividend Period, as set forth herein. The Applicable Rate that results from an Auction for any Dividend Period will not be greater than the Maximum Applicable Rate then in effect.

Dividends on the newly issued shares of ATP Series shall accumulate at the Applicable Rate from the Date of Original Issue, which is , 2007, and shall be payable on each Dividend Payment Date thereafter. The initial Dividend Period for the newly issued shares of ATP Series will be days and the initial Dividend Payment Date will be , 2007. Dividend Periods after the initial Dividend Period for the shares of ATP Series shall be either Standard Term Periods or, subject to certain conditions and with notice to the holders of shares, periods longer or shorter than 28 days and having such durations as the Board of Directors shall specify (each, an Alternate Term Period). The initial Auction Date will be , 2007.

You should rely only on the information contained in or incorporated by reference in this Prospectus. Neither the Fund nor the Underwriter has authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Neither the Fund nor the Underwriter is making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this Prospectus is accurate as of the date on the front cover of this Prospectus only. The Fund s financial condition and prospects may have changed since that date.

T. Rowe Price Associates, Inc. (the Investment Adviser or T. Rowe Price) serves as the investment adviser for the Fund. It is a wholly owned subsidiary of T. Rowe Price Group, Inc. (Price Group).

The Fund s address is 33 Broad Street, Boston, Massachusetts 02109 and its telephone number is (617) 263-6400.

Certain capitalized terms not otherwise defined in this Prospectus have the meanings provided in the Glossary included as part of this Prospectus.

PROSPECTUS SUMMARY

This summary highlights some information from this Prospectus. It does not contain all of the information that you should consider before investing in the ATP Series . To understand the Offering fully, you should read the more detailed information contained in this Prospectus and the Statement of Additional Information, especially information set forth under the heading Risk Factors and Special Considerations.

The Fund; Investment Objective and Policies

The Fund is a diversified, closed-end management investment company, organized as a Maryland corporation in 1987 and registered under the 1940 Act, with a leveraged capital structure. As of , 2007, the Fund had outstanding shares of Common Stock, shares of ATP Series A, shares of ATP Series B, shares of ATP Series C and shares of ATP Series D. The Fund s investment objective is to provide high current income, while seeking to preserve stockholders capital, through investment in a professionally managed, diversified portfolio of high-yield fixed-income securities, commonly known as junk bonds. The Fund will generally invest in securities that are rated below investment grade by recognized rating agencies or that are non-rated. Securities rated below investment grade are considered by rating agencies, on balance, as predominantly speculative with respect to their capacity to pay interest and repay principal in accordance with the terms of the obligation and thus are generally considered to involve greater credit risk than securities in the higher-rating categories. The market values of the lower-quality securities tend to reflect individual corporate developments or negative economic changes to a greater extent than higher-quality securities. Credit ratings do not reflect this market risk. An investment in the Fund involves a number of significant risks, which are magnified due to the Fund s leveraged capital structure. No assurance can be given that the Fund will achieve its investment objective. See The Fund, Investment Objective and Policies, and Risk Factors and Special Considerations.

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

The Offering

The Fund is offering an aggregate of newly issued shares of ATP Series , $1.00 par value, at a price of $25,000 per share plus accumulated dividends, if any, from the Date of Original Issue. Except for the Date of Original Issue, the initial Dividend Period, the initial Dividend Payment Date and the Applicable Rate for the initial Dividend Period, the terms of the newly issued shares of ATP Series are the same as the terms of the Fund s currently Outstanding shares of ATP Series . The shares offered by this Prospectus represent additional shares of the Fund s existing ATP Series , rather than a separate series or class of the ATP. Unless otherwise indicated, references to the ATP in this Prospectus are to the ATP Series A, ATP Series B, ATP Series C and ATP Series D. shares of ATP Series are being offered by the Underwriter. The Underwriter has agreed, subject to the terms and conditions of the Underwriting Agreement with the Fund and the Investment Adviser, to purchase from the Fund all of the shares of ATP Series offered hereby. See Underwriting.

Risk Factors

An investment in the Fund involves certain risks. Before investing in the new shares of ATP Series pursuant to the Offering, you should consider all of the risk factors described in the Risk Factors and Special Considerations section of this Prospectus. These factors include the risks involved in investing in ATP (including auction risk, secondary market risk, ratings and asset coverage risk, inflation risk, indebtedness risk and leverage), payment restrictions, the risks associated with swap arrangements, the risks associated with engaging in private placement transactions and other general risks of investing in the Fund.

Trading Market

The shares of ATP Series being offered by this Prospectus will not be listed on an exchange. Instead, you may buy or sell the ATP at an Auction that generally is held every 28 days by submitting to a Broker-Dealer by telephone or otherwise a Hold Order, a Hold/Sell Order or a Sell Order and the Broker-Dealer will contact Potential Holders to determine the Buy Orders, if any, to be made by such Potential Holders. The first Auction Date for the ATP Series will be , 2007. See Auction Procedures.

The Underwriter has indicated that it intends to make a secondary trading market in the ATP Series as permitted by applicable laws and regulations. However, the Underwriter is not obligated to make a market in the ATP between Auctions and such market making may be discontinued at any time at the Underwriter s sole discretion. See Risk Factors and Special Considerations - Risks of Investing in ATP. If developed, there is no assurance that a secondary market will provide stockholders with liquidity or that the trading price in any secondary market would be $25,000.

You may transfer shares of the ATP outside of an Auction only through a Broker-Dealer, to a Person that has delivered a signed Master Purchaser s Letter to the Auction Agent or to the Fund. will act in Auctions for the ATP Series as a Broker-Dealer and will be entitled to fees for services as a Broker-Dealer as set forth under Auction Procedures - Broker-Dealers; Commissions.

Dividends and Dividend Periods

Dividend Periods are periods of time established by the Fund for each series of the ATP during which dividends will accrue at a determined rate. After the Date of Original Issue, each Dividend Period will be either a Standard Term Period (a Dividend Period of 28 days, unless such 28th day is not a Business Day, then the number of days ending on the Business Day next preceding such 28th day) or, subject to certain conditions and with notice to the holders of shares, an Alternate Term Period (a period longer or shorter than 28 days and having such durations as the Board of Directors shall specify).

Dividends on the newly issued shares of ATP Series will accumulate at the Applicable Rate per annum from the Date of Original Issue and will be payable, when, and if declared by the Board of Directors of the Fund out of funds legally available therefor, on , 2007. Thereafter, dividends will accumulate at the Applicable Rate determined from an Auction of the newly issued ATP Series together with all existing shares of ATP Series . The initial Dividend Period for the newly issued shares of ATP Series will be days at a dividend rate of % per annum. As noted above, subsequent Dividend Periods generally will be 28 days.

Liquidation Preference

The liquidation preference for the newly issued shares of ATP Series will be $25,000 per share plus accumulated and unpaid dividends, if any. See Description of ATP - Liquidation Preference.

Redemption

If certain conditions are met, the Fund has the option to redeem some or all outstanding shares of ATP at a redemption price per share equal to their Liquidation Value per share, plus accumulated and unpaid dividends (plus in the case of a Dividend Period of one year or more, a redemption premium as may be determined by the Board of Directors). For a discussion of these conditions, as well as the method the Fund will use to determine the redemption price, see Description of ATP - Optional Redemption.

In addition, if the Fund fails to maintain the Aaa/AAA Credit Rating for the ATP or, on any Valuation Date or the last Business Day of any month, the Fund fails to meet the ATP Basic Maintenance Amount or the 1940 Act ATP Asset Coverage, the Fund is required to redeem shares of ATP. For a further description of these circumstances and the method the Fund will use to determine the shares it must redeem and the redemption price for the shares, see Description of ATP - Mandatory Redemption.

Ratings

It is a condition of the Underwriter s obligation to purchase the newly issued shares of ATP Series that they will be rated Aaa by Moody s and AAA by Fitch. See Description of ATP - Ratings. These ratings are an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. The rating on the ATP is not a recommendation to purchase, hold or sell those shares inasmuch as the rating does not comment as to market price or suitability for a particular investor.

The Investment Adviser

T. Rowe Price has served as the investment adviser since December 2, 2002, pursuant to an investment advisory agreement dated as of that date. T. Rowe Price s principal offices are located at 100 East Pratt Street, Baltimore, Maryland 21202. As of June 30, 2007, T. Rowe Price and its affiliates managed approximately $379 billion of assets, including approximately $74 billion of fixed income securities. High-yield investments represented approximately $10.2 billion of these totals. T. Rowe Price has provided investment advisory services to investment companies since 1937. T. Rowe Price is not affiliated with the Fund s executive officers or its Board of Directors. See Management of the Fund.

FINANCIAL INFORMATION SUMMARY

Financial Highlights

The table below sets forth certain financial data for a share of Common Stock outstanding throughout the periods presented. The financial highlights have been derived from the Fund s financial statements which have been audited by the Fund s current independent public accountants, Tait, Weller & Baker LLP, for the fiscal years ended December 31, 2006 and 2005, and by the Fund s former independent registered public accountants for the previous fiscal years, as indicated in their respective reports thereto included with the Fund s audited financial statements. The Financial Highlights for the period commencing January 1, 2007 and concluding June 30, 2007 are unaudited. The following information should be read in conjunction with the financial statements and related notes included therein.

	Six Months Ended June 30, 2007 (Unaudited)	**For Years Ended December 31, 2006**	**2005**	**2004**	**2003(b)**	**2002**
		(For Each Share of Common Stock Outstanding Throughout the Period)				
Net Asset Value:						
Beginning of Period	$ 2.19	$ 2.13	$ 2.26	$ 2.19	$ 1.89	$ 2.61
Net Investment Income	.13	.25	.25	.26	.26 #	.37
Net Realized and Unrealized Gain (Loss) on Investments and Other Financial Instruments	(.02)	.07	(.11)	.09	.34	(.72)
Distributions from Net Investment Income Related to Preferred Stock	(.02)	(.05)	(.05)	(.05)	(.06)	(.08)
Total From Investment Operations	.09	.27	.09	.30	.54	(.43)
Distributions from Net Investment Income:						
To common stockholders	(.09)	(.21)	(.22)	(.23)	(.22)	(.29)
Dividends in Excess of Net Investment Income:						
To Common Stockholders						
Total Distributions	(.09)	(.21)	(.22)	(.23)	(.22)	(.29)
Effect of rights offering and related expenses and Auction Term Preferred Stock offering costs and sales load					(.02)	
Net Asset Value:						
End of Period	$ 2.19	$ 2.19	$ 2.13	$ 2.26	$ 2.19	$ 1.89
Per Share Market Value:						
End of Period	$ 2.19	$ 2.26	$ 2.03	$ 2.19	$ 2.16	$ 2.01
Total Investment Return	.76%	22.82%	2.47%	12.80%	19.23%	(12.97)%
Net Assets, End of Period, Applicable to Common Stock(a)	$ 210,551	$ 208,999	$ 200,549	$ 212,165	$ 204,705	$ 131,170
Net Assets, End of Period, Applicable to Preferred Stock(a)	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 100,000
Total Net Assets, End of Period(a)	$ 340,551	$ 338,999	$ 330,549	$ 342,165	$ 334,705	$ 231,170
Expense Ratios						
Ratio of preferred and other debt expenses to average net assets*	.16%	.16%	.16%	.15%	.16%	.18%
Ratio of operating expenses to average net assets*	1.17%	1.21%	1.23%	1.27%	1.56%	1.46%
Ratio of Total Expenses to Average Net Assets*	1.33%	1.37%	1.39%	1.42%	1.72%	1.64%
Ratio of Net Investment Income to Average Net Assets*	11.72%	11.54%	11.48%	12.02%	12.81%	16.48%
Ratio of Total Expenses to Average Net Assets Applicable to Common and Preferred Stock	.83%	.84%	.85%	.87%	1.05%	.89%
	7.29%	7.05%	7.03%	7.38%	7.79%	8.91%

Ratio of Net Investment Income to Average Net Assets Applicable to Common and Preferred Stock						
Portfolio Turnover Rate	38.15 %	64.08 %	61.54 %	70.90 %	120.47 %	82.47 %

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	For Years Ended December 31, 2001(c)	2000	1999	1998(b)	1997(b)
	(For Each Share of Common Stock Outstanding Throughout the Period)				
Net Asset Value:					
Beginning of Period	$ 2.85	$ 3.86	$ 4.16	$ 5.03	$ 4.94
Net Investment Income	.48	.60	.66	.71 #	.70 #
Net Realized and Unrealized Gain (Loss) on Investments and Other Financial Instruments	(.24)	(1.00)	(.30)	(.81)#	.25 #
Distributions from Net Investment Income Related to Preferred Stock	(.12)	(.18)	(.18)	(.17)	(.16)
Total From Investment Operations	.12	(.58)	.18	(.27)	.79
Distributions from Net Investment Income:					
To common stockholders	(.36)	(.43)	(.48)	(.54)	(.53)
Dividends in Excess of Net Investment Income:					
To Common Stockholders					(.01)
Total Distributions	(.36)	(.43)	(.48)	(.54)	(.54)
Effect of rights offering and related expenses and Auction Term Preferred Stock offering costs and sales load				(.06)	(.16)
Net Asset Value:					
End of Period	$ 2.61	$ 2.85	$ 3.86	$ 4.16	$ 5.03
Per Share Market Value:					
End of Period	$ 2.64	$ 2.63	$ 3.13	$ 4.25	$ 5.63
Total Investment Return	13.97 %	(3.84)%	(16.92)%	(15.15)%	21.97 %
Net Assets, End of Period, Applicable to Common Stock(a)	$ 178,231	$ 191,928	$ 258,215	$ 273,518	$ 243,625
Net Assets, End of Period, Applicable to Preferred Stock(a)	$ 150,000	$ 160,000	$ 210,000	$ 210,000	$ 150,000
Total Net Assets, End of Period(a)	$ 328,231	$ 351,928	$ 468,215	$ 483,518	$ 393,625
Expense Ratios					
Ratio of preferred and other debt expenses to average net assets*	.17 %	.19 %	.18 %	.14 %	.13 %
Ratio of operating expenses to average net assets*	1.11 %	.99 %	.89 %	.82 %	.92 %
Ratio of Total Expenses to Average Net Assets*	1.28 %	1.18 %	1.07 %	.96 %	1.05 %
Ratio of Net Investment Income to Average Net Assets*	16.70 %	17.46 %	16.36 %	15.22 %	13.86 %
Ratio of Total Expenses to Average Net Assets Applicable to Common and Preferred Stock	.71 %	.64 %	.60 %	.58 %	.66 %
Ratio of Net Investment Income to Average Net Assets Applicable to Common and Preferred Stock	9.23 %	9.41 %	9.16 %	9.26 %	8.75 %
Portfolio Turnover Rate	38.89 %	45.58 %	66.74 %	124.67 %	108.84 %

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(a) Dollars in thousands.

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

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

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

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

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

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Capitalization and Information Regarding Senior Securities

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

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

Pro Forma Capitalization. The following table of unaudited financial information sets forth the total assets and liabilities of the Fund and the net assets of the Fund as of , 2007 and as adjusted to give effect to the issuance of all of the new shares of ATP Series , as set forth in the Prospectus.

	Actual (in thousands)	As Adjusted
Total Assets	$	
Total Liabilities	$	
NET ASSETS REPRESENTS:		
Auction Term Preferred Stock Series A, $1.00 par value, liquidation preference $25,000 per share, 2,400 shares authorized, 1,400 shares issued and outstanding	$ 35,000	$
Auction Term Preferred Stock Series B, $1.00 par value, liquidation preference $25,000 per share, 1,600 shares authorized, 1,000 shares issued and outstanding	$ 25,000	$
Auction Term Preferred Stock Series C, $1.00 par value, liquidation preference $25,000 per share, 3,200 shares authorized, 1,800 shares issued and outstanding	$ 45,000	$
Auction Term Preferred Stock Series D, $1.00 par value, liquidation preference $25,000 per share, 2,400 shares authorized, 1,000 shares issued and outstanding	$ 25,000	$
Net Assets attributable to Common Stock	$	
REPRESENTED BY:		
Common Stock, $0.01 par value, 200,000,000 shares authorized, 96,232,751 shares issued and outstanding, [ ] shares issued and outstanding as adjusted	$	
Capital in excess of par value		
Accumulated net realized loss from security transactions		
Net unrealized appreciation on investments		
Accumulated undistributed net investment income		
NET ASSETS:	$	
Net asset value per share of Common Stock	$	

Senior Securities. The following table shows certain information regarding senior securities of the Fund as of the dates indicated. The information has been audited by Tait, Weller & Baker LLP, independent registered public accountants, for the fiscal years ended December 31, 2006 and 2005. The information for the fiscal year ended December 31, 2004, and prior years has been audited by other independent accountants. The information for the period commencing January

1, 2007 and concluding June 30, 2007 is unaudited. In connection with its initial public offering in February 1988, the Fund issued senior securities consisting of $105 million aggregate principal amount of 9% Senior Extendible Notes (Notes) and $79 million (aggregate liquidation preference) of Taxable Auction Rate Preferred Stock (TARPS), the dividends on which were set in monthly auctions with reference to short-term interest rates. The Fund subsequently repurchased substantial amounts of these securities and by December 31, 1992 had $45.5 million aggregate principal amount of Notes and $35 million (aggregate liquidation preference) of TARPS outstanding. See The Fund. The Notes were refinanced in January 1993 with the proceeds of a credit facility from BankBoston, N.A. (the Credit Facility) in the aggregate principal amount of $45.5 million. The Credit Facility was repaid and the outstanding TARPS were redeemed in January 1994 with the proceeds from an offering of two series of newly authorized ATP having an aggregate liquidation preference of $100 million plus accumulated and unpaid dividends. See Description of ATP, The Fund and Financial Statements. In May 1997 and May 1998, additional series of newly authorized ATP (Series C and Series D) with an aggregate liquidation preference of $50 and $60 million, respectively, plus accumulated and unpaid dividends, were issued, and in October 2003, additional Series C shares with an aggregate liquidation preference of $30 million plus accumulated and unpaid dividends were issued. In connection with maintaining asset coverage requirements for the ATP, the Fund repurchased $50 million, $10 million, and $50 million of ATP in fiscal 2002, 2001, and 2000, respectively.

	Six Months Ended June 30, 2007 (Unaudited)	**As of December 31, 2006**	**2005**	**2004**	**2003**	**2002**
Total Amount Outstanding(1)						
Preferred Stock	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 100,000
Asset Coverage						
Per Preferred Stock Share (2)	$ 65,491	$ 65,192	$ 63,567	$ 65,801	$ 64,366	$ 57,793
Involuntary Liquidation Preference						
Preferred Stock Share (3)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Approximate Market Value:						
Per Preferred Stock Share (3)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000

	As of December 31, 2001	**2000**	**1999**	**1998**	**1997**
Total Amount Outstanding(1)					
Preferred Stock	$ 150,000	$ 160,000	$ 210,000	$ 210,000	$ 150,000
Asset Coverage					
Per Preferred Stock Share (2)	$ 54,705	$ 54,989	$ 55,740	$ 57,562	$ 65,604
Involuntary Liquidation Preference					
Preferred Stock Share (3)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000
Approximate Market Value:					
Per Preferred Stock Share (3)	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000

(1) Dollars in thousands.

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

(3) Plus accumulated and unpaid dividends.

PORTFOLIO COMPOSITION
(Unaudited)

As of , 2007, the Fund s portfolio included holdings issued by different issuers (consolidated by affiliated companies) having an average yield to maturity of %. The weighted average maturity of the Fund s portfolio as of this date was approximately years.

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The dollar weighted average of Moody s ratings of all bonds held by the Fund for the twelve-month period ended , 2007, computed on a monthly basis, is set forth below. This information reflects the average composition of the Fund s assets at , 2007 and is not necessarily representative of the Fund as of the date of this Prospectus or at any other time in the future. As of , 2007, the weighted average maturity of the Fund s portfolio was approximately years. See the Statement of Additional Information for a description of the ratings system used by Moody s.

Moody s Rating	**Percentage of Portfolio**
Aa	%
A	%
Baa	%
Ba	%
B	%
Caa	%
Ca	%
C	%
NR	%
Total	100.00%

THE FUND

The Fund is a diversified, closed-end management investment company with a leveraged capital structure organized as a corporation under the laws of Maryland. T. Rowe Price currently serves as the Fund s investment adviser. The Fund s investment objective is to provide high current income, while seeking to preserve stockholders capital, through investment in a professionally managed, diversified portfolio of high-yield fixed-income securities, commonly known as junk bonds.

The Fund invests primarily in high-yield fixed-income securities rated in the lower categories by established rating agencies, consisting principally of fixed income securities rated BB or lower by S&P or Ba or lower by Moody s, and, subject to applicable rating agency guidelines (see Rating Agency Guidelines), non-rated securities deemed by the Investment Adviser to be of comparable quality. See Investment Objective and Policies. No assurance can be given that the Fund will achieve its investment objective. See Risk Factors and Special Considerations. The fixed income securities in which the Fund invests are regarded by the rating agencies, on balance, as predominately speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. Such securities may also be subject to greater market price fluctuations than lower-yielding, higher-rated debt securities; credit ratings do not reflect this market risk.

On July 24, 2007, the Fund issued to the holders of its Common Stock, transferable rights (the Rights) to purchase additional shares of Common Stock. As a result of the Rights Offering, 18,593,349 shares of Common Stock were issued on September 18, 2007, resulting in gross proceeds to the Fund of approximately $34,025,828. As of , 2007, the Fund had total assets of $ and total net assets applicable to Common Stock (aggregate assets less senior securities and Fund liabilities) of $. After giving effect to such issuance of Common Stock, the Fund s capital structure included shares of Common Stock, shares of ATP Series A, shares of ATP Series B, shares of ATP Series C and shares of ATP Series D.

The Fund has entered into a five-year interest payment swap arrangement (the Swap Arrangement) with Fleet National Bank (Fleet). Pursuant to the Swap Arrangement, the Fund makes payments to Fleet on a monthly basis at a fixed annual rate of 3.775%, computed on a notional contract amount of $130 million. In exchange for such payments, Fleet makes payments to the Fund on a monthly basis at a variable rate determined with reference to one month LIBOR. The aggregate effect of this Swap Arrangement is to hedge the Fund s dividend payment obligations with respect to $130 million of the ATP, % of the ATP Outstanding as of , 2007. See Investment Objective and Policies and Description of ATP - Dividends and Dividend Periods. After giving effect to the issuance of the new shares of ATP Series , the Swap Arrangement will hedge the Fund s dividend obligations with respect to % of the ATP then Outstanding. The Fund makes dividend payments to the holders of the ATP based on the results of periodic Auctions without regard to the Swap Arrangement. In the event that the Fund fails to satisfy certain asset coverage requirements that give rise to a mandatory redemption of the ATP, the Fund has agreed with Moody s and Fitch that it will terminate the Swap Arrangement to the extent the notional amount of the Swap Arrangement following such redemption would exceed the aggregate liquidation preference of the ATP that would remain Outstanding following such redemption, or in such greater amount as the Fund may determine, subject to deferral to the extent the value of the Swap Arrangement then exceeds a specified benchmark. In light of the proposed increase in the Fund s Outstanding ATP, the Fund will consider adjustments in the Swap Arrangement. The timing and amount of any such adjustment will depend upon market conditions.

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

USE OF PROCEEDS

The Fund anticipates investing substantially all of the net proceeds from the Offering in accordance with the Fund s investment objective and policies described below. See Investment Objective and Policies. The net proceeds from the sale of the newly issued shares of ATP Series offered hereby are estimated to be approximately $ (after deducting sales load and estimated offering expenses of approximately $). The Fund currently anticipates that investment of such net proceeds in accordance with the Fund s investment objective and policies will take up to eight weeks from their receipt by the Fund, depending on market conditions and the availability of appropriate securities, but in no event will such investment take longer than six months. Pending such investment in accordance with the Fund s investment objective and policies, the proceeds will be held in high-quality, short-term money market instruments.

DESCRIPTION OF ATP

General

The following is a brief description of the terms of the ATP. This description does not purport to be complete and is subject to qualification in its entirety by reference to the Articles which establish and fix the rights and preferences of the newly issued shares of ATP Series . A copy of the Articles, including a form of the Articles Supplementary establishing the newly issued ATP Series , are filed as exhibits and are incorporated by reference to the Registration Statement of which this Prospectus is a part and may be inspected and copies thereof may be obtained as described under Additional Information.

Pursuant to the Articles, the Fund is authorized to issue 1,000,000 shares of Preferred Stock in one or more series. The Fund previously issued 1,200 shares of ATP Series A and 800 shares of ATP Series B in January 1994 (which subsequently increased to 2,400 shares of ATP Series A and 1,600 shares of ATP Series B pursuant to a stock split), 2,000 shares of ATP Series C in May 1997 and 1,200 shares of ATP Series C in October 2003, and 2,400 shares of ATP Series D in May 1998. In connection with maintaining asset coverage requirements for the ATP, the Fund repurchased $50 million, $10 million, and $50 million of the ATP in fiscal years 2002, 2001, and 2000, respectively. The Fund is offering an additional shares of ATP Series at a price per share of $25,000 plus accumulated dividends, if any, from the Date of Original Issue. At , 2007, there were Outstanding shares of Preferred Stock of which are classified as ATP Series A, are classified as ATP Series B, are classified as ATP Series C and are classified as ATP Series D.

The Liquidation Value is currently $25,000 with respect to the ATP Series A, Series B, Series C and Series D.

Dividends and Dividend Periods

With respect to the newly issued shares of ATP Series , the initial Applicable Rate and the first Auction Date for the initial Dividend Period will be as set forth on the inside cover page of this Prospectus. For each subsequent

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Dividend Period, subject to certain exceptions, the dividend rate will be the Applicable Rate that the Auction Agent advises the Fund has resulted from an Auction. See Description of ATP - Dividends in the Statement of Additional Information. During the Standard Term Period for ATP, Series A (, 2007 and , 2007), Series B (, 2007 and , 2007), Series C (, 2007 and , 2007), and Series D (, 2007 and , 2007), dividends were paid at an annual rate of %, %, % and %, respectively. The annual return on the Fund s portfolio needed to cover dividend payments on the ATP at the current rate is % calculated as of , 2007. The annual return on the Fund s portfolio needed to cover total leverage related expenses is % calculated as of , 2007.

The initial Dividend Period for the newly issued shares of ATP Series shall be days. Dividend Periods after the initial Dividend Period shall be either Standard Term Periods or, subject to certain conditions and with notice to holders, Alternate Term Periods (periods longer or shorter than 28 days and having such duration as the Board of Directors shall specify). An Alternate Term Period will not be effective unless, among other things, Sufficient Clearing Orders exist at the Auction in respect of such Alternate Term Period (that is, in general, the number of shares of ATP subject to Buy Orders by Potential Holders is at least equal to the number of shares subject to Sell Orders by Existing Holders). If Sufficient Clearing Orders do not exist at any Auction in respect of an Alternate Term Period, the Dividend Period commencing on the Business Day succeeding such Auction will be a Standard Term Period and the holders of the shares of the affected series will be required to continue to hold such shares for such Standard Term Period.

Dividends will accumulate at the Applicable Rate from the Date of Original Issue and shall be payable on each Dividend Payment Date thereafter. For Dividend Periods of one year or less, Dividend Payment Dates shall occur on the Business Day next succeeding the last day of such Dividend Period and, if any, on the 91st, 181st and 271st days thereof. For Dividend Periods of more than one year, Dividend Payment Dates shall occur on a quarterly basis on each January 1, April 1, July 1 and October 1 within such Dividend Period and on the Business Day following the last day of such Dividend Period. Dividends will be paid through the Securities Depository (the Depository Trust Company or a successor securities depository) on each Dividend Payment Date. See Description of ATP - Dividends and Dividend Periods in the Statement of Additional Information. The Securities Depository s current procedures provide for it to distribute dividends in same-day funds to Agent Members who are in turn expected to distribute such dividends to the persons for whom they are acting as agents.

Except during a Default Period as described below, the Applicable Rate resulting from an Auction will not be greater than the Maximum Applicable Rate, which is equal to 150% of the applicable AA Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate (for a Dividend Period of 184 days or more, (each, a Reference Rate)), in each case subject to upward but not downward adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers, provided that immediately following any such increase the Fund would be in compliance with the ATP Basic Maintenance Amount.

The Maximum Applicable Rate for the shares of ATP will apply automatically following an Auction for such shares in which Sufficient Clearing Orders have not been made (other than because all shares of ATP were the subject of Submitted Hold Orders) or following the failure to hold an Auction for any reason on the Auction Date scheduled to occur (except for circumstances in which the dividend rate is the Default Rate, as described below).

While any shares of ATP are Outstanding, the Fund generally may not (subject to certain exceptions) declare, pay or set apart for payment any dividend or other distribution in respect to Common Stock or any other shares of the Fund ranking junior to or on a parity with the ATP as to dividends or upon liquidation, or call for redemption, redeem, purchase or otherwise acquire for consideration any Common Stock or any other such junior shares or any such parity shares unless certain conditions have been satisfied. These conditions include the following: (i) immediately thereafter the Fund would have Eligible Assets with an aggregate Discounted Value at least equal to the ATP Basic Maintenance Amount and the 1940 Act ATP Asset Coverage would be achieved, (ii) full cumulative dividends on the ATP due on or prior to the date of the transaction have been declared and paid, and (iii) the Fund has redeemed the full number of shares of ATP required to be redeemed by any provision for mandatory redemption contained in the Articles. See Description of ATP - Dividends and Dividend Periods in the Statement of Additional Information.

Default Period. A Default Period will commence if the Fund fails to (i) declare in a timely manner the full amount of any dividend due on any Dividend Payment Date, (ii) pay in a timely manner to the Auction Agent the full amount of any dividends due on the ATP or the redemption price for any shares of ATP called for redemption, and such failure is not cured in a timely manner, or (iii) maintain the Aaa/AAA Credit Rating unless such failure is cured by the Dividend Payment Date next following the date of such failure. The Applicable Rate for a Default Period, including any Dividend Period commencing during a Default Period, will be the Default Rate. The Default Rate is the Reference Rate multiplied by three. Holders of two-thirds of the Outstanding shares of ATP, acting collectively, or the ATP Series , acting as a separate series, may waive any dividend default, redemption default or rating default.

The Minimum Applicable Rate will apply automatically following an Auction in respect of a Dividend Period of 93 days or fewer in which all of the Outstanding shares are subject to (or are deemed to be subject to) Submitted Hold Orders. The Minimum Applicable Rate is 80% of the applicable AA Composite Commercial Paper Rate. No minimum rate is specified for Auctions in respect of Dividend Periods of more than 93 days.

Prior to each Auction, Broker-Dealers will notify holders of the ATP of the term of the next succeeding Dividend Period as soon as practicable after the Broker-Dealers have been so advised by the Fund. After each Auction, on the Auction Date, Broker-Dealers will notify holders of the Applicable Rate for the next succeeding Dividend Period and of the Auction Date of the next succeeding Auction.

The Fund may enter into transactions such as swaps, caps, collars and floors with the purpose of hedging its dividend payment obligations with respect to the ATP. See The Fund and Investment Objective and Policies - Certain Investment Practices in the Statement of Additional Information.

Notification of Dividend Period. The Fund will designate the duration of Dividend Periods of ATP Series ; provided, however, that no such designation is necessary for a Standard Term Period and such designation shall be effective only if (i) notice thereof shall have been given as provided herein, (ii) any failure to pay in a timely manner to the Auction Agent the full amount of any dividend on, or the redemption price of, the ATP shall have been cured as set forth above, (iii) Sufficient Clearing Orders shall have existed in the Auction held on the Auction Date immediately preceding the first day of any proposed Alternate Term Period, (iv) if the Fund shall have mailed a notice of redemption with respect to any shares, as described under Description of ATP - Redemption in the Statement of Additional Information, the Redemption Price with respect to such shares shall have been deposited with the Paying Agent, and (v) the Fund has confirmed that as of the Auction Date next preceding the first day of such Alternate Term Period, it has Eligible Assets with an aggregate Discounted Value at least equal to the ATP Basic Maintenance Amount, and has consulted with the Broker-Dealers and has provided notice and an ATP Basic Maintenance Certificate to Moody s (if Moody s is then rating the ATP), Fitch (if Fitch is then rating the ATP) and any Other Rating Agency which is then rating the ATP and so requires.

If the Fund proposes to designate any Alternate Term Period following the Date of Original Issue, generally not less than three Business Days nor more than 30 days prior to the first day of such Alternate Term Period, notice shall be (A) made by press release and (B) communicated by the Fund by telephonic or other means to the Auction Agent and confirmed in writing promptly thereafter. Each such notice shall state (x) that the Fund proposes to exercise its option to designate a succeeding Alternate Term Period, specifying the first and last days thereof and (y) that the Fund will by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such Alternate Term Period, notify the Auction Agent, who will promptly notify the Broker-Dealers, of either (X) its determination, subject to certain conditions, to proceed with such Alternate Term Period, subject to the terms of any Specific Redemption Provisions, or (Y) its determination not to proceed with such Alternate Term Period, in which latter event the succeeding Dividend Period shall be a Standard Term Period.

No later than 3:00 p.m., New York City time, on the second Business Day next preceding the first day of any proposed Alternate Term Period, the Fund shall deliver to the Auction Agent, who will promptly deliver to the Broker-Dealers and Existing Holders, either:

(i) a notice stating that (A) the Fund has determined to designate the next succeeding Dividend Period as an Alternate Term Period, specifying the first and last days thereof and (B) the terms of any Specific Redemption Provisions; or

(ii) a notice stating that the Fund has determined not to exercise its option to designate an Alternate Term Period.

If the Fund fails to deliver either such notice with respect to any designation of any proposed Alternate Term Period to the Auction Agent or is unable to make the confirmation pursuant to clause (v) above by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such proposed Alternate Term Period, the Fund shall be deemed to have delivered a notice to the Auction Agent with respect to such Dividend Period to the effect set forth in clause (ii) above, thereby resulting in a Standard Term Period.

Notwithstanding the foregoing, the Fund may designate the succeeding Dividend Period as an Alternate Term Period on the second Business Day next preceding the first day of such succeeding Dividend Period by giving notice as contemplated by clause (i) above and by issuing a press release containing the information in such notice.

If the Fund is unable to make the confirmation pursuant to clause (v) above by 3:00 p.m., New York City time, on the second Business Day next preceding the first day of such Alternate Term Period, the Fund shall deliver a notice to the Auction Agent that the Fund has been unable to make such confirmation and that such Dividend Period will be a Standard Term Period.

Mandatory Redemption

If the Fund fails to maintain, as of any Valuation Date, Eligible Assets with an aggregate Discounted Value at least equal to the ATP Basic Maintenance Amount, or as of the last Business Day of any month, the 1940 Act ATP Asset Coverage, and such failure is not cured within two Business Days following such Valuation Date, in the case of a failure to maintain the ATP Basic Maintenance Amount as of such Valuation Date, or the last Business Day of the following month, in the case of a failure to maintain 1940 Act ATP Asset Coverage as of such last Business Day, the ATP will be subject to mandatory redemption out of funds legally available therefor to the extent necessary to result in the Fund having sufficient Eligible Assets or to restore the 1940 Act ATP Asset Coverage, as the case may be. If the Fund at any time fails to maintain the Aaa/AAA Credit Rating and the Fund is unable to restore the Aaa/AAA Credit Rating within 90 calendar days thereafter, all shares of ATP will be subject to mandatory redemption out of funds legally available therefor. To maintain the Aaa/AAA Credit Rating, the Fund must maintain a rating for the ATP in the highest rating category from any two nationally recognized statistical rating organizations (as used in the rules and regulations of the Exchange Act), one of which must be Moody s or S&P. The ATP will be rated by Moody s and Fitch on the Date of Original Issue, although the Fund reserves the right to obtain a rating or ratings from additional and/or substitute rating agencies, subject to the preceding sentence.

The redemption price in the event of a mandatory redemption of a share of ATP will be the Liquidation Value of such share, plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to the date fixed for redemption plus (in the case of a Dividend Period of not less than one year only) any redemption premium specified in any Specific Redemption Provisions. In the event any mandatory redemption is required, the particular shares to be redeemed shall be selected by the Fund by lot, on a pro rata basis between each series or by such other method as the Fund shall deem fair and equitable, subject to the terms of any Specific Redemption Provisions. The Fund s ability to make a mandatory redemption may be limited by the provisions of the 1940 Act or Maryland law. See Description of ATP - Redemption in the Statement of Additional Information. Shares of ATP may be subject to mandatory redemption in accordance with the foregoing mandatory redemption provisions notwithstanding the terms of any Specific Redemption Provisions.

Optional Redemption

To the extent permitted under the 1940 Act and Maryland Law, the Fund at its option may redeem shares of ATP having a Dividend Period of less than one year, in whole or in part, on the Business Day after the last day of such Dividend Period upon not less than 15 days and not more than 40 days prior notice. The optional redemption price per share shall be the Liquidation Value, plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to the date fixed for redemption. Shares of ATP having a Dividend Period of more than one year may be redeemable at the option of the Fund prior to the end of the relevant Dividend Period, subject to any Specific Redemption Provisions, which may include the payment of redemption premiums to the extent required under any applicable Specific Redemption Provisions. The Fund shall not effect any optional redemption unless after giving effect thereto the Fund would have Eligible Assets with an aggregate Discounted

Value at least equal to the ATP Basic Maintenance Amount. See Description of ATP - Redemption in the Statement of Additional Information.

The Fund also reserves the right to repurchase ATP in market or other transactions from time to time in accordance with applicable law and at a price that may be more or less than the applicable Liquidation Value, but is under no obligation to do so.

Ratings

It is a condition of the Underwriter s obligation to purchase the newly issued shares of ATP Series offered in the Offering that the Fund obtain the Aaa/AAA Credit Rating from Moody s and Fitch for the newly issued shares of ATP Series on the Date of Original Issue. While there is no assurance that the Aaa/AAA Credit Rating with respect to the newly issued shares of ATP Series will not be changed, suspended or withdrawn, the Fund will endeavor to maintain such rating and any failure to maintain such rating would, subject to cure and certain exceptions, result in mandatory redemption of the ATP. See Mandatory Redemption above. While the Fund does not presently intend to seek a rating from a rating agency other than Moody s and Fitch, it reserves the right to do so.

Asset Maintenance

Under the Fund s Articles, the Fund must maintain (i) as of each Valuation Date, Eligible Assets having, in the aggregate, a Discounted Value at least equal to the ATP Basic Maintenance Amount, and (ii) as of the last Business Day of each month, 1940 Act ATP Asset Coverage of at least 200%. See Description of ATP - Asset-Maintenance in the Statement of Additional Information.

The Discount Factors and guidelines for calculating the Discounted Value of the Fund s portfolio for purposes of determining whether the ATP Basic Maintenance Amount has been satisfied have been established by Moody s and Fitch in connection with the Fund s receipt from Moody s and Fitch of the Aaa/AAA Credit Rating with respect to the newly issued shares of ATP Series on their Date of Original Issue. See Rating Agency Guidelines in the Statement of Additional Information. Additional Discount Factors and guidelines for calculating the discounted value of investment company portfolios have been established by other rating agencies, such as S&P. Such guidelines, which are similar but not identical to those established by Moody s and Fitch, as well as various other covenants and tests such as liquidity tests, would apply in the event the Fund determined to seek (and was successful in obtaining) a rating from one or more of such agencies with respect to the ATP.

The Fund estimates that on the Date of Original Issue of the newly issued shares of ATP Series , based on the composition of its portfolio as of , 2007, the 1940 Act ATP Asset Coverage, after giving effect to the issuance of the new shares of ATP Series ($ million), and the deduction of sales load and estimated offering expenses for such shares ($), will be %.

Liquidation Preference

Upon a liquidation of the Fund, whether voluntary or involuntary, the holders of ATP then Outstanding will be entitled to receive and to be paid out of the assets of the Fund available for distribution to its stockholders, before any payment or distribution shall be made on the Common Stock or on any other class of shares ranking junior to the ATP upon liquidation, an amount equal to the liquidation preference with respect to the ATP. The liquidation preference shall be Liquidation Value plus an amount equal to accumulated but unpaid dividends thereon (whether or not earned or declared) to the date payment of such distribution is made in full or a sum sufficient for the payment thereof is set apart with the Paying Agent; no redemption premium shall be paid upon any liquidation even if such redemption premium would be paid upon optional or mandatory redemption of the relevant shares. After the payment to the holders of ATP of the full preferential amounts provided for as described herein, the holders of ATP as such shall have no right or claim to any of the remaining assets of the Fund. See Description of ATP - Liquidation in the Statement of Additional Information.

Neither a consolidation or merger of the Fund with or into any other company or companies, nor a sale, lease or exchange of all or substantially all of the assets of the Fund in consideration for the issuance of equity securities of another company (unless there is a material adverse affect on any designation, right, preference or limitation of the

ATP or any shares issuable in exchange for shares of ATP in any such consolidation or merger), will be deemed to be a liquidation, whether voluntary or involuntary, for the purposes of the foregoing paragraph.

Voting Rights

Except as otherwise indicated herein or as otherwise required by applicable law, holders of the ATP will have equal voting rights with holders of Common Stock (one vote per share) and will vote together with holders of Common Stock as a single class. The 1940 Act requires that the holders of shares of ATP, voting as a separate class, have the right to elect at least two directors at all times and to elect a majority of the directors at any time two years dividends on any shares of ATP are unpaid. The holders of shares of ATP will vote as a separate class on certain other matters as required under the Articles or applicable law. In addition, to the extent permitted by the 1940 Act, each series of ATP may vote as a separate series in certain circumstances. See Management of the Fund - Directors and Officers and Description of ATP - Voting Rights in the Statement of Additional Information.

AUCTION PROCEDURES

Dividend Rates and Auction Dates

The dividend rate for each Dividend Period will be determined on the Auction Date in respect of such Dividend Period. If Sufficient Clearing Orders exist for an Auction, the dividend rate for the ensuing Dividend Period will be the Winning Rate, or, if all shares in an Auction are the subject of Submitted Hold Orders in respect of a Dividend Period of 93 days or fewer, the Minimum Applicable Rate. If Sufficient Clearing Orders do not exist for any Auction, the ensuing Dividend Period will be a Standard Term Period and the dividend rate for that Dividend Period will be the Maximum Applicable Rate. Except in the case of a default as described above or where all shares of the ATP are subject to Submitted Hold Orders, if there is no Auction on any Auction Date, the next Dividend Period will be a Standard Term Period, and the dividend rate will be the Maximum Applicable Rate that could have resulted from an Auction in respect of a Standard Term Period on such Auction Date. The Fund is obligated to exercise its best efforts to maintain an Auction Agent.

Orders by Existing Holders and Potential Holders

On or prior to each Auction Date and prior to the Submission Deadline (initially 1:00 p.m., New York City time), each Existing Holder, with respect to shares it then holds, may submit to a Broker-Dealer by telephone or otherwise a Hold Order, a Hold/Sell Order or a Sell Order and each Broker-Dealer will contact Potential Holders to determine the Buy Orders, if any, to be made by such Potential Holders.

Submission of Orders to Auction Agent

Each Order must be submitted in writing by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on each Auction Date for the Auction to be conducted on such Auction Date and must specify (A) the aggregate number of shares that are the subject of such Order, (B) to the extent that such Orders are placed by an Existing Holder, the number of shares, if any, subject to any Hold Order, Hold/Sell Order or Sell Order, and (C) the rate, if any, specified in each Order.

If any rate specified in any Order contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next higher one thousandth of 1%.

Only in the case of an Auction preceding a Dividend Period of 93 days or fewer and following a Dividend Period of 93 days or fewer, if an Order or Orders covering all shares held by any Existing Holder are not submitted to the Auction Agent by the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the number of shares held by such Existing Holder and not subject to Orders submitted to the Auction Agent. In the case of all other Auctions, if a Hold/Sell or Sell Order or Orders covering all shares held by any Existing Holder are not submitted to the Auction Agent by the Submission Deadline, the Auction Agent will deem a Sell Order to have been submitted on behalf of such Existing Holder covering the number of shares held by such Existing Holder and not subject to Orders submitted to the Auction Agent.

If one or more Orders covering in the aggregate more than the number of shares of ATP held by an Existing Holder are submitted to the Auction Agent, such Orders will be valid in accordance with the Validity Procedures.

If more than one Order is submitted on behalf of any Existing Holder or Potential Holder, each Order submitted will be a separate Order.

In the case of any Dividend Period of 93 days or fewer, if any rate specified in any Order is lower than the Minimum Applicable Rate for the Dividend Period with respect to which such Order is made, such Order will be deemed to be an Order specifying a rate equal to such Minimum Applicable Rate.

In the case of any Dividend Period of more than 93 days, only Buy Orders, Hold/Sell Orders or Sell Orders may be submitted and Hold Orders may not be submitted.

Determination of Sufficient Clearing Orders and Applicable Rate

Not earlier than the Submission Deadline, on each Auction Date, the Auction Agent will assemble all Submitted Orders and will determine whether Sufficient Clearing Orders exist and the Applicable Rate.

Acceptance of Orders and Allocation of Shares

Based upon the results of the Auction, the Auction Agent will determine the aggregate number of shares to be held and sold by Existing Holders and to be purchased by Potential Holders, and, with respect to each Broker-Dealer, determine the extent to which such Broker-Dealer will deliver, and from which other Broker-Dealers such Broker-Dealer will receive, shares.

If Sufficient Clearing Orders exist, subject to the Rounding Procedures:

(i) all Submitted Hold Orders will be accepted;

(ii) all Submitted Sell Orders will be accepted and all Submitted Hold/Sell Orders specifying any rate higher than the Winning Rate will be accepted as Sell Orders;

(iii) all Submitted Hold/Sell Orders specifying a rate lower than the Winning Rate will be accepted as Hold Orders;

(iv) all Submitted Buy Orders specifying a rate lower than the Winning Rate will be accepted;

(v) all Submitted Hold/Sell Orders specifying a rate equal to the Winning Rate will be accepted as Hold Orders unless the number of shares subject to all such Submitted Hold/Sell Orders is greater than the number of shares remaining unaccounted for after the acceptances described in clauses (i), (iii), and (iv) above, in which event each such Submitted Hold/Sell Order will be accepted as a Hold Order and a Sell Order as to the respective number of shares determined in accordance with the Proration Procedures; and

(vi) all Submitted Buy Orders specifying a rate equal to the Winning Rate will be accepted, unless the number of shares subject to all such Submitted Buy Orders is greater than the number of shares remaining unaccounted for after the acceptances described in clauses (i), (iii), (iv) and (v) above, in which event each such Submitted Buy Order will be accepted only as to the number of shares determined in accordance with the Proration Procedures.

If Sufficient Clearing Orders do not exist, subject to the, Rounding Procedures:

(i) all Submitted Hold Orders will be accepted;

(ii) all Submitted Hold/Sell Orders specifying a rate equal to or lower than the Maximum Applicable Rate will be accepted as Hold Orders;

(iii) all Submitted Buy Orders specifying a rate equal to or lower than the Maximum Applicable Rate will be accepted; and

(iv) all Submitted Hold/Sell Orders specifying a rate higher than the Maximum Applicable Rate and all Submitted Sell Orders will be accepted as Hold Orders and as Sell Orders as to the respective number of shares of ATP determined in accordance with the Proration Procedures.

Notification of Results; Settlement

The Auction Agent will advise each Broker-Dealer that submitted an Order whether such Order was accepted, and of the Applicable Rate for the next Dividend Period by telephone by approximately 3:00 p.m., New York City time, on each Auction Date. Each Broker-Dealer that submitted an Order will as soon as practicable advise each Existing Holder and Potential Holder whether its Order was accepted and will confirm in writing purchases and sales with each Existing Holder and Potential Holder purchasing or selling shares as a result of an Auction as soon as practicable on the Business Day next succeeding the Auction Date. Each Broker-Dealer that submitted a Hold Order will advise each Existing Holder on whose behalf such Hold Order was submitted of the Applicable Rate for the shares of ATP for the next Dividend Period.

In accordance with the Securities Depository s normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through the Securities Depository and the accounts of the respective Agent Members at the Securities Depository will be debited and credited and shares delivered as necessary to effect the purchases and sales as determined in the Auction. Purchasers will make payment through their Agent Members in same-day funds to the Securities Depository against delivery through their Agent Members; the Securities Depository will make payment in accordance with its normal procedures, which now provide for payment against delivery to their Agent Members in same-day funds.

If any Existing Holder selling shares in an Auction fails to deliver such shares, the Broker-Dealer of any person that was to have purchased shares in such Auction may deliver to such person a number of whole shares that is less than the number of shares that otherwise was to be purchased by such person. In such event, the number of shares to be so delivered shall be determined by such Broker-Dealer. Delivery of such lesser number of shares shall constitute good delivery.

Broker-Dealers

Bidding by Broker-Dealer

The Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the ATP for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If the Broker-Dealer submits an Order for its own account, it would have an advantage over other bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the ATP and thus, could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the ATP and (ii) the Auction for the ATP will clear at a particular rate. For this reason, and because the Broker-Dealer is appointed and paid by the Fund to serve as a Broker-Dealer in the Auctions for the ATP, the Broker-Dealer s interests in serving as Broker-Dealer in an Auction for the ATP may differ from those of Existing Holders and Potential Holders who participate in Auctions for the ATP. The Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that may in the future be appointed to accept Orders pursuant to a Broker-Dealer Agreement.

currently serves as the Broker-Dealer for the ATP Series and intends to serve as the Broker-Dealer for the newly issued shares of ATP Series . Other firms may serve as Broker-Dealers in connection with Auctions, although there is no assurance that they will do so.

The Fund may request the Auction Agent to terminate one or more Broker-Dealer Agreements at any time, provided that at least one Broker-Dealer Agreement is in effect after any such termination.

is the only Broker-Dealer appointed by the Fund to serve as Broker-Dealer in the Auctions for the ATP, and as long as that remains the case it will be the only Broker-Dealer that submits Orders to the Auction Agent in the Auctions for the ATP. As a result, in such circumstances, the Broker-Dealer may discern the Applicable Rate before the Orders are submitted to the Auction Agent and set the Applicable Rate with its Order.

The Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an Auction Failure (which occurs if there are insufficient clearing bids and results in the auction rate being set at the Maximum Applicable Rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. The Broker-Dealer may place one or more bids in an Auction for the ATP for its own account to acquire the ATP for its inventory, to prevent an Auction Failure or to prevent Auctions for the ATP from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ATP. The Broker-Dealer may place such bids even after obtaining knowledge of some or all of the other Orders submitted through it. When bidding in an Auction for the ATP for its own account, the Broker-Dealer also may bid inside or outside the range of rates that it posts in its Price Talk.

The Broker-Dealer also may encourage Bidding by others in Auctions for the ATP, including to prevent an Auction Failure or to prevent an Auction for the ATP from clearing at a rate that the Broker-Dealer believes does not reflect the market for the ATP. The Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by the Broker-Dealer or by those it may encourage to place bids are likely to affect (i) the Applicable Rate including preventing the Applicable Rate from being set at the Maximum Rate or otherwise causing bidders to receive a lower rate than they might have received had the Broker-Dealer not bid or not encouraged others to bid and (ii) the allocation of the ATP being auctioned including displacing some bidders who may have their bids rejected or receive fewer ATP than they would have received if the Broker-Dealer had not Bid or encouraged others to bid. Because of these practices, the fact that an Auction for the ATP clears successfully does not mean that an investment in the ATP involves no significant liquidity or credit risk. The Broker-Dealer is not obligated to continue to place such bids or to continue to encourage other bidders to do so in any particular Auction for the ATP to prevent an Auction Failure or an Auction for the ATP from clearing at a rate the Broker-Dealer believes does not reflect the market for the ATP. Investors should not assume that the Broker-Dealer will place bids or encourage others to do so or that Auction Failures will not occur. Investors should also be aware that bids by the Broker-Dealer or by those it may encourage to place bids may cause lower Applicable Rates to occur.

In an Auction for the ATP, if all outstanding ATP are the subject of Submitted Hold Orders, the Applicable Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an All Hold Auction). If the Broker-Dealer holds any ATP for its own account on an Auction Date, it is the Broker-Dealer s practice to submit a Sell Order into the Auction for the ATP with respect to such ATP, which would prevent that Auction for the ATP from being an All Hold Auction. The Broker-Dealer may, but is not obligated to, submit bids for its own account in that same Auction for the ATP, as set forth above.

Price Talk

Before the start of an Auction for the ATP, the Broker-Dealer, in its discretion, may make available to its customers who are Existing Holders and Potential Holders the Broker-Dealer s good faith judgment of the range of likely Applicable Rates for the Auction for the ATP based on market and other information. This is known as Price Talk. Price Talk is not a guaranty that the Applicable Rate established through the Auction for the ATP will be within the Price Talk, and Existing Holders and Potential Holders are free to use it or ignore it. The Broker-Dealer occasionally may update and change the Price Talk based on changes in the Fund s credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Holders should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk. The Broker-Dealer may communicate this information by .

All-or-Nothing Bids

The Broker-Dealer will not accept all-or-nothing bids (*i.e.*, bids whereby the bidder proposes to reject an allocation smaller than the entire quantity bid) or any other type of bid that allows the bidder to avoid Auction Procedures that require the pro rata allocation of ATP where there are not sufficient Sell Orders to fill all bids at the winning rate.

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No Assurances Regarding Auction Outcomes

The Broker-Dealer provides no assurance as to the outcome of any Auction. The Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the ATP will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Applicable Rate on any ATP purchased or retained in the Auction for the ATP may be lower than the market rate for similar investments.

The Broker-Dealer will not agree before an Auction to buy ATP from or sell ATP to a customer after the Auction.

Deadlines

To provide sufficient time to process and submit customer bids to the Auction Agent before the Submission Deadline, the Broker-Dealer imposes an earlier deadline for all customers called the Broker-Dealer Deadline by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealer. The Broker-Dealer may make this information available by . Existing Holders and Potential Holders should consult with the Broker-Dealer as to its Broker-Dealer Deadline. The Broker-Dealer may correct clerical errors by the Broker-Dealer after the Broker-Dealer Deadline and prior to the Submission Deadline. A Broker-Dealer may submit bids for its own account at any time until the Submission Deadline and may change Bids it has submitted for its own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealer or generated by the Broker-Dealer for its own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a Clerical Error. In addition until one hour after the Auction Agent completes the dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Holder s Ability to Resell Applicable Rate Securities May Be Limited

An Existing Holder may sell, transfer or dispose of ATP (i) in an Auction for the ATP, only pursuant to a bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the ATP, only to or through the Broker-Dealer.

Existing Holders will be able to sell all of the ATP that are the subject of their Submitted Sell Orders only if there are bidders willing to purchase all those ATP in the Auction for the ATP. If Sufficient Clearing Orders have not been made, Existing Holders that have submitted Sell Orders will not be able to sell in the Auction for the ATP all, and may not be able to sell any, of the ATP subject to such Submitted Sell Orders. As discussed above (*see* Bidding by Broker-Dealer), the Broker-Dealer may submit a Bid in an Auction for the ATP to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough bidders to prevent an Auction Failure in the absence of the Broker-Dealer bidding in the Auction for the ATP for its own account or encouraging others to bid. Therefore, Auction Failures are possible, especially if the Fund s credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealer were unable or unwilling to bid.

Between Auctions for the ATP, there can be no assurance that a secondary market for the ATP will develop or, if it does develop, that it will provide Existing Holders the ability to resell the ATP on the terms or at the times desired by an Existing Holder. The Broker-Dealer, in its own discretion, may decide to buy or sell the ATP in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the ATP. However, the Broker-Dealer is not obligated to make a market in the ATP and may discontinue trading in the ATP without notice for any reason at any time. Existing Holders who resell between Auctions for the ATP may receive an amount less than par, depending on market conditions.

If an Existing Holder purchased ATP through a dealer which is not the Broker-Dealer for the ATP, such Existing Holder s ability to sell its ATP may be affected by the continued ability of its dealer to transact trades for the ATP through the Broker-Dealer.

The ability to resell the ATP will depend on various factors affecting the market for the ATP, including news relating to the Fund, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the ATP (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the ATP (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions or press reports, financial reporting cycles and market conditions generally. Demand for the ATP may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions

The Auction Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least days notice to the Fund and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon days notice or suspend its duties immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation or suspension, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the ATP, with the result that the dividend rate on the ATP will be the Maximum Applicable Rate.

The Auction Agent after each Auction will pay to the Broker-Dealer, from funds provided by the Fund, a service charge at an annual rate of in the case of any Auction immediately preceding a Dividend Period of less than one year and, in the case of Dividend Periods of one year or more, a percentage agreed upon between the Fund and the Broker-Dealer, of the purchase price of shares placed by the Broker-Dealer at such Auction. For purposes of this paragraph, shares will be placed by a Broker-Dealer if such shares were the subject of (i) Hold Orders deemed to have been made by Existing Holders and were acquired by such Existing Holders through the Broker-Dealer or (ii) an Order submitted by the Broker-Dealer that is (A) an Order of an Existing Holder that resulted in such Existing Holder continuing to hold such shares as a result of the Auction or (B) an Order of a Potential Holder that resulted in such Potential Holder purchasing such shares as a result of the Auction or (C) a valid Hold Order. In the event an Auction scheduled to occur on an Auction Date fails to occur for any reason, a Broker-Dealer will be entitled to service charges as if the Auction had occurred and all holders of shares placed by them had submitted valid Hold Orders.

The Auction Agent

Deutsche Bank Trust Company Americas serves as Auction Agent with respect to the ATP and intends to serve as the Auction Agent for the newly issued shares of ATP Series . The Auction Agent is acting solely as agent of the Fund and is not a trustee for holders of the newly issued shares of ATP Series . In the absence of bad faith or gross negligence on its part, the Auction Agent will not be liable to the Fund for any action taken, suffered or omitted or for any error of judgment made by it in the performance of its duties as Auction Agent.

The Auction Agent may resign upon notice to the Fund, such resignation to be effective on the earlier of (i) the 90th day after the delivery of such notice and (ii) the date on which a successor Auction Agent is appointed by the Fund. The Fund may also replace the Auction Agent.

Master Purchaser s Letter

Each prospective purchaser of shares of ATP Series or its Broker-Dealer will be required to sign and deliver to the Auction Agent, as a condition to such purchaser s purchasing shares of ATP in any Auction or otherwise, a Master Purchaser s Letter, the form of which is attached as Appendix A to this Prospectus, in which such prospective purchaser or its Broker-Dealer will agree, among other things:

(a) to participate in Auctions for shares of ATP in accordance with the Auction Procedures described in this Prospectus;

(b) to sell, transfer or otherwise dispose of shares of ATP only pursuant to a Bid or a Sell Order in an Auction, or to or through a Broker-Dealer or to a person that has delivered a signed Master Purchaser s Letter to the Auction

Agent, provided that in the case of all transfers other than those pursuant to Auctions, the Existing Holder of the shares so transferred, its Agent Member or its Broker-Dealer advises the Auction Agent of such transfer; and

(c) to have the ownership of the shares of ATP as to which such purchaser or its Broker-Dealer is the Existing Holder maintained in book entry form by the Securities Depository for the account of its Agent Member, which in turn will maintain records of such purchaser s beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such purchaser s beneficial ownership as the Auction Agent may request.

Each prospective purchaser should ask its Broker-Dealer whether such prospective purchaser should sign a Master Purchaser s Letter. If the Broker-Dealer submits Orders for such prospective purchaser listing the Broker-Dealer as the Existing Holder or the Potential Holder, a Master Purchaser s Letter signed by such prospective purchaser may not be required.

An execution copy of the master purchaser s letter is included with this Prospectus. Execution by a prospective purchaser or its broker-dealer of a master purchaser s letter is not a commitment to purchase shares of ATP in the offering being made by this Prospectus or in any auction or otherwise, but is a condition precedent to such purchaser s purchasing shares of ATP.

RATING AGENCY GUIDELINES

The Fund intends at all times that, so long as any shares of ATP are Outstanding and Moody s and Fitch are then rating the ATP, the composition of its portfolio will reflect guidelines established by Moody s and Fitch in connection with obtaining the Aaa/AAA Credit Rating with respect to the ATP. Should the Fund determine to seek (and be successful in obtaining) a rating from any other rating agency or issue senior securities, other than the ATP, which are rated or otherwise subject to portfolio diversification or similar requirements, the composition of its portfolio would also reflect the guidelines and requirements established by any rating agency rating such securities or by the purchaser or purchasers of such securities. Moody s and Fitch, nationally recognized statistical rating organizations, issue ratings for various securities reflecting the perceived creditworthiness of such securities. The Fund has paid certain fees to Moody s and Fitch for rating shares of the ATP. The guidelines described below, which are set forth in greater detail in the Statement of Additional Information, have been developed independently by Moody s and Fitch in connection with issuance of asset-backed and similar securities, including debt obligations and adjustable rate preferred stocks, generally on a case-by-case basis through discussions with the issuers of these securities. The guidelines are designed to ensure that assets underlying outstanding debt or preferred stock will be sufficiently varied and will be of sufficient quality and amount to justify investment-grade ratings. The guidelines do not have the force of law, but have been adopted by the Fund in order to satisfy current requirements necessary for Moody s and Fitch to issue the above-described ratings for the ATP, which ratings are generally relied upon by institutional investors in purchasing such securities. In the context of a closed-end investment company such as the Fund, therefore, the guidelines provide a set of tests for portfolio composition and asset coverage which supplement (and in some cases are more restrictive than) the applicable requirements under the 1940 Act, and which accordingly affect significantly the management of the Fund s portfolio. A rating agency s guidelines will apply to the ATP only so long as such rating agency is rating such shares and such guidelines are subject to amendment with the consent of the relevant rating agency.

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

Upon any failure to maintain the required Discounted Value, the Fund may seek to alter the composition of its portfolio to retain the ATP Basic Maintenance Amount on or prior to the Asset Coverage Cure Date, thereby incurring additional transaction costs and possible losses and/or gains on disposition of portfolio securities. To the extent any such failure is not cured within two Business Days, the ATP will be subject to mandatory redemption thereafter. The ATP Basic Maintenance Amount equals the sum of (i) the aggregate liquidation preference of ATP then Outstanding and (ii) certain accrued and projected payment obligations of the Fund. See Description of ATP - Asset Maintenance in the Statement of Additional Information.

The Fund may, but is not required to, adopt any modifications to the guidelines that may hereafter be established by Moody s or Fitch. Failure to adopt any such modifications, however, may result in a change in the ratings described above or a withdrawal of the ratings altogether. In addition, any rating agency providing a rating for the ATP may, at any time, change or withdraw any such rating. The Board of Directors may, without stockholder approval, adopt, amend, alter or repeal any definitions, covenants or other obligations of the Fund in the Articles Supplementary, provided the Board of Directors has obtained written confirmation from any rating agency which is then rating the ATP and which so requires that any such change would not impair the respective rating then assigned to the ATP.

As described by Moody s and Fitch, a preferred stock rating is an assessment of the capacity and willingness of an issuer to pay preferred stock obligations. Fitch has stated that its rating on the ATP does not address the market liquidity of the ATP. The ratings on the ATP are not recommendations to purchase, hold or sell ATP, inasmuch as the ratings do not comment as to market price or suitability for a particular investor nor do the Rating Agency Guidelines described above address the likelihood that a holder of ATP will be able to sell such shares in an Auction. The ratings are based on current information furnished to Moody s and Fitch by the Fund and the Investment Adviser, and information obtained from other sources. The ratings may be changed, suspended or withdrawn as a result of changes in, or the unavailability of, such information. The Common Stock has not been rated by a nationally recognized statistical rating organization.

TAXATION

The following discussion offers only a brief outline of the federal income tax consequences of investing in the ATP. Investors should consult their own tax advisors for more detailed information and for information regarding the impact of state, local, foreign, and other tax consequences of such an investment and of potential changes in applicable tax laws.

The Fund has elected to be treated as a regulated investment company (a RIC) under subchapter M of the Internal Revenue Code of 1986, as amended (the Code), and intends to operate so as to meet the Code requirements for qualification as a RIC. However, no assurance can be given that such requirements will be met. If the Fund qualifies for taxation as a RIC, it generally will not be subject to federal corporate income taxes on that portion of its income that is currently distributed to its stockholders. This deduction for dividends paid to stockholders substantially eliminates the federal double taxation on earnings (once at the corporate level and once again at the stockholder level) that generally results from investments in a corporation.

Under present law, the ATP will constitute stock of the Fund, and thus distributions with respect to the ATP (other than distributions in redemption of the ATP subject to section 302(b) of the Code) will constitute dividends to the extent of the Fund s current or accumulated earnings and profits, as calculated for federal income tax purposes. Such dividends generally will be taxable as ordinary income to the stockholders and generally will not qualify for the dividends received deduction available to corporations under section 243 of the Code. However, dividends designated by the Fund as capital gain dividends will be treated as long-term capital gains in the hands of the stockholders. In addition, for tax years through 2010, dividends paid by the Fund to individuals may constitute qualified dividend income eligible for a maximum rate of 15%. The amount of qualified dividend income realized by the Fund is not expected to be significant, and there is no assurance that any such income will be realized by the Fund in any year. The Internal Revenue Service (the Service) currently requires that a RIC that has two or more classes of shares allocate to each such class proportionate amounts of each type of its income (such as ordinary income and net capital gains) for each tax year. Accordingly, the Fund intends to designate distributions made with respect to the ATP as capital gain dividends in proportion to the ATP s share of the total dividends paid to both the ATP and the Common Stock during the year. The amount of net long-term capital gain realized by the Fund is not expected to be significant, and there can be no assurance that any such income will be realized by the Fund in any year. Any distribution in excess of the Fund s earnings and profits will first reduce a stockholder s adjusted basis in his shares of the ATP and, after such adjusted basis is reduced to zero, will constitute a capital gain to a stockholder whose shares of the ATP are held as a capital asset. See Taxation in the Statement of Additional Information for additional information regarding the tax aspects of investing in the Fund.

INVESTMENT OBJECTIVE AND POLICIES

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

Investment Strategy

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

The Fund seeks to achieve its investment objective by investing primarily in high-yield fixed-income securities rated in the lower categories by recognized rating agencies, consisting principally of fixed-income securities rated Ba or lower by Moody s or BB or lower by S&P and, subject to applicable rating agency guidelines, (see Rating Agency Guidelines) non-rated securities deemed by the Investment Adviser to be of comparable quality. Because non-rated securities are not eligible for inclusion in the calculation of the Discounted Value of the Fund s assets under the Rating Agency Guidelines, however, it is not presently anticipated that such securities will comprise a significant percentage of the Fund s investments, although the Fund reserves full flexibility in this regard. See Rating Agency Guidelines. Under normal market conditions, the Fund will have at least 80% of its net assets, plus the amount of any borrowings for investment purposes, invested in securities rated BB or lower by S&P or Ba or lower by Moody s or non-rated securities deemed by the Investment Adviser to be of comparable quality. This policy may not be changed without providing stockholders with 60 days notice. The average maturity of the Fund s portfolio is expected to be between six and ten years; however, depending upon market conditions, this range may be shortened or lengthened.

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

The Fund may invest up to 20% of its total assets in illiquid securities (determined as of the time of investment). Rule 144A Securities are not included in this 20% limitation. In general, the Commission defines illiquid securities as those that cannot be sold in the ordinary course of business within seven days at approximately the value assigned to them by the Fund. Illiquid securities may offer higher yields than comparable publicly traded securities, but the Fund may not be able to sell these securities when the Investment Adviser considers it desirable to do so. Illiquid securities are generally eligible for inclusion in the Discounted Value of the portfolio for purposes of the Rating Agency Guidelines of Moody s or Fitch in effect as of the date of this Prospectus only if they are Rule 144A Securities.

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

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

Certain Investment Practices

The Fund and the Investment Adviser reserve the right to engage in certain investment practices in order to help achieve the Fund s investment objective. Such strategies include the lending of portfolio securities, the short sale of securities and the use of futures contracts and options thereon, entering into interest rate transactions, such as swaps, caps, tears or collars for the purpose of hedging the Fund s exposure to interest rates (including changes in dividend payments on the ATP), reverse repurchase agreements and repurchase agreements (other than certain repurchase agreements with qualified depository institutions having maturities no longer than one day). So long as the ATP is Outstanding, the Fund may not utilize certain investment practices, such as entering into swap agreements, the making of securities loans and buying or selling futures contracts and options thereon, unless the Fund receives written confirmation from Moody s, Fitch or any other rating agency which is then rating the ATP and which so requires, that any such action will not impair the Aaa/AAA Credit Rating. Further, the Rating Agency Guidelines limit or have the effect of limiting the Fund s use of other investment practices described below, such as investments in non-U.S. securities, private placements (except Rule 144A Securities) and options, to the extent such investments are not eligible for inclusion in the Discounted Value of the Fund s portfolio or the Rating Agency Guidelines specify terms and restrictions on such investments. See Rating Agency Guidelines and Investment Objective and Policies - Certain Investment Practices in the Statement of Additional Information.

Investment Restrictions

The following investment restrictions are fundamental policies of the Fund, and may not be amended without the affirmative vote of the holders of a majority of the outstanding shares of Common Stock and a majority of the Outstanding shares of the ATP, voting as separate classes, which means for each class the lesser of (a) more than

50% of such class or (b) 67% or more of such class present at a meeting at which more than 50% of the outstanding shares of such class are present or represented by proxy. Under these restrictions, the Fund may not:

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

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

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

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

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

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

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

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

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

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

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

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

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

RISK FACTORS AND SPECIAL CONSIDERATIONS

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

Risks of Investing in ATP

***Auction Risk*.** Your ability to dispose of shares of ATP may be largely dependent on the success of an Auction, which provides liquidity for the sale of the ATP. If the Auction fails, that is, if there are more ATP shares offered for

sale than there are buyers for those shares, then you may not be able to sell your shares of the ATP. There is no assurance that any particular Auction will be successful. Neither the Fund nor any Broker-Dealer is obligated to ensure that an Auction will be successful or to purchase shares of ATP in an Auction or otherwise. The Fund is not required to redeem shares of ATP in the event of a failed Auction. In addition, if you place Hold Orders (Orders to retain the ATP) at an Auction only at a specified rate, and that bid rate exceeds the rate set at the Auction, you will not retain your shares of ATP. If you buy shares or elect to retain shares without specifying a rate below which you would not wish to continue to hold those shares, and the Auction sets a below-market rate, you may receive a lower rate of return on your shares than the market rate. Finally, the Dividend Period may be changed, subject to certain conditions and with notice to Holders of ATP, which could affect the liquidity of your investment. See Description of ATP and Auction Procedures.

***Secondary Market Risk*.** There is no assurance that a secondary market outside of the Auctions for the ATP will develop, whether or not such Auctions are successful, or if such a market does develop, that shares of ATP will trade at or close to the Liquidation Value. If the Fund has designated a Dividend Period for ATP which is longer than a Standard Term Period, particularly if such Dividend Period exceeds one year, any increase in interest rates will likely have an adverse affect on the secondary market price of ATP. In such case, you may have fewer opportunities to obtain liquidity if Auctions do not occur frequently. If you try to sell your ATP shares between Auctions, you may not be able to sell any or all of your shares, or you may not be able to sell them for $25,000 per share or $25,000 per share plus accumulated dividends. Thus, under certain circumstances, you may not have liquidity of investment.

The Fund does not intend to apply for listing of the newly issued shares of ATP Series on a national securities exchange, but has been advised by that it currently intends to make a market in the ATP Series as permitted by applicable laws and regulations. is not obligated to make a market in the ATP Series between Auctions and, therefore, a holder of ATP Series may not be able to liquidate its position in the ATP Series between Auctions at a price per share equal to its liquidation preference (i.e. Liquidation Value, plus accumulated dividends).

***Ratings and Asset Coverage Risk*.** While Moody s and Fitch assign ratings of Aaa and AAA, respectively, to the ATP, the ratings do not eliminate or necessarily mitigate the risks of investing in the ATP. A rating agency could downgrade its rating of the ATP or withdraw its rating of the ATP at any time, which may make your shares less liquid at an Auction or in the secondary market, though probably with higher resulting dividend rates. If a rating agency downgrades the rating of ATP or withdraws its rating without timely replacement by a rating from a suitable successor rating agency, the Fund may alter its portfolio or redeem the ATP. If the Fund fails to satisfy the asset coverage requirements under the 1940 Act and the Rating Agency Guidelines discussed under Description of ATP - Asset Maintenance, the Fund may be required to redeem a sufficient number of the ATP in order to return to compliance with the asset coverage requirements, including possibly ATP having Dividend Periods of longer than one year. The Fund may be required to redeem the ATP at a time when it is not advantageous for the Fund to make such redemption or to liquidate portfolio securities in order to have available cash for such redemption. The Fund may voluntarily redeem the ATP under certain circumstances in order to meet asset maintenance tests. See Description of ATP - Mandatory Redemption and Description of ATP - Optional Redemption. See also Description of ATP - Asset Maintenance for a description of the asset maintenance tests the Fund must meet.

***Inflation Risk*.** Inflation is the reduction in the purchasing power of money resulting from the increase in the price of goods and services. Inflation risk is the risk that the inflation adjusted (or real) value of your ATP investment or the income from that investment will be worth less in the future. As inflation occurs, the real value of the ATP shares and distributions declines. In an inflationary period, however, it is expected that, through the auction process, ATP dividend rates would increase, tending to offset this risk.

***Indebtedness Risk*.** The Fund may incur indebtedness with the consent of Moody s and Fitch. To the extent that the Fund does incur any borrowings, such borrowings would typically be senior in right of payment to the ATP and the Common Stock upon liquidation of the Fund. Certain types of borrowings may result in the Fund being subject to covenants in credit agreements, including those relating to asset coverage, borrowing base and portfolio composition requirements and additional covenants that may affect the Fund s ability to pay dividends and distributions in certain instances. The Fund also may be required to pledge its assets to the lenders in connection with certain types of

borrowings. Interest payments on borrowings must be made prior to the payment of dividends on Preferred Stock, including ATP.

ATP represents a perpetual equity interest in the Fund (except to the extent redeemable by the Fund) and does not give rise to a claim for payment of a principal amount at a particular date. As such, ATP effectively ranks behind all indebtedness or other non-equity claims on the Fund with respect to assets available to satisfy claims on the Fund. In addition, in the event of the dissolution, liquidation or winding up of the affairs of the Fund, after payment of the liquidation preference and all dividends accumulated to and unpaid through the date of final distribution, holders of ATP will not be entitled to any further participation in any distribution of assets of the Fund.

***Leverage*.** The Fund has had a leveraged capital structure since its organization. Assuming issuance of the new shares of ATP Series in the Offering (after giving effect to the sales load and estimated offering expenses) at , 2007, the Fund would have had total assets of approximately $ million consisting of ATP having an aggregate liquidation preference of approximately $ million and net assets attributable to Common Stock of approximately $ million.

The terms of the Fund s arrangements with Moody s and Fitch, which have been agreed to in order to obtain investment grade ratings for the ATP, require that the Fund maintain (i) asset coverage with respect to the ATP at least equal, on a discounted basis, to the liquidation preference of the ATP plus certain accrued and projected payment obligations of the Fund and other amounts on an on-going basis and (ii) non-discounted asset coverage of at least 200% of the aggregate liquidation preference of the ATP as of the last Business Day of each month. See Description of ATP - Asset Maintenance. The 1940 Act also requires that the Fund maintain asset coverage of at least 200% on a non-discounted basis as a condition of paying dividends to the holders of the Common Stock.

As market conditions and the value of portfolio securities decline, one effect of the foregoing requirements is to cause the Fund to invest in higher-quality, lower-yielding assets and/or to maintain relatively substantial balances of highly liquid assets having low Discount Factors assigned by the rating agencies in order to remain in compliance with asset coverage requirements, which may tend to reduce portfolio yield. In addition, the value of higher-quality assets may react with greater volatility to interest rate changes than would lower quality assets.

If the dividend rate on the ATP exceeds the net rate of return on the Fund s portfolio, the leverage will result in a lower NAV than if the Fund were not leveraged, and the Fund s ability to pay dividends and meet its asset coverage requirements on the ATP would be reduced. Any decline in the NAV of the Fund s investments also could increase the risk of the Fund failing to meet its asset coverage requirements, of losing its ratings on the ATP or, in an extreme case, of the Fund s current investment income not being sufficient, which would cause the Fund to liquidate investments in order to fund a redemption of some or all of the ATP. Under some circumstances, the Fund may be required to redeem or repurchase senior securities in order to remain in compliance with applicable asset coverage requirements, which requires the liquidation of portfolio securities, causing the possible realization of substantial losses and the incurrence of transaction costs. As market conditions improve and market opportunities arise, the discounted asset coverage requirements tend to restrict the redeployment of assets from cash and higher-quality assets having lower Discount Factors to lower quality, higher-yielding assets having higher Discount Factors, even when such securities are available at attractive prices. Also, redeploying cash as the value of the Fund s assets rise involves significant transaction costs and possible delays, which further inhibits the Fund s ability to take advantage of a favorable investment environment.

To the extent the Fund establishes Standard Term Periods or other relatively short Dividend Periods for the ATP and does not effectively hedge the risk associated with changes in short-term interest rates, the Fund would be vulnerable to increases in short-term interest rates.

Payment Restrictions

Holders of shares of stock, including ATP, are entitled to receive dividends only when, as and if declared by the Board of Directors and only out of funds legally available therefor. State corporation laws generally limit the funds out of which issuers incorporated thereunder may pay to stockholders as a dividend. For example, under Maryland law, dividends may not be paid if after giving effect to the dividend, the Fund would not be able to pay its debts as they became due in the usual course of business or the Fund s total assets would be less than the sum of its total liabilities plus the amount needed to satisfy the preferential rights of stockholders whose preferential rights upon dissolution are superior to those receiving the dividend.

During any annual period when the Fund may not have funds legally available to pay the scheduled dividends then due on the ATP, the Fund may not pay dividends on the Common Stock until the scheduled dividends on the shares of ATP have been paid or provided for. Also, the Fund is not permitted to declare any cash dividends or distributions on its Common Stock unless, at the time of such declaration and after deducting the amount of such dividend, the Fund is in compliance with the 1940 Act ATP Asset Coverage test and has Eligible Assets with an aggregate Discounted Value at least equal to the ATP Basic Maintenance Amount. This prohibition on the payment of dividends or distributions might impair the Fund s ability to maintain its qualification as a regulated investment company for federal income tax purposes. The Fund intends, however, to redeem shares of ATP from time to time, to the extent necessary to comply with the asset coverage requirements. There can be no assurance, however, that such redemptions can be effected in time to permit the Fund to distribute its income as required to maintain its qualification as a RIC under the Code. See Taxation.

Swap Arrangement

In order to seek to hedge the value of the Fund s portfolio, to hedge against increases in the Fund s costs associated with the dividend payments on the ATP or to seek to enhance the Fund s return, the Fund may enter into interest rate swap transactions. In interest rate swap transactions, there is a risk that yields will move in the direction opposite of the direction anticipated by the Fund, which would cause the Fund to make payments to its counter-party in the transaction that could adversely affect the Fund s performance. In addition, swap transactions give rise to credit risk. Credit risk is the amount of loss the Fund would incur in the event its counter-party failed to perform according to the terms of the contractual commitments. In the event of nonperformance by the counter-party, the Fund s dividend payment obligation with respect to the ATP would no longer be hedged. While notional contract amounts are used to express the volume of interest rate swap agreements, the amounts potentially subject to credit risk, in the event of nonperformance by a counter-party, are substantially smaller.

Effective November 5, 2004, the Fund entered into a five-year interest payment Swap Arrangement with Fleet for the purpose of partially hedging its dividend payment obligations with respect to the ATP. Pursuant to the Swap Arrangement, the Fund makes payments to Fleet on a monthly basis at a fixed annual rate of 3.775%, computed on a notional contract amount of $130 million. In exchange for these payments, Fleet makes payments to the Fund on a monthly basis at a variable rate determined with reference to one month LIBOR. The variable rate remained constant at 5.32% for the six-month period ended June 30, 2007. In the current interest rate environment, the Swap Arrangement results in the Fund receiving net payments from Fleet and therefore more income is available for the Common Stock dividend than if the Swap Arrangement were not in place.

Private Placement Securities

The Fund is permitted by its investment objective and policies to invest in private placement securities, subject to the limitation on illiquid securities described above under Investment Objective and Policies - Investment Strategy. Private placement securities are restricted securities and therefore are subject to certain of the following risks which would not apply to securities that were free for immediate public sale. In a private sale of restricted securities, which may involve protracted negotiations and a limited number of purchasers, the possibility of delay and the necessity of obtaining a commitment of investment intent from the purchasers might adversely affect the price of the securities. In a public offering, the delay resulting from registration may make it impossible for the Fund to sell securities at the most desirable time, and the price of the securities may decline between the time of the decision to sell and the time when the sale is accomplished. Because only the issuer of the securities can prepare and file a registration statement under the Securities Act, the Fund may not be able to obtain registration at the most desirable time.

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

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

General Risks of Investing in the Fund

The Fund will invest generally in securities that are rated below investment grade by recognized rating agencies or, that are non-rated but determined by the Investment Adviser to be of comparable quality. Securities rated below investment grade quality are commonly known as high-yield, high risk or junk bonds. Junk bonds, while generally offering higher yields that investment grade securities with similar maturities and features, involve greater risks, including the possibility of default or bankruptcy. They are regarded as predominantly speculative with respect to the issuer s capacity to pay dividends or interest and repay principal. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in the issuer s revenues or a general economic downturn, than are the prices of higher-rated securities. Issuers of junk bonds may be highly leveraged and may not have available to them more traditional methods of financing. The issuer s ability to service its debt obligations may be adversely affected by business developments unique to the issuer, the issuer s inability to meet specific projected business forecasts or the inability of the issuer to obtain additional financing. High-yield securities are often unsecured and subordinated to other creditors of the issuer.

MANAGEMENT OF THE FUND

Board of Directors.

The business and affairs of the Fund are managed under the direction of the Board of Directors. The Directors approve all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund s agreements with its Investment Adviser, custodian and transfer agent. The management of the Fund s day-to-day operation is delegated to its officers and the Investment Adviser, subject always to the investment objective and policies of the Fund and to the general supervision of the Directors. The names and business addresses of the Directors and officers of the Fund and their principal occupations and other affiliations during the past five years are set forth under Management of the Fund in the Statement of Additional Information.

The Investment Adviser.

T. Rowe Price, with its principal business address at 100 East Pratt Street, Baltimore, Maryland 21202, has served as the Fund s investment adviser since December 2, 2002. T. Rowe Price is a registered investment adviser under the Investment Advisers Act of 1940, as amended, and is organized under the laws of Maryland. It is a wholly owned subsidiary of T. Rowe Price Group, Inc. (Price Group), a publicly-traded financial services holding company founded in 1937 by Thomas Rowe Price, Jr. The address of Price Group is 100 East Pratt Street, Baltimore, Maryland 21202. As of June 30, 2007, T. Rowe Price and its affiliates held discretionary authority over approximately $379 billion of assets, including approximately $74 billion of fixed income securities of which approximately $10.2 billion represented high-yield investments. T. Rowe Price has provided investment advisory services to investment companies since 1937.

The Fund is managed by an Investment Advisory Committee co-chaired by Mark J. Vaselkiv and Paul Karpers. Messrs. Vaselkiv and Karpers share day-to-day responsibility for managing the Fund and work with the Committee in developing and executing the Fund s investment program.

Mr. Vaselkiv is a Vice President of T. Rowe Price Group, Inc., and T. Rowe Price Associates, Inc., and a Portfolio Manager in the Fixed Income Group, heading taxable high-yield bond management. He serves as President of the T. Rowe Price High Yield Fund and Chairman of the High Yield Fund Investment Advisory Committee. Prior to joining the firm in 1988, he was employed as a Vice President, analyzing and trading high-yield debt securities for Shenkman Capital Management, Inc., New York, and a Private Placement Credit Analyst in the Capital Markets

Group of Prudential Insurance Company. Mark earned a B.A. in Political Science from Wheaton College, Illinois, and an M.B.A. in finance from New York University.

Mr. Karpers is a Vice President of T. Rowe Price Group, Inc., and T. Rowe Price Associates, Inc., and a High Yield Portfolio Manager/Analyst in the Fixed Income Group. Prior to joining the firm in 1995, he was an Analyst with the Vanguard Group in Philadelphia. Paul earned a B.S. in Finance from LaSalle University and an M.B.A. with concentrations in Finance and Information Systems from New York University. He has also achieved the Chartered Financial Analyst accreditation and is a member of the Association for Investment Management and Research and the Baltimore Securities Analyst Society.

The Statement of Additional Information provides additional information about the portfolio managers compensation, other accounts managed by the portfolio managers, and their ownership of securities in the Fund.

Advisory Agreement. The Investment Advisory Agreement between the Investment Adviser and the Fund (the Advisory Agreement) became effective on December 2, 2002 following the termination of the advisory agreement with Wellington Management, the Fund s former investment adviser. The Advisory Agreement provides that, subject to the direction of the Board of Directors of the Fund and the applicable provisions of the 1940 Act, the Investment Adviser is responsible for the actual management of the Fund s portfolio. The responsibility for making decisions to buy, sell or hold a particular investment rests with the Investment Adviser, subject to review by the Board of Directors and compliance with the applicable provisions of the 1940 Act.

The Investment Adviser is not dependent on any other party in providing the investment advisory services required for the management of the Fund. The Investment Adviser may, however, consider analyses from various sources, including broker-dealers with which the Fund does business. The Advisory Agreement provides that the Investment Adviser will, upon request of the Fund but subject to availability, make available to the Fund office facilities, equipment, personnel and services (other than as specifically set forth in the Advisory Agreement). Such office facilities, equipment, personnel and services will be billed to the Fund at Investment Adviser s cost.

Under the Advisory Agreement, the Investment Adviser receives a fee equal to an annual rate of the Fund s Base Net Assets, based on the Fund s average weekly NAV, equal to .50% on the first $50 million of Base Net Assets, .40% on the next $50 million of Base Net Assets and .30% on Base Net Assets in excess of $100 million. Base Net Assets means the Fund s net assets attributable to the Fund s outstanding Common Stock and senior securities within the meaning of Section 18 of the 1940 Act. Base Net Assets includes the liquidation preference and principal amount attributable to the Fund s senior securities (currently the ATP) but not accrued interest and dividends relating to those senior securities. The Investment Adviser earned approximately $586,000 in management fees during the six-month period ended June 30, 2007. The aggregate dollar amount paid by the Fund for the years ended December 31, 2004, December 31, 2005 and December 31, 2006 were $1,159,000, $1,157,000 and $1,151,000, respectively. A discussion regarding the basis for the Board s approval of the Advisory Agreement is included in the Fund s annual report as of December 2006.

The Fund bears all costs of its operation other than those incurred by the Investment Adviser under the Advisory Agreement. In particular, the Fund pays investment advisory fees, the fees and expenses associated with the Fund s administration, record keeping and accounting, fees and expenses for the custodian of the Fund s assets, legal, accounting and auditing fees, taxes, expenses of preparing prospectuses and stockholder reports, registration fees and expenses, fees and expenses for the transfer and dividend disbursing agent, the compensation and expenses of the Directors who are not otherwise employed by or affiliated with the Investment Adviser or any of its affiliates, and any extraordinary expenses.

Administrative Services.

Unlike many other investment companies, the Fund does not rely on its Investment Adviser to provide administrative and managerial services. Accordingly, since February 1992 the Fund has engaged Ellen E. Terry, Vice President and Treasurer, to perform administrative services. Subject to the supervision of the Board of Directors and officers of the Fund, Ms. Terry, among other things, coordinates the preparation of the Fund s semi-annual, annual and other periodic reports, proxy statements and other communications with stockholders; oversees the preparation of the Fund s periodic reports required to be filed with the Commission and the rating agencies; and assists in responding to stockholder/retail broker inquiries and disseminating information to the same based on information provided. Since February 1992, the Fund has also engaged Paul E. Saidnawey to provide certain related administrative services subject to the supervision of the Board of Directors and Ms. Terry. Ms. Terry and Mr. Saidnawey previously performed these administrative services for the Fund as employees of a former investment adviser to the Fund.

Ms. Terry receives $13,750 per month, plus insurance premium that is subject to adjustment upward if insurance premiums increase, for the services set forth above. Ms. Terry s services are terminable by either party on ninety days written notice. Mr. Saidnawey receives $9,167 per month, plus insurance premium that is subject to adjustment upward if insurance premiums increase, for the services set forth above and his services are terminable by either party on ninety days written notice. Unlike other funds that are affiliated with larger organizations, the Fund relies on Ms. Terry, Mr. Saidnawey and Robert F. Birch, its President, for its administrative and related services. In the event of a departure of these individuals, the Fund would likely be forced to replace them with others or with a larger organization, which could result in an increase in the Fund s annual expenses.

DESCRIPTION OF COMMON STOCK

In addition to the Preferred Stock, the Fund s Articles authorize the issuance of up to 200 million shares of Common Stock. All shares of Common Stock have equal rights as to voting, dividends and liquidation. All shares of Common Stock issued and outstanding are fully paid and non-assessable. Shares of Common Stock have no preemptive, conversion or redemption rights and are freely transferable. On July 24, 2007, the Fund issued to its holders of Common Stock one Right for each three shares of Common Stock they owned on July 24, 2007. Holders of Rights were entitled to acquire one new share of Common Stock for each Right held. The Rights Offering expired on September 17, 2007, and 18,593,349 Rights were exercised. After giving effect to the issuance of Common Stock pursuant to the Rights Offering, as of , 2007, shares of Common Stock were issued and outstanding.

The voting rights of the Common Stock are noncumulative, which means that the holders of more than 50% of the shares of Common Stock and ATP voting for the election of those Directors subject to election by the Common Stock and the ATP can elect all of the Directors subject to election by them if they choose to do so. In such event, the holders of the remaining shares of Common Stock and ATP voting for the election of Directors who are subject to election by the Common Stock and the ATP will not be able to elect any Directors. The holders of the Common Stock vote as a single class with the holders of the ATP on all matters except as described under Description of ATP Voting Rights.

The rights of the holders of the Common Stock may not be modified by a vote of less than a majority of the shares of Common Stock outstanding.

The Common Stock is listed on the New York Stock Exchange under the symbol HYB.

Under the 1940 Act, the Fund cannot declare or pay dividends or other distributions on the Common Stock or purchase any shares of Common Stock if, at the time of the declaration, distribution or purchase, as applicable, (and after giving effect thereto), asset coverage with respect to senior securities representing indebtedness (as defined in the 1940 Act), if any, would be less than 300% and/or, as applicable, asset coverage with respect to the ATP would be less than 200%. Dividends or other distributions on or purchases of the Common Stock also will be prohibited at any time dividends on the ATP are in arrears or the ATP Basic Maintenance Amount is not maintained.

Pursuant to the Fund s Dividend Reinvestment Plan, holders of the Fund s Common Stock may elect to have all distributions of dividends and capital gains paid in cash, which will be paid by check and mailed directly to such holders by American Stock Transfer & Trust Company as dividend paying agent (the Dividend Paying Agent). All distributions from the Fund will be automatically reinvested by the Dividend Paying Agent under the Automatic Dividend and Distribution Investment Plan (the Plan), unless holders of Common Stock elect not to participate in the Plan. Stockholders may elect not to participate in the Plan and to have all distributions of dividends and capital gains paid in cash by sending written instructions to the Dividend Paying Agent at the following address: American Stock Transfer & Trust Company, 59 Maiden Lane, New York, NY 10038 or by calling toll free at (866) 624-4105.

CONVERSION TO OPEN-END STATUS AND REPURCHASE OF SHARES

Conversion to Open-End Status

The Fund s Board of Directors may elect at any time to submit to the holders of the Common Stock and the ATP a proposal to convert the Fund to an open-end investment company and in connection therewith to redeem or otherwise retire the ATP (subject to any Specific Redemption Provisions) as would be required upon such conversion by the 1940 Act. In determining whether to exercise its discretion to submit this issue to stockholders, the Board of Directors would consider all factors then relevant, including the relationship of the market price of the Common Stock to NAV, the extent to which the Fund s capital structure is leveraged and the possibility of re-leveraging, the spread, if any, between yields on high-yield securities in the Fund s portfolio as compared to interest and dividend charges on senior securities and general market and economic conditions. In addition to any vote required by Maryland law, conversion of the Fund to an open-end investment company would require the affirmative vote of the holders of a majority (as defined in the 1940 Act) of each class of the shares entitled to be voted on the matter. Stockholders of an open-end investment company may require the company to redeem their shares at any time (except in certain circumstances as authorized by or under the 1940 Act) at their NAV, less such redemption charges, if any, as might be in effect at the time of redemption. If the Fund converted to an open-end investment company, it could be required to liquidate portfolio securities to meet requests for redemption, and the Common Stock would no longer be listed on the Exchange. In the event the Fund converts to open-end status, the Fund would only be able to borrow through bank borrowings within certain limits and would not be allowed to have Preferred Stock, thus requiring a redemption of the ATP.

Repurchase of Common Stock

Shares of closed-end management investment companies frequently trade at a discount from NAV but in some cases trade at a premium. In recognition of the possibility that the Fund s Common Stock might similarly trade at a discount, the Fund may from time to time take action to attempt to reduce or eliminate a market value discount from NAV by repurchasing its Common Stock in the open market or by tendering for its own shares of Common Stock at NAV. Any purchase by the Fund of its Common Stock as at a time when the shares of ATP are Outstanding will increase the leverage applicable to the outstanding Common Stock then remaining. Repurchases of Common Stock may result in the Fund being required to redeem shares of ATP to satisfy asset coverage requirements. Notwithstanding the foregoing, so long as any shares of ATP are Outstanding, the Fund may not purchase, redeem or otherwise acquire any Common Stock unless (1) all accumulated dividends on the ATP have been paid or set aside for payment through the date of such purchase, redemption or other acquisition and (2) at the time of such purchase, redemption or acquisition, the ATP Basic Maintenance Amount and the 1940 Act ATP Asset Coverage (determined after deducting the acquisition price of the Common Stock) are met. Any tender offer will be made and holders of Common Stock notified in accordance with the requirements of the Exchange Act and the 1940 Act, either by publication or mailing or both.

CUSTODIAN, AUCTION AGENT, REGISTRAR, TRANSFER AGENT AND PAYING AGENT

State Street Bank and Trust Company, with principal place of business at 225 Franklin Street, Boston, Massachusetts 02110, serves as the custodian of Fund s securities and cash (Custodian). Its services include holding securities, delivering securities, registering securities, opening and maintaining bank accounts, collecting income, paying of Fund monies, and executing certain documents for tax purposes. In accordance with SEC rules, Fund assets may be outside the United States in the custody of non-U.S. banks and securities depositories.

Deutsche Bank Trust Company Americas, with principal business address at 60 Wall Street, New York, New York 10005-2958, acts as the Registrar, Transfer Agent, Paying Agent and Auction Agent for the ATP.

American Stock Transfer & Trust Company, whose principal business address is at 59 Maiden Lane, New York, NY 10038, serves as the Transfer Agent, Registrar and Dividend Paying Agent for the Fund s Common Stock.

UNDERWRITING

, whose principal office is located at , is acting as Underwriter in this Offering. has agreed, subject to the terms and conditions contained in the Underwriting Agreement with the Fund and the Investment Adviser, a copy of which is filed as an exhibit to the Registration Statement of which this Prospectus is a part, to purchase from the Fund and the Fund has agreed to sell to , the newly issued shares of ATP Series offered hereby.

The Underwriting Agreement provides that, if any of the foregoing shares are purchased by , all must be so purchased, and that the obligations of to purchase the shares are subject to approval of certain legal matters by counsel and to various other conditions. The Fund has agreed to indemnify against, or to contribute to payments that may be required to make in respect of, certain liabilities, including liabilities under the Securities Act, and the Investment Adviser has agreed to indemnify the Underwriter to the extent the Fund does not.

Subject to the terms and conditions set forth in the Underwriting Agreement, the Fund will sell the newly issued shares of ATP Series to on the Date of Original Issue, which is , 2007, by releasing such shares to s account at the Securities Depository against payment by for such securities to the Fund s account. On , 2007, which is the next Auction Date after the Date of Original Issue, all the new shares of ATP Series sold to will be auctioned in the Auction of the shares of ATP Series pursuant to the Auction Procedures described under Auction Procedures, and will thereafter be held in book-entry form as set forth in the Master Purchaser s Letter.

The newly issued shares of ATP Series will be offered to the public by at a price of $25,000 per share plus accumulated dividends, if any. The sales load payable to for the newly issued shares of ATP Series of $ per share is equal to % of the initial offering price. The shares of the ATP are not currently listed on any national securities exchange and the Fund does not intend to apply for listing of the ATP Series on a national securities exchange. The Fund has been advised by that currently intends to make a market in the ATP, as permitted by applicable laws and regulations. However, is not obligated to make a market in the ATP between Auctions and such market making may be discontinued at any time at its sole discretion. See Risk Factors and Special Considerations - Risks of Investing in ATP.

After the Auction which includes the newly issued shares of ATP Series , payment by each purchaser of the ATP Series sold through the Auction will be made in accordance with the procedures described under Auction Procedures - Notification of Results; Settlement.

To the extent permitted under the 1940 Act and the rules and regulations promulgated thereunder, the Fund anticipates that may from time to time act as a Broker-Dealer and receive fees in connection with the execution of its portfolio transactions after it has ceased to be the Underwriter and, subject to certain restrictions, may act as a broker while it is the Underwriter. or one of its affiliates will act in Auctions for the ATP Series as a Broker-Dealer and will be entitled to fees for services as a Broker-Dealer as set forth under Auction Procedures - Broker-Dealers; Commissions.

The settlement date for the purchase of shares of ATP Series will be , 2007, as agreed upon by the Underwriter, the Fund and the Investment Adviser pursuant to Rule 15c6-1 under the Exchange Act.

LEGAL MATTERS

Certain legal matters relating to the validity of the securities offered hereunder will be passed upon by Sullivan & Worcester LLP, Washington, DC. Certain legal matters will be passed on for the Underwriters by . Sullivan & Worcester LLP and may rely as to certain matters of Maryland law upon an opinion of , Baltimore, Maryland.

INDEPENDENT PUBLIC ACCOUNTANTS

The firm of Tait, Weller & Baker LLP (TWB), with principal business address at 1818 Market Street, Philadelphia, Pennsylvania 19103, has acted as the Fund s independent registered public accountants since October 25, 2005. The information for the fiscal year ended December 31, 2004, and prior years has been audited by other independent accountants. The services provided by TWB consist of the examination of the Fund s annual financial statements, semi-annual review of the Fund s financial statements, assistance and consultation in connection with the Commission filings, review of tax and certain compliance matters on behalf of the Fund, as well as certain additional services in connection with the Fund s compliance with rating agency guidelines.

EXPERTS

The Fund s statement of assets and liabilities, including the schedule of investments, as of December 31, 2006, and the related statement of operations, statement of changes in net assets and financial highlights for the year then ended, presented in the Fund s Annual Report for the fiscal year ended December 31, 2006 and incorporated herein by reference, have been audited by the Fund s independent registered public accountants, TWB, as set forth in their report with respect thereto, and are included herein upon the authority of said firm as experts in accounting and auditing in giving said report.

The statement of changes in net assets, together with the financial highlights and the information regarding senior securities for the fiscal year ended December 31, 2004 and prior years, included herein and in the Statement of Additional Information to the extent indicated, were audited by the Fund s former independent accountants, as indicated in their reports with respect thereto.

REPORTS TO STOCKHOLDERS

The Fund sends audited Annual and unaudited Semi-Annual reports to stockholders, including a list of the portfolio investments held by the Fund. If you would like a free copy of the Annual Report or Semi-Annual Report, you may write to Ellen E. Terry, c/o The New America High Income Fund, Inc., at 33 Broad Street, Boston, Massachusetts 02109 or you may call the Fund collect at (617) 263-6400.

ADDITIONAL INFORMATION

The Fund is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and the 1940 Act and in accordance therewith files, reports, proxy statements and other information with the Commission. Such reports, proxy statements and other information filed by the Fund, including the Fund s Code of Ethics, can be inspected without charge at the public reference facilities of the Commission, from the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549. Copies of such materials may be obtained from the Public Reference Branch, Office of Consumer Affairs and Information Services, Securities and Exchange Commission, 100 F Street, N.E., Washington, D.C. 20549 at the prescribed rates. The Commission maintains a Website at http://www.sec.gov containing reports and information statements and other information regarding registrants, including the Fund, that file electronically with the Commission. Reports, proxy statements and other information concerning the Fund can also be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

Additional information regarding the Fund and the ATP is contained in the Registration Statement on Form N-2, including the Statement of Additional Information comprising a part thereof and any amendments, exhibits and schedules thereto, relating to such shares of ATP filed by the Fund with the Commission. This Prospectus does not contain all of the information set forth in the Registration Statement, including the Statement of Additional Information comprising a part thereof and any amendments, exhibits and schedules thereto. For further information with respect to the Fund and the shares of ATP offered hereby, reference is made to the Registration Statement. Statements contained in this Prospectus as to the contents of the Articles or 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. A copy of the Registration Statement may be inspected without charge at the Commission s principal office in Washington, D.C., and copies of all or any part thereof may be obtained from the Commission upon the payment of certain fees prescribed by the Commission.

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GLOSSARY

1940 Act means the Investment Company Act of 1940, as amended from time to time.

1940 Act ATP Asset Coverage means asset coverage, as defined in Section 18(h) of the 1940 Act, of at least 200% with respect to all outstanding senior securities of the Fund which are stock, including all Outstanding ATP (or such other asset coverage as may in the future be specified in or under the 1940 Act as the minimum asset coverage for senior securities which are stock of a closed-end investment company as a condition of declaring dividends on its common stock), determined on the basis of values calculated as of a time within 48 hours next preceding the time of such determination.

Aaa/AAA Credit Rating means a credit rating in the highest category of any two nationally recognized statistical rating organizations (as used in the rules and regulations under the Securities Exchange Act of 1934, as amended), one of which shall be Moody s or S&P.

AA Composite Commercial Paper Rate on any date means (a) the interest equivalent of the 30-day rate, in the case of a Dividend Period which is a Standard Term Period or shorter, or the 180-day rate, in the case of all other Dividend Periods, on commercial paper on behalf of issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by another nationally recognized rating agency, as announced by the Federal Reserve Bank of New York for the close of business on the Business Day immediately preceding such date; or (b) if the Federal Reserve Bank of New York does not make available such a rate, then the arithmetic average of the interest equivalent of such rates on commercial paper placed on behalf of such issuers, as quoted on a discount basis or otherwise by the Commercial Paper Dealers to the Auction Agent for the close of business on the Business Day immediately preceding such date (rounded to the next highest .001 of 1%). If any Commercial Paper Dealer does not quote a rate required to determine the AA Composite Commercial Paper Rate, such rate shall be determined on the basis of the quotations (or quotation) furnished by the remaining Commercial Paper Dealers (or Dealer), if any, or, if there are no such Commercial Paper Dealers, by the Auction Agent. For purposes of this definition, (i) Commercial Paper Dealers shall mean (A) Lehman Brothers Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and Goldman Sachs & Co.; (B) in lieu of any thereof, its respective Affiliate or successor, and (C) in the event that any of the foregoing shall cease to quote rates for commercial paper of issuers of the sort described above, in substitution therefor, a nationally recognized dealer in commercial paper of such issuers then making such quotations selected by the Fund, and (ii) interest equivalent of a rate stated on a discount basis for commercial paper of a given number of days maturity shall mean a number equal to the quotient (rounded upward to the next higher one-thousandth of 1%) of (A) such rate expressed as a decimal, divided by (B) the difference between (x) 1.00 and (y) a fraction, the numerator of which shall be the product of such rate expressed as a decimal, multiplied by the number of days in which such commercial paper shall mature and the denominator of which shall be 360.

Advisory Agreement means the Investment Advisory Agreement dated December 2, 2002 under which T. Rowe Price serves as investment adviser for the Fund.

Affiliate means any person known to the Auction Agent to be controlled by, in control of or under common control with the Fund; provided that no Broker-Dealer controlled by, in control of or under common control with the Fund shall be deemed to be an Affiliate nor shall any corporation or any person controlled by, in control of or under common control with such corporation one of the directors or executive officers of which is also a director of the Fund be deemed to be an Affiliate solely because such director or executive officer is also a director of the Fund.

Agent Member means a member of or participant in the Securities Depository that will act on behalf of a person placing an Order.

Alternate Term Period means any Dividend Period that is not a Standard Term Period.

Applicable Rate means, with respect to each series of ATP, for each Dividend Period (A) if Sufficient Clearing Orders exist for the Auction in respect thereof, the Winning Rate, (B) if Sufficient Clearing Orders do not exist for the Auction in respect thereof, the Maximum Applicable Rate and (C) in the case of any Dividend Period of 93 days or fewer if all the shares of ATP are the subject of Submitted Hold Orders for the Auction in respect thereof, the Minimum Applicable Rate.

Articles means the Articles of Amendment and Restatement, as amended, including any Articles Supplementary of the Fund.

Asset Coverage Cure Date has the meaning set forth under Description of ATP - Redemption in the Statement of Additional Information.

ATP means the Auction Term Preferred Stock Series A, Series B, Series C and Series D, $1.00 par value per share and liquidation preference $25,000 per share of the Fund or any other series of Preferred Stock heretofore or hereinafter designated Auction Term Preferred Stock by Articles Supplementary or Articles of Amendment.

ATP Basic Maintenance Amount has the meaning set forth under Description of ATP - Asset Maintenance in the Statement of Additional Information.

ATP Basic Maintenance Certificate has the meaning set forth under Description of ATP - Asset Maintenance in the Statement of Additional Information.

ATP Series A means the shares of Series A of the ATP previously issued or any other series of Preferred Stock hereinafter designated as shares of Series A of the ATP by Articles Supplementary or Articles of Amendment.

ATP Series B means the shares of Series B of the ATP previously issued or any other series of Preferred Stock hereinafter designated as shares of Series B of the ATP by Articles Supplementary or Articles of Amendment.

ATP Series C means the new shares of Series C of the ATP issued hereby and shares of Series C of the ATP previously issued or any other series of Preferred Stock hereinafter designated as shares of Series C of the ATP by Articles Supplementary or Articles of Amendment.

ATP Series D means the shares of Series D of the ATP previously issued or any other series of Preferred Stock hereinafter designated as shares of Series D of the ATP by Articles Supplementary or Articles of Amendment.

Auction means each periodic operation of the procedures set forth under Auction Procedures.

Auction Agent means Deutsche Bank Trust Company Americas unless and until another commercial bank, trust company, or other financial institution appointed by a resolution of the Board of Directors enters into an agreement with the Fund to follow the Auction Procedures for the purpose of determining the Applicable Rate.

Auction Date means the first Business Day next preceding the first day of a Dividend Period for the relevant series of ATP.

Auction Procedures means the procedures for conducting Auctions set forth under Auction Procedures.

Base Net Assets has the meaning set forth under Management of the Fund - The Investment Adviser in this Prospectus.

Board of Directors or *Board* means the Board of Directors of the Fund or any duly authorized committee thereof as permitted by applicable law.

Broker-Dealer or *Broker-Dealers* means any broker-dealer or broker-dealers, or other entity permitted by law to perform the functions required of a Broker-Dealer by the Auction Procedures, that has been selected by the Fund and has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective.

Broker-Dealer Agreement means an agreement entered into by the Auction Agent and a Broker-Dealer, pursuant to which such Broker-Dealer agrees to follow the Auction Procedures.

Business Day means a day on which the New York Stock Exchange is open for trading and which is not a Saturday, Sunday or other day on which banks in the City of New York, New York are authorized or obligated by law to close.

Buy Order means the communication by a Potential Holder to a Broker-Dealer of the number of shares of ATP which such Potential Holder offers to purchase on an Auction Date if the Applicable Rate for the next succeeding Dividend Period therefor is not less than the rate per annum then specified by such Potential Holder.

Code means the Internal Revenue Code of 1986, as amended.

Commission means the Securities and Exchange Commission.

Common Stock means the common stock, par value $0.01 per share, of the Fund.

Date of Original Issue means with respect to new shares of Series C of the ATP issued hereby and with respect to each of the previously issued ATP Series A, ATP Series B, ATP Series C and ATP Series D, the date on which such ATP are originally issued by the Fund.

Default Period has the meaning set forth under Description of ATP - Dividends and Dividend Periods in the Statement of Additional Information.

Default Rate means the Reference Rate multiplied by three (3).

Deposit Securities means cash and any obligations or securities, including Short Term Money Market Instruments that are Eligible Assets, rated at least AAA, A-1+ or SP-1+ by S&P, except that, for purposes of optional redemption, such obligations or securities shall be considered *Deposit Securities* only if they are also rated at least P-1 by Moody s.

Discount Factor means the Moody s Discount Factor (if Moody s is then rating the ATP), the Fitch Discount Factor (if Fitch is then rating the ATP) or the discount factor established by any Other Rating Agency which is then rating the ATP and which so requires, whichever is applicable.

Discounted Value means the quotient of the Market Value of an Eligible Asset divided by the applicable Discount Factor provided that with respect to an Eligible Asset that is currently callable, Discounted Value shall be equal to the quotient as calculated above or the call price, whichever is lower, and that with respect to an Eligible Asset that is prepayable, Discounted Value shall be equal to the quotient as calculated above or the par value, whichever is lower.

Dividend Payment Date for each series of ATP, means (i) with respect to any Dividend Period of one year or less, the Business Day next succeeding the last day thereof and, if any, the 91st, 181st and 271st days thereof, and (ii) with respect to any Dividend Period of more than one year, on a quarterly basis on each January 1, April 1, July 1 and October 1 and on the Business Day following the last day of such Dividend Period.

Dividend Period means, with respect to the relevant series of ATP, the period commencing on the Date of Original Issue and ending on the date specified for such series on the Date of Original Issue and thereafter, as to such series, the period commencing on the day following each Dividend Period for such series and ending on the day established for such series by the Fund.

Eligible Assets means Moody s Eligible Assets (if Moody s is then rating the ATP), Fitch Eligible Assets (if Fitch is then rating the ATP) and/or Other Rating Agency Eligible Assets if any Other Rating Agency is then rating the ATP, whichever is applicable.

Exchange Act means the Securities Exchange Act of 1934, as amended from time to time.

Existing Holder means (a) a person who has signed a Master Purchaser s Letter and beneficially owns shares of a series of ATP listed in that person s name in the records of the Auction Agent or (b) the beneficial owner of shares of the ATP which are listed under such person s Broker-Dealer s name in the records of the Auction Agent, which Broker-Dealer shall have signed a Master Purchaser s Letter.

Exposure Period means the period commencing on (and including) a given Valuation Date and ending 41 days thereafter.

Fitch means Fitch Ratings, Inc. and its successors at law.

Fleet means Fleet National Bank.

Fund means The New America High Income Fund, Inc., a Maryland corporation that is the issuer of each series of ATP.

Holder means, with respect to the Common Stock and the Preferred Stock, including the ATP, of the Fund, the registered holder of shares of such stock as the same appears on the stock ledger or stock records books of the Fund.

Hold Order means the communication by an Existing Holder to a Broker-Dealer of the number of Outstanding shares of each series of ATP which such Existing Holder desires to continue to hold without regard to the Applicable Rate for the next succeeding Dividend Period therefor.

Hold/Sell Order means the communication by an Existing Holder to a Broker-Dealer of the number of Outstanding shares of each series of ATP which such Existing Holder desires to continue to hold if the Applicable Rate for the next Dividend Period therefor is not less than the rate per annum then specified by such Existing Holder.

Investment Adviser means T. Rowe Price Associates, Inc., the current investment adviser to the Fund, or such other future investment adviser to the Fund.

LIBOR means the London Inter-Bank Offered Rate.

Liquidation Value means $25,000 per share for new shares of ATP Series C issued hereby and ATP Series A, ATP Series B, ATP Series C and ATP Series D previously issued.

Mandatory Redemption Date has the meaning set forth under Description of ATP - Redemption in the Statement of Additional Information.

Mandatory Redemption Price has the meaning set forth under Description of ATP - Redemption in the Statement of Additional Information.

Market Value shall mean the fair market value of an asset of the Fund (excluding interest and dividends due on such assets) as computed based upon (i) pricing services to be provided by Reuters Fixed-Income Services and State Street Bank and Trust Company or such other pricing service determined from time to time by the Board of Directors, provided that Moody s (if Moody s is then rating ATP, Fitch (if Fitch is then rating ATP) and any Other Rating Agency which is then rating ATP and so requires have informed the Fund in writing that use of such pricing service will not adversely affect such rating agency s then current rating of the shares of ATP or (ii) the lower of the value set forth in bids from two independent dealers that are members or Affiliates of members of the National Association of Securities Dealers, Inc. and that make markets in such security, one of which bids shall be in writing.

Master Purchaser s Letter means a letter substantially in the form of, or containing provisions similar to those in the form, attached hereto which is required to be executed by each prospective purchaser of shares of ATP or the Broker-Dealer through whom the shares will be held.

Maximum Applicable Rate means, on any date on which the Applicable Rate is determined, the rate equal to 150% of the applicable Reference Rate, subject to upward but not downward adjustment in the discretion of the Board of Directors after consultation with the Broker-Dealers; provided that immediately following any such increase the Fund would be in compliance with ATP Basic Maintenance Amount.

Minimum Applicable Rate means, on any Auction Date with respect to a Dividend Period of 93 days or fewer 80% of the AA Commercial Paper Rate at the close of business on the Business Day next preceding such Auction Date. There shall be no Minimum Applicable Rate on any Auction Date with respect to a Dividend Period of more than 93 days.

Moody s means Moody s Investors Service, Inc. and its successors at law.

NAV means the net asset value.

Notice of Redemption has the meaning provided under Description of ATP - Redemption in the Statement of Additional Information.

Offering means the offering of shares of ATP Series C issued by the Fund under its Registration Statement of which this Prospectus is a part.

Order means a Hold Order, a Hold/Sell Order, a Sell Order or a Buy Order.

Other Rating Agency means any rating agency other than Moody s or Fitch then providing a rating for the ATP pursuant to the request of the Fund.

Other Rating Agency Eligible Assets means assets of the Fund designated by any Other Rating Agency as eligible for inclusion in calculating the discounted value of the Fund s assets in connection with such Other Rating Agency s rating of the ATP.

Outstanding means, as of any date, shares of ATP theretofore issued by the Fund except, without duplication, (i) any shares of ATP theretofore canceled or redeemed by the Fund, or delivered to the Auction Agent for cancellation or with respect to which the Fund has given notice of redemption and irrevocably deposited with the Paying Agent sufficient funds to redeem such shares of ATP, and (ii) any shares of ATP represented by any certificate, in lieu of, which a new certificate has been executed and delivered by the Fund. Notwithstanding the foregoing (A) for purposes of voting rights (including the determination of the number of shares required to constitute a quorum), any shares of the ATP to which the Fund or any Affiliate of the Fund shall be the Existing Holder shall be disregarded and not deemed Outstanding; (B) in connection with any Auction, any shares of the ATP as to which the Fund or any person known to the Auction Agent to be an Affiliate of the Fund shall be the Existing Holder thereof shall be disregarded and deemed not to be Outstanding; and (C) for purposes of determining the ATP Basic Maintenance Amount, shares of ATP held by the Fund shall be disregarded and not deemed Outstanding but shares held by any Affiliate of the Fund shall be deemed Outstanding.

Paying Agent means Deutsche Bank Trust Company Americas, unless and until another entity appointed by a resolution of the Board of Directors enters into an agreement with the Fund to serve as paying agent, which Paying Agent may be the same as the Auction Agent.

Potential Holder when used with respect to shares of ATP, means any person, including any Existing Holder of shares of ATP, (i) who shall have executed a Master Purchaser s Letter or whose shares will be listed under such person s Broker-Dealer s name in the records of the Auction Agent, which Broker-Dealer shall have executed a Master Purchaser s Letter and (ii) who may be interested in acquiring shares of ATP (or, in the case of an Existing Holder or such person of shares of ATP, additional shares of ATP).

Preferred Stock means the preferred stock, par value $1.00 per share, of the Fund.

Proration Procedures means:

(A) if Sufficient Clearing Orders exist, in the case of a Submitted Hold/Sell Order specifying a rate equal to the Winning Rate

(x) the number of shares of the relevant series of ATP to be the subject of an accepted Hold Order will be (i) the number of shares of such series of ATP subject to such Submitted Hold/Sell Order multiplied by (ii) the total number of shares of such series of ATP that are neither the subject of a Submitted Buy Order or a Submitted Hold/Sell Order specifying a rate lower than the Winning Rate nor the subject of a Submitted Hold Order and divided by (iii) the total number of shares of Submitted Hold/Sell Orders that specified a rate equal to the Winning Rate, and

(y) the number of shares of the relevant series of ATP to be the subject of an accepted Sell Order will be the remaining number of shares of such series of ATP subject to such Submitted Hold/Sell Order,

(B) if Sufficient Clearing Orders exist, in the case of a Submitted Buy Order specifying a rate equal to the Winning Rate

(x) the number of shares of the relevant series of ATP to be the subject of an accepted Buy Order will be (i) the number of shares of such series of ATP subject to such Submitted Buy Order multiplied by (ii) the difference between (1) the number of shares of such series of ATP that are the subject of a Submitted Sell Order or a Submitted Hold/Sell Order that specified a rate higher than the Winning Rate and (2) the number of shares of each series of ATP that are the subject of a Submitted Buy Order that specified a rate lower than the Winning Rate and divided by (iii) the total number of shares of such series of ATP subject to Submitted Buy Orders that specified a rate equal to the Winning Rate, and

(y) such Submitted Buy Order will not be accepted as to the remaining number of shares subject to such Submitted Buy Order, and

(C) if Sufficient Clearing Orders do not exist, in the case of a Submitted Hold/Sell Order specifying a rate higher than the Maximum Applicable Rate and in the case of a Submitted Sell Order

(x) the number of shares of the relevant series of ATP to be the subject of an accepted Sell Order will be (i) the number of shares of such series of ATP subject to such Submitted Hold/Sell Order or Submitted Sell Order multiplied by (ii) the total number of shares of such series of ATP that are the subject of a Submitted Buy Order specifying a rate equal to or lower than the Maximum Applicable Rate and divided by (iii) the total number of shares of such series of ATP subject to all Submitted Hold/Sell Orders that specified a rate higher than the Maximum Applicable Rate and Submitted Sell Orders, and

(y) the number of shares of the relevant series of ATP to be the subject of an accepted Hold Order will be the remaining number of shares of such series of ATP subject to such Submitted Hold/Sell Order or Submitted Sell Order.

Rating Agency Guidelines means the guidelines established by Moody s (if Moody s is then rating the ATP) and Fitch (if Fitch is then rating the ATP) as set forth under Rating Agency Guidelines, in the Statement of Additional Information, as amended from time to time, or by any Other Rating Agency that is then rating the ATP.

Reference Rate means, with respect to the determination of the Maximum Applicable Rate, the applicable AA Composite Commercial Paper Rate (for a Dividend Period of fewer than 184 days) or the applicable Treasury Index Rate for a Dividend Period of 184 days or more).

Rights Offering means the offering of transferable rights to purchase shares of the Fund s Common Stock, made to the Fund s stockholders of record as of July 24, 2007.

Rounding Procedures means, if as a result of an Auction (including the Proration Procedures) any Existing Holder would be entitled to hold or required to sell, or any Potential Holder would be required to purchase, a number of shares of the relevant series of ATP not evenly divisible by 1, on any Auction Date, the Auction Agent will, in such manner as it determines, round up or down the number of shares of such series of ATP to be held, purchased or sold by any Existing Holder or Potential Holder on such Auction Date so that the number of shares held, purchased or sold by each Existing Holder or Potential Holder on such Auction Date will be a number of shares of such series of ATP evenly divisible by 1.

Rule 144A Securities means securities that are restricted as to resale under federal securities laws but are eligible for resale pursuant to Rule 144A under the Securities Act of 1933, as amended, as determined by the Fund s adviser acting subject to the supervision of the Fund s Board of Directors.

S&P means Standard & Poor s, a division of The McGraw-Hill Companies, Inc., and its successors at law.

Securities Act means the Securities Act of 1933, as amended from time to time.

Securities Depository means The Depository Trust Company and its successors and assigns or any successor securities depository selected by the Fund that agrees to follow the procedures required to be followed by such securities depository in connection with the shares of each series of ATP.

Sell Order means the communication by an Existing Holder to a Broker-Dealer of the number of Outstanding shares of the relevant series of ATP which such Existing Holder offers to sell without regard to the dividend rate for the next succeeding Dividend Period therefor.

Service means the United States Internal Revenue Service.

Specific Redemption Provisions means with respect to any Alternate Term Period of more than one year, either, or any combination of, a period (a Non-Call Period) determined by the Board of Directors after consultation with the Broker-Dealers, during which the shares subject to such Alternate Term Period are not subject to redemption at the option of the Fund pursuant to Section 3(a)(i) of the Articles and/or Section 3(a)(ii) and/or 3(a)(iii) of the Articles and (ii) a period (a Premium Call Period), consisting of a number of whole years as determined by the Board of Directors after consultation with the Broker-Dealers, during each year of which the shares subject to such Alternate Term Period shall be redeemable at the Fund s option pursuant to Section 3(a)(i) of the Articles and/or in connection with any mandatory redemption pursuant to Section 3(a)(ii) and/or 3(a)(iii) of the Articles at a price per share equal to Liquidation Value plus accumulated but unpaid dividends plus a premium expressed as a percentage or percentages of Liquidation Value or expressed in a formula using specified variables as determined by the Board of Directors after consultation with the Broker-Dealers.

Standard Term Period means a Dividend Period of 28 days, unless such 28th day is not a Business Day, then the number of days ending on the Business Day next preceding such 28th day.

Submission Deadline means 1:00 p.m., New York City time, on each Auction Date, or such other time on such Auction Date as may be specified from time to time by the Auction Agent as the time by which each Broker-Dealer must submit to the Auction Agent all Orders obtained by it for the Auction to be conducted on such Auction Date.

Submitted Buy Order means each Buy Order submitted to the Auction Agent by a Broker-Dealer.

Submitted Hold Order means each Hold Order submitted to the Auction Agent by a Broker-Dealer.

Submitted Hold/Sell Order means each Hold/Sell Order submitted to the Auction Agent by a Broker-Dealer.

Submitted Order means each Order submitted to the Auction Agent by a Broker-Dealer.

Submitted Sell Order means each Sell Order submitted to the Auction Agent by a Broker-Dealer.

Sufficient Clearing Orders means that all shares of the relevant series of ATP are the subject of Submitted Hold Orders or that the number of shares of such series of ATP that are the subject of Submitted Buy Orders by Potential Holders specifying one or more rates equal to or less than the Maximum Applicable Rate exceeds or equals the sum of (A) the number of shares of such series of ATP that are the subject of Submitted Hold/Sell Orders by Existing Holders specifying one or more rates higher than the Maximum Applicable Rate and (B) the number of shares of such series of ATP that are subject to Submitted Sell Orders.

T. Rowe Price means T. Rowe Price Associates, Inc., the Fund s current Investment Adviser.

TARPS means the Taxable Auction Rate Preferred Stock of the Fund which were redeemed in 1994.

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

Underwriter means .

Underwriting Agreement means the Underwriting Agreement among the Underwriter, the Fund and the Investment Adviser, a form of which is filed as an exhibit to the Fund s Registration Statement of which this Prospectus is a part.

Validity Procedures means the following procedures and priorities:

(A) If one or more Hold Orders shall be submitted on behalf of an Existing Holder as to a number of shares of the relevant series of ATP greater than the number of shares of such series of ATP held by such Existing Holder, such Hold Order or Hold Orders shall be considered valid only as to the number of shares of such series of ATP held by such Existing Holder. In the case of multiple Hold Orders, each such Hold Order shall be considered valid-pro rata.

(B) If one or more Hold/Sell Orders shall be submitted on behalf of an Existing Holder as to a number of shares of the relevant series of ATP greater than the excess of the number of shares of such series of ATP held by such Existing Holder over the number of shares of such series of ATP subject to Hold Orders submitted on behalf of such Existing Holder, such Hold/Sell Order or Hold/Sell Orders shall be considered valid only as to the number of shares of such series of ATP equal to such excess. In the case of multiple Hold/Sell Orders specifying different rates, such Hold/Sell Orders shall be considered valid in increasing order of such rates. In the case of multiple Hold/Sell Orders specifying the same rate, each such Hold/Sell Order shall be considered valid pro rata.

(C) If one or more Sell Orders shall be submitted on behalf of an Existing Holder as to a number of shares of the relevant series of ATP greater than the excess of the number of shares of such series of ATP held by such Existing Holder over the number of shares of such series of ATP subject to Hold Orders and Hold/Sell Orders submitted on behalf of such Existing Holder, such Sell Order or Sell Orders shall be considered valid only as to the number of shares equal to such excess. In the case of multiple Sell Orders, each such Sell Order shall be considered valid pro rata.

Valuation Date means every Friday, or, if such day is not a Business Day, the next preceding Business Day; provided, however, that the first Valuation Date may occur on any other date established by the Fund; provided, further, however, that such date shall be not more than one week from the date on which the ATP initially is issued.

Winning Rate means the lowest rate specified in the Submitted Orders which, if (A) each Submitted Hold/Sell Order from Existing Holders specifying such lowest rate and all other Submitted Hold/Sell Orders from Existing Holders specifying lower rates were accepted and (B) each Submitted Buy Order from Potential Holders specifying such lowest rate and all other Submitted Buy Orders from Potential Holders specifying lower rates were accepted, would result in the Existing Holders described in clause (A) above continuing to hold an aggregate number of shares of the relevant series of ATP which, when added to the number of shares of such series of ATP to be purchased by the Potential Holders described in Clause (B) above and the number of shares of such series of ATP subject to Submitted Hold Orders, would be equal to the number of shares of such series of ATP.

APPENDIX A

TO BE SUBMITTED TO YOUR BROKER-DEALER WHO WILL THEN DELIVER COPIES ON YOUR BEHALF TO THE AUCTION OR REMARKETING AGENT

MASTER PURCHASER S LETTER RELATING TO SECURITIES INVOLVING RATE SETTINGS THROUGH AUCTIONS OR REMARKETINGS

THE COMPANY
A REMARKETING AGENT
THE AUCTION AGENT
A BROKER-DEALER
AN AGENT MEMBER
OTHER PERSONS

Dear Sirs:

1. This letter is designed to apply to publicly or privately offered debt or equity securities (Securities) of any issuer (Company) which are described in any final prospectus or other offering materials relating to such Securities as the same may be amended or supplemented (collectively, with respect to the particular Securities concerned, the Prospectus) and which involve periodic rate settings through auctions (Auctions) or remarketing procedures (Remarketings). This letter shall be for the benefit of any Company and of any auction agent, paying agent (collectively, auction agent), remarketing agent, broker-dealer, agent member, securities depository or other interested person in connection with any Securities and related Auctions or Remarketings (it being understood that such persons may be required to execute specified agreements and nothing herein shall alter such requirements). The terminology used herein is intended to be general in its application and not to exclude any Securities in respect of which (in the Prospectus or otherwise) alternative terminology is used.

2. We may from time to time offer to purchase, offer to sell and/or sell Securities of any Company as described in the Prospectus relating thereto. We agree that this letter shall apply to all such purchases, sales and offers and to Securities owned by us. We understand that the dividend/interest rate on Securities may be based from time to time on the results of Auctions or Remarketings as set forth in the Prospectus.

3. We agree that any bid or sell order placed by us in an Auction or a Remarketing shall constitute an irrevocable offer (except as otherwise described in the Prospectus) by us to purchase or sell Securities subject to such bid or sell order, or such lesser amount of Securities as we shall be required to sell or purchase as a result of such Auction or Remarketing, at the applicable price, all as set forth in the Prospectus, and that if we fail to place a bid or sell order with respect to Securities owned by us with a broker-dealer on any Auction or Remarketing Date, or a broker-dealer to which we communicate a bid or sell order fails to submit such bid or sell order to the auction agent or remarketing agent concerned, we shall be deemed to have placed a hold or a sell order with respect to such Securities as described in the Prospectus. We authorize any broker-dealer that submits a bid or sell order as our agent in Auctions or Remarketings to execute contracts for the sale of Securities by such bid or sell order. We recognize that the payment of such broker-dealer for Securities purchased on our behalf shall not relieve us of any liability to such broker-dealer for payment for such Securities.

4. We understand that in a Remarketing, the dividend or interest rate or rates on the Securities and the allocation of Securities tendered for sale between dividend or interest periods of different lengths will be based from time to time on the determinations of one or more remarketing agent(s), and we agree to be conclusively bound by such determinations. We further agree to the payment of different dividend or interest rates to different holders of Securities depending on the length of the dividend or interest period elected by such holders. We agree that any notice given by us to a remarketing agent (or a broker-dealer for transmission to a remarketing agent) of our desire

to tender Securities in a Remarketing shall constitute an irrevocable (except to the limited extent set forth in the Prospectus) offer by us to sell the securities specified in such Notice, or such lesser number of Securities as we shall be required to sell as a result of such Remarketing, in accordance with the terms set forth in the Prospectus, and we authorize the remarketing agent to sell, transfer or otherwise dispose of such Securities as set forth in the Prospectus.

5. We agree that, during the applicable period as described in the Prospectus, dispositions of Securities can be made only in the denominations set forth in the Prospectus and we will sell, transfer or otherwise dispose of any Securities held by us from time to time only pursuant to a bid or sell order placed in an Auction, in a Remarketing, to or through a broker-dealer or, when permitted in the Prospectus, to a person that has signed and delivered to the applicable auction agent or a remarketing agent a letter substantially in the form of this letter (or other applicable purchaser s letter), provided that in the case of all transfers other than pursuant to Auctions or Remarketings we or our broker-dealer or our agent member shall advise such auction agent or a remarketing agent of such transfer. We understand that a restrictive legend will be placed on certificates representing the Securities and stop-transfer instructions will be issued to the transfer agent and/or registrar, all as set forth in the Prospectus.

6. We agree that, during the applicable period as described in the Prospectus, ownership of Securities shall be represented by one or more global certificates registered in the name of the applicable securities depository or its nominee, that we will not be entitled to receive any certificate representing the Securities and that our ownership of any Securities will be maintained in book-entry form by the securities depository for the account of our agent member, which in turn will maintain records of our beneficial ownership. We authorize and instruct our agent member to disclose to the applicable auction agent or remarketing agent such information concerning our beneficial ownership of Securities as such auction agent or remarketing agent shall request.

7. We acknowledge that partial deliveries of Securities purchased in Auctions or Remarketings may be made to us and such deliveries shall constitute good delivery as set forth in the Prospectus.

8. This letter is not a commitment by us to purchase any Securities.

9. This letter supersedes any prior-dated version of this master purchaser s letter, and supplements any prior to post-dated purchaser s letter specific to any particular Securities, and this letter may only be revoked by a signed writing delivered to the original recipients hereof.

10. The descriptions of Auction or Remarketing procedures set forth in each applicable Prospectus are incorporated by reference herein and in case of any conflict between this letter, any purchaser s letter specific to particular Securities and any such description, such description shall control.

11. Any xerographic or other copy of this letter shall be deemed of equal effect as a signed original.

12. Our agent member of The Depository Trust company currently is .

13. Our personnel authorized to place orders with broker-dealers for the purposes set forth in the Prospectus in Auctions or Remarketings currently is/are , telephone number ( ) .

14. Our taxpayer identification number is .

15. In the case of each offer to purchase, purchase, offer to sell or sale by us of Securities not registered under the Securities Act of 1933, as amended (the Securities Act), we represent and agree as follows:

(A) We understand and expressly acknowledge that the Securities have not been and will not be registered under the Securities Act and, accordingly, that the Securities may not be reoffered, resold or otherwise pledged, hypothecated or transferred unless an applicable exemption from the registration requirements of the Securities Act is available.

(B) We hereby confirm that any purchase of Securities made by us will be for our own account, or for the account of one or more parties for which we are acting as trustee or agent with complete investment discretion and with authority to bind such parties, and not with a view to any public resale or distribution thereof. We and each other party for which we are acting which will acquire Securities will be accredited investors within the meaning of

Regulation D under the Securities Act with respect to the Securities to be purchased by us or such party, as the case may be, will have previously invested in similar types of instruments and will be able and prepared to bear the economic risk of investing in and holding such Securities.

(C) We acknowledge that prior to purchasing any Securities we shall have received a Prospectus (or private placement memorandum) with respect thereto and acknowledge that we will have had access to such financial and other information, and have been afforded the opportunity to ask such questions or representatives of the Company and receive answers thereto, as we deem necessary in connection with our decision, to purchase Securities.

(D) We recognize that the Company and broker-dealers will rely upon the truth and accuracy of the foregoing investment representations and agreements, and we agree that each of our purchases of Securities now or in the future shall be deemed to constitute our concurrence in all of the foregoing which shall be binding on us and each party for which we are acting as set forth in Subparagraph B above.

Dated:

(Name of Purchaser)

Mailing Address of Purchaser

By:
Printed Name:
Title:

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$25,000,000

THE NEW AMERICA HIGH INCOME FUND, INC.

AUCTION TERM PREFERRED STOCK

1,000 SHARES, SERIES

PROSPECTUS

, 2007

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS NOT CONTAINED IN THIS PROSPECTUS, AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE FUND, THE INVESTMENT ADVISER OR THE UNDERWRITER. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF ANY SECURITIES OTHER THAN THOSE TO WHICH IT RELATES OR AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, TO ANY PERSON IN ANY JURISDICTION WHERE SUCH AN OFFER OR SOLICITATION WOULD BE UNLAWFUL. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THE INFORMATION CONTAINED HEREIN IS CORRECT AS OF ANY TIME SUBSEQUENT TO THE DATE HEREOF.

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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.

SUBJECT TO COMPLETION
PRELIMINARY STATEMENT OF ADDITIONAL INFORMATION
DATED , 2007

THE NEW AMERICA HIGH INCOME FUND, INC.

AUCTION TERM PREFERRED STOCK
1,000 SHARES, SERIES
LIQUIDATION VALUE $25,000 PER SHARE

STATEMENT OF ADDITIONAL INFORMATION

The New America High Income Fund, Inc. (the Fund) is a diversified, closed-end management investment company with a leveraged capital structure. Currently, T. Rowe Price Associates, Inc. (T. Rowe Price or the Investment Adviser) serves as investment adviser for the Fund. The Fund s investment objective is to provide high current income, while seeking to preserve stockholders capital, through investment in a professionally managed, diversified portfolio of high-yield fixed-income securities (commonly known as junk bonds). This Statement of Additional Information is not a prospectus, but should be read in conjunction with the Prospectus for the Fund dated , 2007. This Statement of Additional Information does not include all information that a prospective investor should consider before purchasing shares of the Fund, and investors should obtain and read the Prospectus prior to purchasing shares. You may obtain a free copy of the Prospectus by calling the Fund collect at (617) 263-6400 or by writing to the Fund at 33 Broad Street, Boston, Massachusetts 02109. This Statement of Additional Information incorporates by reference the entire Prospectus.

Certain capitalized terms not otherwise defined in this Statement of Additional Information have the meanings provided in the Prospectus.

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The Prospectus and this Statement of Additional Information omit certain of the information contained in the Registration Statement filed with the Securities and Exchange Commission, Washington, D.C. (the Commission). These items may be obtained from the Commission upon payment of the fee prescribed, or inspected at the Commission s office at no charge.

This Statement of Additional Information is dated , 2007

INVESTMENT OBJECTIVE AND POLICIES

The investment objective of the Fund is to provide high current income, while seeking to preserve stockholders capital, through investment in a professionally managed, diversified portfolio of high-yield fixed-income securities, commonly known as junk bonds. No assurance can be given that the Fund will attain its investment objective. Because of the high-risk nature and price volatility of the Fund s investments, as well as the Fund s leveraged structure, it may be difficult to achieve capital preservation on a consistent basis. Specifically, the Fund s cumulative total investment returns for an investment in Common Stock for one-, three- and five- year periods ended , 2007 were %, %, %, respectively. See The Fund and Risk Factors and Special Considerations in the Prospectus.

Investment Strategy

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

The Fund s portfolio reflects requirements established by Moody s and Fitch in connection with the issuance by such agencies of investment grade ratings for the Fund s ATP (referred to herein as the Rating Agency Guidelines). These guidelines relate, among other things, to industry and credit quality characteristics of issuers and specify various Discount Factors for debt securities (with the level of discount greater as the rating of a security becomes lower). Under the Rating Agency Guidelines, certain types of securities in which the Fund may otherwise invest consistent with its investment strategy are not eligible for inclusion in the calculation of the Discounted Value of the Fund s portfolio. Such instruments include, for example, securities rated CC/Ca or lower by the rating agencies, non-rated securities, private placements (other than Rule 144A Securities), non-U.S. securities, preferred or common stock, zero coupon or similar securities that do not provide for the periodic payment of interest in cash and other securities not within the investment guidelines. Accordingly, although the Fund reserves the right to invest in such securities to the extent set forth herein, they have not and it is anticipated that they will not constitute a significant portion of the Fund s portfolio. See Rating Agency Guidelines.

The Rating Agency Guidelines require that the Fund maintain assets having an aggregate Discounted Value, determined on the basis of the guidelines, greater than the aggregate liquidation preference of the ATP plus specified liabilities, payment obligations and other amounts, as of periodic Valuation Dates. The Rating Agency Guidelines also require the Fund to maintain asset coverage for the ATP on a non-discounted basis of at least 200% as of the end of each month, and the 1940 Act requires such asset coverage as a condition to paying dividends or other distributions on Common Stock. See Description of ATP - Asset Maintenance. The effect of compliance with these guidelines may be to cause the Fund to invest in higher-quality, lower-yielding assets and/or to maintain relatively substantial balances of highly liquid assets or to restrict the Fund s ability to make certain investments that would otherwise be deemed potentially desirable by the Investment Adviser, including private placements of other than Rule 144A Securities, and to limit or delay the Fund s ability to reinvest cash in a rising high-yield market. See The Fund and Risk Factors and Special Considerations - Risks of Investing in ATP in the Prospectus. The Rating Agency Guidelines are subject to change from time to time with the consent of the relevant rating agency and would not apply if the Fund in the future elected not to use investment leverage consisting of senior securities rated by one or more rating agencies, although other similar arrangements might apply with respect to other senior securities that the Fund may issue.

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

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

Certain Investment Practices

The Fund and the Investment Adviser reserve the right to engage in certain investment practices described below in order to help achieve the Fund s investment objective.

Rating Agency Restrictions. While the Fund has reserved the right to employ the investment practices described below, for so long as any of the ATP is Outstanding and either Moody s or Fitch is rating the ATP, the Fund will not, unless it has received written confirmation from Moody s and/or Fitch, as applicable, that any such action would not impair the respective rating then assigned by Moody s or Fitch to the ATP, engage in any one or more of the following transactions: (i) purchase or sell futures contracts or options thereon with respect to portfolio securities or write unsecured put or uncovered call options on portfolio securities, engage in options transactions involving cross-hedging, or enter into any swap arrangement, other than the arrangement described herein for which the Fund has obtained consent of Moody s and Fitch; (ii) borrow money, except that the Fund may, without obtaining the written confirmation described above, borrow money for the purpose of clearing securities transactions; provided that the ATP Basic Maintenance Amount (as defined under Description of ATP in the Statement of Additional Information) would continue to be satisfied after giving effect to such borrowing and if the borrowing matures in not more than 60 days and is non-redeemable; (iii) except in connection with a refinancing of the ATP, issue any class or series of stock ranking prior to or on a parity with the ATP with respect to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Fund, or reissue any shares of ATP previously purchased or redeemed by the Fund; (iv) engage in any short sales of securities; (v) lend portfolio securities; or (vi) merge or consolidate into or with any other corporation.

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

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

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

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

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

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

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

Notes, Loan Participations, and Assignments. The Fund may make investments in a company through the purchase or execution of a privately negotiated note representing the equivalent of a loan. Larger loans to corporations or governments, including governments of less developed countries, may be shared or syndicated among several lenders, usually banks. The Fund could participate in such syndicates or could buy part of a loan, becoming a direct lender. These loans may often be obligations of companies or governments in financial distress or in default. These investments involve special types of risk, including those of being a lender, reduced liquidity, increased credit risk, and volatility.

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

Effective November 5, 2004, the Fund entered into a five-year interest payment Swap Arrangement with Fleet with a notional contract amount of $130 million at a fixed annual rate of 3.775%. The aggregate effect of this arrangement is to hedge the Fund s dividend payment obligations with respect to $130 million of the ATP. Pursuant to the Swap Arrangement, the Fund makes payments to Fleet on a monthly basis at a fixed annual rate while receiving from Fleet payments at a variable rate determined with reference to the level of short-term interest rates from time to time. See Investment Objective and Policies.

The Fund makes dividend payments to the holders of the ATP on the basis of the results of periodic Auctions in accordance with its terms without regard to the Swap Arrangement and would continue to do so in the event the Swap Arrangement is terminated. The Fund has agreed to terminate the Swap Arrangement in the event it fails to maintain certain asset coverage requirements. See Rating Agency Guidelines. In light of the proposed increase in the Fund s Outstanding ATP, the Fund will consider adjustments in its Swap Arrangement. The timing and amount of any such adjustment will depend upon market conditions.

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

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

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

In the event the Fund determines to invest in futures contracts and options thereon, it will not purchase or sell such instruments if, immediately thereafter, the amount committed to margin plus the amount paid for premiums for unexpired options on futures contracts would exceed 5% of the value of the Fund s total assets. There is no overall limitation on the percentage of the Fund s portfolio securities which may be subject to a hedge position. The Fund also intends to comply with Rule 4.5 of the Commodity Futures Trading Commission (the CFTC) under which the Fund will be exempted from registration as a commodity pool operator. Subject to the approval of the Board of Directors, the Fund would have the right to write options on futures contracts for income purposes without CFTC registration. The extent to which the Fund may enter into transactions involving futures contracts also may be limited by the requirements of the Code for qualification as a regulated investment company.

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

Incurrence of Indebtedness. For so long as any of the ATP are Outstanding, the Fund will not borrow money or issue senior securities representing indebtedness unless it has received written notice from Moody s (if Moody s is

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then rating the ATP) and Fitch (if Fitch is then rating the ATP) and any Other Rating Agency which is then rating the ATP which so requires that such action would not impair the Aaa/AAA Credit Rating. For so long as any of the Fund s Preferred Stock, including the ATP, is outstanding, the lesser of (a) a vote of 67% of the shares of the Fund s Preferred Stock present at a meeting at which more than 50% of the outstanding shares of Preferred Stock entitled to vote is present or (b) a vote of more than 50% of the outstanding shares of Preferred Stock, in each case voting as a separate class, must approve any Fund borrowing. Preferred stockholder approval, however, is not required if the Fund borrows for temporary or emergency purposes in accordance with its investment policies and restrictions or for the purpose of clearing transactions. To the extent that the Fund does incur any borrowings, such borrowings would typically be senior in right of payment to the ATP and the Common Stock upon liquidation of the Fund.

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

RATING AGENCY GUIDELINES

The Fund intends at all times that, so long as any ATP is Outstanding and Moody s and Fitch are then rating the ATP, the composition of its portfolio will reflect guidelines established by Moody s and Fitch in connection with obtaining the Aaa/AAA Credit Rating with respect to the ATP.

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

It is a condition of the Underwriter s obligation to purchase the newly issued shares of ATP Series that the Fund obtain a rating of Aaa from Moody s and a rating of AAA from Fitch as of the Date of Original Issue. As described by Moody s, an issue of preferred stock which is rated Aaa is considered to be top-quality preferred stock with good asset protection and the least risk of dividend impairment within the universe of preferred stocks. As described by Fitch, a preferred stock rating of AAA indicates strong asset protection, conservative balance sheet ratios and positive indications of continued protection of preferred dividend requirements. A Moody s or Fitch credit rating of preferred stock does not address the likelihood that a resale mechanism (e.g., the Auction) will be successful.

Ratings are not recommendations to purchase, hold or sell shares of ATP, inasmuch as the rating does not comment as to market price or suitability for a particular investor. The rating is based on current information furnished to Moody s and Fitch by the Fund and obtained by Moody s and Fitch from other sources. The rating may be changed, suspended or withdrawn as a result of changes in, or unavailability of, such information. The ATP will be subject to mandatory redemption in the event that the Aaa/AAA Credit Rating is not available for the ATP and the Fund is

unable to obtain the Aaa/AAA Credit Rating for the ATP from a substitute rating agency or agencies within the time specified herein. While the Fund does not presently intend to seek a rating from a rating agency other than Moody s and Fitch, it reserves the right to do so.

Moody s AAA Rating Guidelines

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

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

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

Moody s Discount Factors
Corporate Debt Securities

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

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

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

securities registered under the Securities Act, if such securities are from issues of an original issue size of $125 million or more.

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

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

See accompanying notes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Diversified/Conglomerate Manufacturing

Diversified/Conglomerate Service

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

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

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

Finance: Investment Brokerage, Leasing, Syndication, Securities

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

Grocery: Grocery Stores, Convenience Food Stores

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

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

Hotels, Motels, Inns and Gaming

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

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

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

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

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

Personal, Food and Miscellaneous Services

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

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

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

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

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

Personal Transportation: Air, Bus, Rail, Car Rental

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

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

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

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

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

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

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

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

(i) cash (including, for this purpose, interest and dividends due on assets rated (A) Baa3 or higher by Moody s if the payment date is within five Business Days of the Valuation Date, (B) A2 or higher if the payment date is within 30 days of the Valuation Date, and (C) A1 or higher if the payment date is within the Exposure Period) and receivables for Moody s Eligible Assets sold if the receivable is due within five Business Days of the Valuation Date, and if the trades which generated such receivables are (A) settled through clearing house firms with respect to which the Fund has received prior written authorization from Moody s or (B)(1) with counter-parties having a Moody s long-term debt rating of at least Baa3 or (2) with counter-parties having a Moody s short-term money market instrument rating of at least Prime-1;

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

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

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

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

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

U.S. Treasury Securities:

Remaining Term to Maturity	**Discount Factor**	
1 year or less	107	%
2 years or less (but longer than 1 year)	113	
3 years or less (but longer than 2 years)	118	
4 years or less (but longer than 3 years)	123	
5 years or less (but longer than 4 years)	128	
7 years or less (but longer than 5 years)	135	
10 years or less (but longer than 7 years)	141	
15 years or less (but longer than 10 years)	146	
20 years or less (but longer than 15 years)	154	
30 years or less (but longer than 20 years)	154	

U.S. Treasury Strips:

Remaining Term to Maturity	Discount Factor	
1 year or less	107	%
2 years or less (but longer than 1 year)	114	
3 years or less (but longer than 2 years)	120	
4 years or less (but longer than 3 years)	127	
5 years or less (but longer than 4 years)	133	
7 years or less (but longer than 5 years)	145	
10 years or less (but longer than 7 years)	159	
15 years or less (but longer than 10 years)	184	
20 years or less (but longer than 15 years)	211	
30 years or less (but longer than 20 years)	236	

Bank Loans: The Fund intends to adopt the required procedures to have Moody s include the Fund s investments in bank loans as Moody s Eligible Assets. The Moody s Discount Factor applied to senior Bank Loans (Senior Loans) will be the percentage specified in accordance with the table set forth below (or such lower percentage as Moody s may approve in writing from time to time):

Moody s Rating Category

Type of Loan	Aaa A		Baa and Ba		B		Caa and below (including distressed and unrated)	
Senior Loans greater than $250 MM	118	%	136	%	149	%	250	%
non-Senior Loans greater than $250 MM	128	%	146	%	159	%	250	%
loans less than $250 MM	138	%	156	%	169	%	270	%
Second Lien Bank Loans	168	%	185	%	200	%	270	%
Third & Fourth Lien Bank Loans	218	%	240	%	260	%	351	%

The Fund is undertaking the process to define those investments in Bank Loans that may be included as Moody s Eligible Assets, and will take all necessary corporate actions as required by Moody s.

Fitch AAA Rating Guidelines

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

Debt Securities. Under current Fitch guidelines, securities will not be deemed Debt Securities includable in the calculation of the Discounted Value of the Fund s portfolio unless (a) such securities are rated CCC or higher by Fitch or, if unrated by Fitch, rated Caa or higher by Moody s and CCC or higher by S&P; (b) such securities provide for the periodic payment of interest in cash in U.S. dollars; (c) such securities do not provide for conversion or exchange into equity capital at any time over their lives; (d) such securities have been registered under the Securities Act or are Rule 144A Securities; (e) such securities are issued by (1) a U.S. corporation, (2) a corporation domiciled in Argentina, Australia, Brazil, Chile, France, Germany, Italy, Japan, Korea, Mexico, Spain, or the United Kingdom (the Approved Foreign Nations), (3) the government of any Approved Foreign Nation or any of its agencies, instrumentalities or political subdivisions (the debt securities of Approved Foreign Nation issuers being referred to collectively as Foreign Bonds), (4) a corporation domiciled in Canada or (5) the Canadian government or any of its agencies, instrumentalities or political subdivisions (the debt securities of Canadian issuers being referred to collectively as Canadian Bonds); and (f) in the case of Foreign and Canadian Bonds, such securities are denominated in U.S. dollars. Foreign Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market

Value of all assets constituting Fitch Eligible Assets. Similarly, Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 20% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. Notwithstanding the limitations in the two preceding sentences, Foreign Bonds and Canadian Bonds held by the Fund will qualify as Fitch Eligible Assets only up to a maximum of 30% of the aggregate Market Value of all assets constituting Fitch Eligible Assets. In addition, bonds which are issued in connection with a reorganization under U.S. federal bankruptcy law (Reorganization Bonds) will be considered Debt Securities constituting Fitch Eligible Assets if (a) they are rated CCC or higher by Fitch or, if unrated by Fitch, rated Caa or higher by Moody s and CCC or higher by S&P; (b) they provide for periodic payment of interest in cash in U.S. dollars; (c) they do not provide for conversion or exchange into equity capital at any time over their lives; (d) they have been registered under the Securities Act or are Rule 144A Securities; (e) they were issued by a U.S. corporation; and (f) at the time of purchase at least one year had elapsed since the issuer s reorganization. Reorganization Bonds may also be considered Debt Securities constituting Fitch Eligible Assets if they have been approved by Fitch, which approval shall not be unreasonably withheld.

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

Type I Debt Securities with remaining maturities of:

less than or equal to 2 years	1.16
greater than 2 years, but less than or equal to 4 years	1.26
greater than 4 years, but less than or equal to 7 years	1.40
greater than 7 years, but less than or equal to 12 years	1.44
greater than 12 years, but less than or equal to 25 years	1.48
greater than 25 years, but less than or equal to 30 years	1.52

Type II Debt Securities with remaining maturities of:

less than or equal to 2 years	1.25
greater than 2 years, but less than or equal to 4 years	1.26
greater than 4 years, but less than or equal to 7 years	1.43
greater than 7 years, but less than or equal to 12 years	1.44
greater than 12 years, but less than or equal to 25 years	1.51
greater than 25 years, but less than or equal to 30 years	1.56

Type III Debt Securities with remaining maturities of:

less than or equal to 2 years	1.25
greater than 2 years, but less than or equal to 4 years	1.29
greater than 4 years, but less than or equal to 7 years	1.46
greater than 7 years, but less than or equal to 12 years	1.50
greater than 12 years, but less than or equal to 25 years	1.55
greater than 25 years, but less than or equal to 30 years	1.60

Type IV Debt Securities with remaining maturities of:

less than or equal to 2 years	1.27
greater than 2 years, but less than or equal to 4 years	1.32
greater than 4 years, but less than or equal to 7 years	1.52
greater than 7 years, but less than or equal to 12 years	1.57
greater than 12 years, but less than or equal to 25 years	1.63
greater than 25 years, but less than or equal to 30 years	1.69

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Type V Debt Securities with remaining maturities of:

less than or equal to 2 years	1.32
greater than 2 years, but less than or equal to 4 years	1.36
greater than 4 years, but less than or equal to 7 years	1.59
greater than 7 years, but less than or equal to 12 years	1.65
greater than 12 years, but less than or equal to 25 years	1.72
greater than 25 years, but less than or equal to 30 years	1.80

Type VI Debt Securities with remaining maturities of:

less than or equal to 2 years	1.37
greater than 2 years, but less than or equal to 4 years	1.40
greater than 4 years, but less than or equal to 7 years	1.67
greater than 7 years, but less than or equal to 12 years	1.74
greater than 12 years, but less than or equal to 25 years	1.82
greater than 25 years, but less than or equal to 30 years	1.91

Type VII Debt Securities with remaining maturities of:

less than or equal to 2 years	1.37
greater than 2 years, but less than or equal to 4 years	1.64
greater than 4 years, but less than or equal to 7 years	2.28
greater than 7 years, but less than or equal to 12 years	2.49
greater than 12 years, but less than or equal to 25 years	2.74
greater than 25 years, but less than or equal to 30 years	3.06

For purposes of the foregoing:

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

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

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

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

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

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

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

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

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

See accompanying notes

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

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

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

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

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

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

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

Aerospace & Defense
Automobiles
Banking, Finance & Insurance
Building & Materials
Chemicals
Computers & Electronics
Consumer Products
Energy
Environmental Services
Farming & Agriculture
Food, Beverage & Tobacco
Healthcare & Pharmaceuticals
Industrial Machinery
Media, Leisure & Entertainment
Metals & Mining
Miscellaneous
Paper & Forest Products
Retail
Sovereigns
Textiles & Furniture
Transportation
Utilities

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Other Fitch Eligible Assets. Other Fitch Eligible Assets include the following:

(i) cash (including, for this purpose, interest and dividends due on assets rated (A) Baa3 or higher by Moody s, BBB or higher by S&P or BBB or higher by Fitch if the payment date is within five Business Days of the Valuation Date, (B) A2 or higher by Moody s and either A or higher by S&P or A or higher by Fitch if the payment date is within 30 days of the Valuation Date, and (C) A1 or higher by Moody s and either A+ or higher by S&P or A+ or higher by Fitch if the payment date is within the Exposure Period) and receivables for Fitch Eligible Assets sold if the receivable is due within five Business Days of the Valuation Date, and if the trades which generated such receivables are (A) settled through clearing house firms with respect to which the Fund has received prior written authorization from Fitch or (B) (1) with counter-parties having a Fitch long-term debt rating of at least BBB- by Fitch, if rated by Fitch or, if not rated by Fitch, then rated at least BBB- by S&P and rated at least Baa3 by Moody s or (2) with counter-parties having a Fitch Short-Term Money Market Instrument rating of at least F-1 + by Fitch, if rated by Fitch or, if not rated by Fitch, then rated at least A-1 by S&P and rated at least P-I by Moody s;

(ii) Short-Term Money Market Instruments so long as (A) such securities are rated at least P-1 by Moody s and either at least A-1 + by S&P or F1 + by Fitch, (B) in the case of demand deposits, time deposits and overnight funds, the supporting entity is rated at least A2 by Moody s and either at least A by S&P or A by Fitch, or (C) in all other cases, the supporting entity (1) is rated at least A2 by Moody s and at least A by S&P and the security matures within one month, (2) is rated at least A1 by Moody s and either at least A+ by S&P or at least A by Fitch and the security matures within three months or (3) is rated at least Aa3 by Moody s and either at least AA by S&P or at least AA by Fitch and the security matures within six months; and

(iii) U.S. Treasury Securities.

The Fitch Discount Factors for Fitch Eligible Assets that are U.S. Treasury Securities are as follows:

<u>U.S. Treasury Securities</u> with remaining maturities of:

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

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

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

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

<u>Senior Loans</u>: The Fund intends to adopt the required procedures to have Fitch include the Fund s investments in bank loans as Fitch Eligible Assets. The Fitch Discount Factor applied to senior, secured floating rate Loans made to corporate and other business entities (Senior Loans) shall be the percentage specified in the table below opposite such Fitch Loan Category:

Fitch Loan Category	Discount Factor
A	115 %
B	130 %
C	152 %
D	370 %

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The Fund is undertaking the process to define those investments in Bank Loans that may be included as Fitch Eligible Assets, and will take all necessary corporate actions as required by Fitch.

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

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

* * *

For so long as any of the ATP is Outstanding and either Moody s, Fitch or any Other Rating Agency is rating the ATP, the Fund will not, unless it has received written confirmation from Moody s, Fitch or any Other Rating Agency, as applicable, that any such action would not impair the respective rating then assigned by Moody s, Fitch, or such Other Rating Agency to the ATP, engage in any one or more of the following transactions: (i) purchase or sell futures contracts or options thereon with respect to portfolio securities or write unsecured put or uncovered call options on portfolio securities, engage in options transactions involving cross-hedging, or enter into any swap transaction; or (ii) borrow money, except that the Fund may, without the written confirmation described above, borrow money for the purpose of clearing securities transactions; provided that the ATP Basic Maintenance Amount would continue to be satisfied after giving effect to such borrowing and if the borrowing matures in not more than 60 days and is non-redeemable; or (iii) except in connection with a refinancing of the ATP, issue any class or series of stock ranking prior to or on a parity with the ATP with respect to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of the Fund, or reissue any shares of ATP previously purchased or redeemed by the Fund; or (iv) engage in any short sales of securities; or (v) lend portfolio securities; or (vi) merge or consolidate into or with any other corporation.

For purposes of valuation of Eligible Assets: (A) if the Fund writes a call option, the underlying asset will be valued as follows: (1) if the option is exchange-traded and may be offset readily or if the option expires before the earliest possible redemption of the ATP, at the lower of the Discounted Value of the underlying security of the option and the exercise price of the option or (2) otherwise, it has no value; (B) if the Fund writes a put option, the underlying asset will be valued as follows: the lesser of (1) exercise price and (2) the Discounted Value of the underlying security; and (C) call or put options which the Fund buys have no value.

For so long as ATP are rated by Moody s or Fitch: (A) the Fund will not engage in options transactions for leveraging or speculative purposes; (B) the Fund will not write or sell any anticipatory contracts pursuant to which the Fund hedges the anticipated purchase of an asset prior to completion of such purchase; (C) the Fund will not enter into an option transaction with respect to portfolio securities unless, after giving effect thereto, the Fund would continue to have Eligible Assets with an aggregate Discounted Value equal to or greater than the ATP Basic Maintenance Amount; (D) the Fund will not enter into an option transaction with respect to portfolio securities unless after giving effect to such transaction the Fund would continue to be in compliance with the provisions relating to the ATP Basic Maintenance Amount; (E) for purposes of the ATP Basic Maintenance Amount assets in margin accounts are not Eligible Assets; (F) the Fund shall write only exchange-traded options on exchanges approved by Moody s (if Moody s is then rating the ATP) and Fitch (if Fitch is then rating the ATP); (G) where delivery may be made to the Fund with any of a class of securities, the Fund shall assume for purposes of the ATP Basic Maintenance Amount that it takes delivery of that security which yields it the least value; (H) the Fund will not engage in forward contracts; and (I) there shall be a quarterly audit made of the Fund s options transactions by the Fund s independent accountants to confirm that the Fund is in compliance with these standards.

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

PORTFOLIO MATURITY AND TURNOVER

The Fund s holdings may include issues of various maturities. Ordinarily, the Fund will emphasize investments in medium and longer-term instruments (i.e., those with maturities in excess of three years), but the weighted average maturity of portfolio holdings may be shortened or lengthened depending on the Investment Adviser s general investment outlook or changes in the characteristics of high-yield securities. To the extent the weighted average maturity of the Fund s portfolio securities is lengthened, the value of such holdings will be more susceptible to fluctuations in response to changes in interest rates and general economic conditions. As of , 2007, the weighted average maturity of the Fund s portfolio holdings was approximately years. The weighted average maturity of the Fund s portfolio will fluctuate depending on market conditions and investment opportunities. The Fund, however, does not expect that the weighted average maturity of the Fund s portfolio will, under normal conditions, exceed 15 years.

The Investment Adviser actively makes portfolio adjustments that reflect the Fund s investment strategy, but generally does not trade securities for the Fund for the purpose of seeking short-term profits. It will, however, change the Fund s securities, regardless of how long they have been held, when it believes doing so will further the Fund s investment objective.

In light of the Fund s investment objective and policies, it is anticipated that the Fund s portfolio turnover rate may, from time to time, exceed 100% per annum. A 100% annual turnover rate would occur, for example, if all the securities in the Fund s portfolio were replaced once within a period of one year. The Fund reserves full freedom with respect to portfolio turnover. In periods when there are rapid changes in economic conditions or security price levels or when investment strategy is changed significantly, portfolio turnover may be significantly higher than during times of economic and market price stability, when investment strategy remains relatively constant. A high rate of portfolio turnover may result in increased transaction costs for the Fund in the form of increased dealer spreads and brokers commissions. For the fiscal years ended December 31, 2004 and 2005, the Fund did not pay any brokerage commissions for the execution of portfolio transactions. For the fiscal year ended December 31, 2006, the Fund paid $15,168 in brokerage commissions. The Fund s portfolio turnover rates for the fiscal years ended December 31, 2004, 2005, and 2006 were 70.90%, 61.54% and 64.08%, respectively.

TAXATION

The following discussion offers only a brief outline of the federal income tax consequences of investing in ATP. Investors should consult their own tax advisors for more detailed information and for information regarding the impact of state and local taxes upon such an investment.

Federal Income Tax Treatment of the Fund

The Fund has elected to be treated as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code) and intends to qualify under those provisions each year. To qualify as a regulated investment company, the Fund must generally, among other things, satisfy the following requirements:

- derive at least 90% of its gross income each taxable year from (1) dividends, interest, payments with respect to certain securities loans and gains from the sale or other disposition of securities or foreign currencies, or other income (including gains from options, futures or forward contracts) derived from investing in securities or those currencies and (2) interests in qualified publicly traded partnerships (as defined in the Code);

- distribute with respect to each taxable year at least 90% of its investment company taxable income (consisting generally of net investment income, net short term capital gain and net gains from certain foreign currency transactions, if any, and determined without regard to any deduction for dividends paid) for that year; and

- diversify its holdings so that, at the end of each quarter of each taxable year (1) at least 50% of the value of its total assets is represented by cash and cash items, U.S. Government securities, securities of other regulated investment companies, and other securities limited in respect of any one issuer to a value not greater than 5% of the value of our total assets and to not more than 10% of the issuer s outstanding voting securities, and (2) not more than 25% of the value of its total assets is invested in the securities (other than those of the U.S. Government or of other regulated investment companies) of (a) any one issuer, (b) two or more issuers controlled by the Fund (defined as owning 20% or more of the total combined voting power of all classes of stock entitled to vote) which are engaged in the same, similar or related trades or businesses or (c) any one or more qualified publicly traded partnerships (as defined in the Code).

As a regulated investment company, in any fiscal year with respect to which the Fund distributes at least 90% of its net investment income (i.e., the Fund s investment company taxable income, as that term is defined in the Code, without regard to the deduction for dividends paid), the Fund (but not its stockholders) generally will be relieved of U.S. federal income taxes on its net investment income and net capital gains (i.e., the Fund s net long-term capital gains in excess of the sum of net short-term capital losses and capital loss carryovers from prior years, if any) that it distributes to stockholders. However, the Fund will be subject under current tax rates to a federal income tax at a maximum effective rate of 35% on any undistributed net investment income and net capital gain. Amounts not distributed on a timely basis in accordance with a calendar year distribution requirement are subject to a nondeductible 4% excise tax payable by the Fund. To avoid the tax, the Fund must distribute, or be deemed to have distributed, during each calendar year an amount equal to the sum of (1) at least 98% of its ordinary income (not taking into account any capital gains or losses) for the calendar year, (2) at least 98% of its capital gains in excess of its capital losses (adjusted for certain ordinary losses) for the twelve-month period ending on October 31 of the calendar year, and (3) all ordinary income and capital gains for previous years that were not distributed during such years. For this purpose, any income or gain retained by the Fund that is subject to corporate tax will be considered to have been distributed by year-end. To prevent application of the excise tax, the Fund intends to make its distributions in accordance with the calendar year distribution requirement. Compliance with the calendar year distribution requirement may limit the extent to which the Fund will be able to retain its net capital gains for investment.

If in any taxable year the Fund fails to qualify as a regulated investment company under the Code, the Fund will be taxed in the same manner as an ordinary corporation and distributions to its stockholders will not be deductible by the Fund in computing its taxable income. In addition, in the event of failure to qualify, the Fund s distributions, to the extent derived from the Fund s current or accumulated earnings and profits, will constitute dividends. Such distributions generally will be eligible (i) for the dividends received deduction in the case of corporate shareholders and (ii) for treatment as qualified dividend income in the case of individual shareholders.

If the Fund does not meet the asset coverage requirements of the 1940 Act, the Fund will be required to suspend distributions to the holders of the Common Stock and/or the ATP until the asset coverage is restored. See Description of ATP - Dividends and Dividend Periods. Such a suspension of distributions might prevent the Fund from distributing 90% of its net investment income, as is required in order to qualify for taxation as a regulated investment company, or cause the Fund to incur a tax liability or a non-deductible 4% excise tax on its undistributed taxable income (including gain), or both.

Upon any failure to meet the asset coverage requirements of the 1940 Act, the Fund intends to repurchase or redeem (to the extent permitted under the 1940 Act) ATP in order to maintain or restore the requisite asset coverage and avoid failure to remain qualified as a regulated investment company. The determination to repurchase or redeem ATP and the amounts to be repurchased or redeemed, if any, will be made in the sole discretion of the Fund.

Use of the Fund s cash to repurchase or redeem ATP may adversely affect the Fund s ability to distribute annually at least 90% of its net investment income, which distribution is required to qualify for taxation as a regulated investment company. The Fund may also recognize income in connection with funding repurchases or redemptions of ATP, and such income would be taken into account in determining whether or not the above-described distribution requirements have been met. Depending on the size of the Fund s assets relative to its outstanding senior securities, redemption of ATP might restore asset coverage. Payment of distributions after restoration of asset coverage could requalify (or avoid a disqualification of) the Fund as a regulated investment company, depending upon the facts and circumstances.

Investments of the Fund in securities issued at a discount or providing for deferred interest or payment of interest in kind are subject to special tax rules that will affect the amount, timing and character of distributions to stockholders. For example, with respect to certain securities issued at a discount, the Fund will be required to accrue as income each year a portion of the discount and to distribute such income each year in order to satisfy the 90% distribution requirement and the distribution requirements for avoiding income and excise taxes. In order to generate sufficient cash to make distributions necessary to satisfy the 90% distribution requirement and to avoid income and excise taxes, the Fund may have to borrow money or dispose of securities that it would otherwise have continued to hold.

Any transactions by the Fund in foreign currencies, forward contracts, options and futures contracts (including options and futures contracts on foreign currencies) would be subject to special provisions of the Code that, among other things, may affect the character of gains and losses realized by the Fund (i.e., may affect whether gains or losses are ordinary or capital), accelerate recognition of income to the Fund, defer Fund losses, and affect the determination of whether capital gains and losses are characterized as long-term or short-term capital gains or losses. These rules could therefore affect the character, amount and timing of distributions to stockholders. These provisions also may require the Fund to mark-to-market certain types of the positions in its portfolio (i.e., treat them as if they were closed out) which may cause the Fund to recognize income without receiving cash with which to make distributions in amounts necessary to satisfy the distribution requirements for avoiding income and excise taxes. The Fund will monitor its transactions, will make the appropriate tax elections and will make the appropriate entries in its books and records when it acquires any foreign currency, option, futures contract, forward contract, or hedged investment in order to mitigate the effect of these rules and prevent disqualification of the Fund as a regulated investment company and minimize the imposition of income and excise taxes.

If the Fund fails to qualify as a regulated investment company for any year, it generally must pay out its earnings and profits accumulated in that year, less an interest charge to the Treasury on 50% of such earnings and profits, before it can again qualify as a regulated investment company.

Federal Income Tax Treatment of Holders of ATP

Under present law, so long as there is no express or implied agreement between or among a Broker-Dealer or any other party and the Fund or any owners of the ATP that the Broker-Dealer or any other party will guarantee or otherwise arrange to ensure that an owner of the ATP will be able to sell his or her shares, ATP will constitute stock of the Fund, and thus distributions with respect to the ATP (other than distributions in redemption of ATP subject to Section 302(b) of the Code) will constitute dividends to the extent of the Fund s current or accumulated earnings and profits, as calculated for federal income tax purposes. The following discussion assumes such treatment will apply.

The Fund s income will consist of net investment income and may also consist of net capital gains. The character of the Fund s income will not affect the amount of dividends to which the holders of the ATP are entitled. Holders of the ATP are entitled to receive only the amount of dividends as determined by periodic Auctions. For federal income tax purposes, however, the Internal Revenue Service (the Service) currently requires that a regulated investment company that has two or more classes of shares allocate to each such class proportionate amounts of each type of its income (such as ordinary income and net capital gains) for each tax year. Accordingly, the Fund intends to designate distributions made with respect to the Common Stock and the four series of ATP as consisting of particular types of income (net capital gains, ordinary income, dividends qualifying for the dividends received deduction and qualified dividend income) in accordance with each class proportionate share of the total dividends paid to all classes. The amount of the net capital gains realized by the Fund is not expected to be significant, and there is no assurance that any such income will be realized by the Fund in any year. Distributions of the Fund s net investment income generally are taxable to stockholders as ordinary income. Distributions of the Fund s net capital gains, if any, are taxable to stockholders at rates applicable to long-term capital gains regardless of the length of time the ATP have been held by holders. Distributions in excess of the Fund s earnings and profits will first reduce a stockholder s adjusted tax basis in his or her shares of ATP and, after the adjusted tax basis is reduced to zero, will constitute capital gains to a holder of shares of ATP who holds his or her shares of ATP as a capital asset. In addition, for tax years through 2010, dividends paid by the Fund to stockholders who are individuals may constitute qualified dividend income eligible for a maximum rate of 15%, if certain holding period requirements are met. If the aggregate amount of qualified dividend income received by the Fund during any taxable year is less than 95% of the Fund s gross income (as specifically defined for that purpose), such distributions will be eligible for a maximum rate of 15% to individuals if designated by the Fund as qualified dividend income. The Fund may designate such distributions as qualified dividend income only to the extent the Fund itself has qualified dividend income for the taxable year in which such distributions are made. Qualified dividend income is generally dividend income from taxable domestic corporations and certain foreign corporations (e.g., foreign corporations incorporated in a possession of the United States or in certain countries with comprehensive tax treaties with the United States, or the stock of which is readily tradable on an established securities market in the United States). The amount of qualified dividend income realized by the Fund is not expected to be significant, and there is no assurance that any such income will be realized by the Fund in any year.

Although the Fund is required to distribute annually at least 90% of its net investment income, the Fund is not required to distribute net capital gains to the stockholders. The Fund may retain and reinvest such gains and pay federal income taxes on such gains (the net undistributed capital gains). However, it is unclear whether a portion of the net undistributed capital gains would have to be allocated to the ATP for federal income tax purposes. Until and unless the Fund receives acceptable guidance from the Service as to the allocation of the net undistributed capital gains between the Common Stock and the ATP, the Fund intends to distribute its net capital gains for any year during which it has shares of ATP outstanding. Such distribution will affect the tax character but not the amount of dividends to which holders of shares of ATP are entitled.

Although dividends generally will be treated as distributed when paid, dividends declared in October, November or December, payable to stockholders of record in one of such months and paid in January of the following year will be treated as having been distributed by the Fund and received by the stockholders on December 31. In addition, solely for the purpose of satisfying the 90% distribution requirement and the distribution requirement for avoiding income taxes, certain distributions made after the close of a taxable year of the Fund may be spilled back and treated as paid during such taxable year. In such case, stockholders will be treated as having received such dividends in the taxable year in which the distribution was actually made. The Service has ruled privately that dividends paid following the close of the taxable year that are treated for tax purposes as derived from income from the prior year will be treated as dividends paid in the prior year for purposes of determining the proportionate share of a particular type of income for each class. Accordingly, the Fund intends to treat any such dividends that are paid following the close of a taxable year as paid in the prior year for purposes of determining a class proportionate share of a particular type of income. However, the private ruling is not binding on the Service, and there can be no assurance that the Service will respect such treatment.

Most of the Fund s net investment income is derived from interest-bearing securities. Accordingly, dividends paid with respect to the ATP generally will not qualify for the corporate dividends received deduction. However, from time to time, a portion of the Fund s net investment income may be dividends on equity securities which are eligible for the dividends received deduction under Section 243 of the Code. Corporate stockholders who otherwise are eligible to claim the dividends received deduction under Section 243 of the Code can deduct 70% of the portion of the ATP dividend representing the stockholder s portion of the Fund s eligible dividend income. The Service has ruled that corporate stockholders of a regulated investment company must meet the 45-day holding requirements of Section 246(c)(1)(A) of the Code with respect to the shares of the regulated investment company to qualify for the dividends received deduction.

Distributions that the Fund properly designates as capital gains dividends will be taxable to U.S. shareholders as gains from the sale or disposition of a capital asset held for more than one year, to the extent that these gains do not exceed the Fund s actual net capital gain for the taxable year.

The Fund will notify shareholders after the close of its taxable year as to the portions of the distributions attributable to that year that constitute ordinary income (including any portion thereof qualifying for the dividends received deduction generally available to corporations), qualified dividend income, return of capital, and capital gain.

Sale of Shares

The sale of shares of ATP (including transfers in connection with a redemption or repurchase of such shares of ATP or a liquidation of the Fund) will be a taxable transaction for federal income tax purposes. Selling holders of shares of ATP will generally recognize gain or loss in an amount equal to the difference between their basis in the shares of ATP and the amount received in exchange therefor. If such shares of ATP are held as a capital asset, the gain or loss will generally be a capital gain or loss and will be long-term if such stockholders have held the shares for more than one year. Similarly, a redemption by the Fund (including a redemption resulting from liquidation of the Fund), if any, of all the ATP shares actually and constructively held by a shareholder generally will give rise to capital gain or loss under Section 302(b) of the Code if the shareholder does not own (and is not regarded under certain federal income tax rules of constructive ownership as owning) any common shares in the Fund, and provided that the redemption proceeds do not represent declared but unpaid dividends. Other redemptions may also give rise to capital gain or loss, but certain conditions imposed by Section 302(b) of the Code must be satisfied to achieve such treatment. Any loss realized upon a taxable disposition of shares of ATP held for six months or less will be treated as a long-term capital loss to the extent of any distributions of net capital gains received (or amounts designated as net undistributed capital gain) with respect to such shares. All or a portion of any loss realized upon a taxable disposition of shares of ATP may be disallowed if other shares of ATP are purchased by the shareholder within 30 days before or after the disposition.

Backup Withholding

The Fund may be required to withhold for federal income taxes at the current rate of 28% on all taxable distributions payable to stockholders who fail to provide the Fund with their correct taxpayer identification number or who fail to make required certifications or if the Fund or a stockholder has been notified by the Service that they are subject to backup withholding. Corporate stockholders and other stockholders specified in the Code are exempt from such backup withholding. Backup withholding is not an additional tax. Any amounts withheld may be credited against the stockholder s federal income tax liability.

Taxation of Non-Residents

The following discussion applies to stockholders who are not residents of the United States for U.S. federal income tax purposes and do not hold their shares of ATP in connection with a trade or business you carry on in the United States.

Distributions which the Fund makes to a nonresident stockholder from its investment company taxable income, including any dividends which the Fund designates as qualified dividend income, generally will be subject to U.S. federal withholding tax at a rate of 30% (or lower rate under an applicable treaty). Distributions which the Fund makes to a nonresident stockholder from its net realized long term capital gains, if any, that the Fund designates as capital gains dividends, and any amounts which the Fund retains that are designated as undistributed capital gains, generally will not be subject to U.S. federal withholding tax unless the nonresident stockholder is a nonresident alien individual who is physically present in the United States for 183 days or more during the taxable year and who meets certain other requirements.

The following types of distributions which the Fund makes to nonresident stockholders, however, will not be subject to U.S. federal withholding tax with respect to taxable years beginning on or before December 31, 2008, but will be subject to U.S. federal withholding tax at a rate of 30% (or lower rate under an applicable treaty), for subsequent taxable years absent further legislation:

- distributions attributable to the Fund s net short term capital gains in excess of its net long term capital losses which the Fund properly designates as short term capital gain dividends; and

- distributions attributable to the Fund s U.S. source interest income that would not be subject to U.S. federal income tax if earned directly by the nonresident stockholder and which the Fund properly designates as interest related dividends.

Any gain that a nonresident stockholder realizes upon the sale or exchange of shares of ATP (including redemptions otherwise taxable as capital gains) will ordinarily be exempt from U.S. federal income and withholding tax unless the nonresident stockholder is a nonresident alien individual who is physically present in the United States for 183 days or more during the taxable year and who meets certain other requirements.

If you are a nonresident stockholder and hold your shares of ATP in connection with a trade or business you carry on in the United States, then distributions of investment company taxable income and capital gains dividends, any amounts retained by the Fund which are designated as undistributed capital gains and any gains realized upon the sale or exchange of shares of ATP will be subject to U.S. federal income tax at the graduated rates applicable to U.S. citizens, residents and domestic corporations. Foreign nonresident stockholders may also be subject to the branch profits tax imposed by the Code.

Investors are advised to consult their own tax advisors with respect to the application to their own circumstances of the above-described general taxation rules and with respect to the state, local or foreign tax consequences to them of an investment in ATP.

Tax Shelter Reporting Regulations

Under Treasury regulations, if a stockholder recognizes a loss on disposition of the Fund s shares of $2 million or more for an individual stockholder or $10 million or more for a corporate stockholder (or a greater loss over a combination of years), the stockholder must file with the Service a disclosure statement on Form 8886. Direct stockholders of portfolio securities are in many cases excepted from this reporting requirement, but under current guidance, stockholders of a regulated investment company are not excepted. The fact that a loss is reportable under these regulations does not affect the legal determination of whether the taxpayer s treatment of the loss is proper. Stockholders should consult their tax advisors to determine the applicability of these regulations in light of their individual circumstances.

MANAGEMENT OF THE FUND

Board of Directors

The business and affairs of the Fund are managed under the direction of the Board of Directors. The Directors approve all significant agreements between the Fund and persons or companies furnishing services to it, including the Fund s agreements with its Investment Adviser, custodian and transfer agent. The management of the Fund s day-to-day operation is delegated to its officers and the Investment Adviser, subject always to the investment objective and policies of the Fund and to the general supervision of the Directors. The Board of Directors consists of six individuals, four of whom are not interested persons as defined in the 1940 Act. During 2006, the Directors of the Fund met five times.

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

Name and Age	Positions(s) With the Fund(1)	Principal Occupation(s) During Past 5 Years	Other Directorships
Joseph L. Bower Date of Birth: 09/21/38	Director since 1988	Professor, Harvard Business School since 1963 as Donald K. David Professor of Business Administration since 1986, Senior Associate Dean, Chair of the Doctoral Programs, Chair of the General Management Area, and currently, Chair of the General Manager Program.	Director of Anika Therapeutics, Inc., Sonesta International Hotels Corporation, Loews, Corporation (a conglomerate), and Brown Shoe Company, Inc., and Trustee of TH Lee-Putnam Emerging Opportunities Portfolio.
Bernard J. Korman Date of Birth: 10/13/31	Director since 1987	Chairman of the Board of Directors of Philadelphia Health Care Trust (non-profit corporation supporting healthcare delivery, education and research).	Director of Omega Healthcare Investors, Inc. (real estate investment trust), Medical Nutrition USA, Inc. (develops and distributes nutritional products), and Nutramax Products, Inc. (a consumer healthcare products company).
Ernest E. Monrad Date of Birth: 05/30/30	Director since 1988	Trustee since 1960 and Chairman of the Trustees from 1969 to May 2001 of Northeast Investors Trust; Chairman, Assistant Treasurer and a Director since 1981 of Northeast Investors Growth Fund; Director and Vice President of Northeast Investment Management, Inc., until 12/31/06, and Director of Northeast Management & Research Company, Inc.	
Marguerite A. Piret Date of Birth: 5/10/48	Director since 2004	President and Chief Executive Officer, Newbury, Piret & Company, Inc., (an investment bank).	Trustee of Pioneer Funds.

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

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

Name and Age	Positions(s) With the Fund(1)	Principal Occupation(s) During Past 5 Years	Other Directorships
Robert F. Birch* Date of Birth: 03/12/36	Director and President since 1992	Mutual Fund Director	Director of Hyperion Funds, and Director of the Brandywine Funds.
Richard E. Floor* Date of Birth: 08/03/40			