

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

GABELLI DIVIDEND & INCOME TRUST

Form N-2/A

October 07, 2004

As filed with the Securities and Exchange Commission on October 7, 2004
Securities Act File No. 333-113708
Investment Company Act File No. 811-21423

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-2

Registration Statement under the Securities Act of 1933
 Pre-Effective Amendment No. 3
 Post-Effective Amendment No. _____
and/or

Registration Statement under the Investment
Company Act of 1940
 Amendment No. 8

(Check Appropriate Box or Boxes)

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

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

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

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

Copies to:

Richard T. Prins, Esq.
Skadden, Arps, Slate,
Meagher & Flom LLP
Four Times Square
New York, New York 10036
(212) 735-3000

James E. McKee, Esq.
The Gabelli Dividend & Income Trust
One Corporate Center
Rye, New York 10580-1422
(914) 921-5100

Leonard B. Mackey, Jr., Esq.
Clifford Chance US LLP
31 West 52nd Street
New York, New York 10019
(212) 878-8000

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

1

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

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

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

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

If appropriate, check the following box:

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

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

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount Being Registered	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(1)	Amount of Registration Fee
___% Series A Preferred	6,000,000 Shares	\$25	\$150,000,000	19,000
Auction Market Preferred Shares	8,000 Shares	\$25,000	\$200,000,000	25,300

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

(2) \$38,010.70 previously paid

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

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

CROSS-REFERENCE SHEET

N-2 Item Number	Location in Part A (Caption)
PART A	
1. Outside Front Cover.....	Outside Front Cover Page
2. Inside Front and Outside Back Cover Page.....	Outside Front Cover Page; Inside Fr
3. Fee Table and Synopsis.....	Summary; Summary of Fund Expenses
4. Financial Highlights.....	Not Applicable
5. Plan of Distribution.....	Outside Front Cover Page; Summary;
6. Selling Shareholders.....	Not Applicable
7. Use of Proceeds.....	Use of Proceeds; Investment Objecti
8. General Description of the Registrant.....	Outside Front Cover Page; Summary; Investment Objective and Policies; Special Considerations; How the Fun Description of the Series A Preferr Anti-takeover Provisions of the Fun Documents
9. Management.....	Outside Front Cover Page; Summary; Fund; Custodian, Transfer Agent, Di Agent
10. Capital Shares, Long-Term Debt, and Other Securities.....	Outside Front Cover Page; Summary; Objective and Policies; Description Preferred and the AMPS; Description and Outstanding Shares; Taxation
11. Defaults and Arrears on Senior Securities.....	Not Applicable
12. Legal Proceedings.....	Not Applicable
13. Table of Contents of the Statement of Additional Information.....	Table of Contents of the Statement Information

PART B

Location in Statement of Additional Information

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

(Liquidation Preference \$25,000 per Share)

The Gabelli Dividend & Income Trust, or the Fund, is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940. The Fund's investment objective is to seek a high level of total return with an emphasis on dividends and income. The Fund attempts to achieve its objective by investing at least 80% of its assets in dividend paying or other income producing securities under normal market conditions. In addition, under normal market conditions, at least 50% of the Fund's assets will consist of dividend paying equity securities. In making stock selections, Gabelli Funds, LLC, which serves as investment adviser to the Fund, looks for securities that have a superior yield, as well as capital gains potential. The Fund commenced its investment operations on November 28, 2003. We cannot assure you that the Fund's objective will be achieved.

(continued on following page)

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

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

- (1) Plus accumulated dividends, if any, from , 2004
 (2) Offering expenses payable by the Fund are estimated at \$

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

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

This prospectus also describes the Fund's Series B Auction Market Preferred Shares (the "Series B AMPS"), liquidation preference \$25,000 per share and the Fund's Series C Auction Market Preferred Shares (the "Series C AMPS") (Series B AMPS together with the Series C AMPS, the "AMPS"). The

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

dividend rate for the AMPS will vary from dividend period to dividend period. The annual dividend rate for the initial dividend period will be % for the Series B AMPS, and % for the Series C AMPS, of the liquidation preference of \$25,000 per share. The initial dividend period for the Series B AMPS commences on the date of issuance and continues through , 2004. The initial dividend period for the Series C AMPS commences on the date of issuance and continues through , 2004. For subsequent dividend periods, the AMPS will pay dividends based on a rate set at auction, usually held weekly.

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

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

The Series A Preferred and/or AMPS being offered by this prospectus are being offered by the underwriters listed in this prospectus, subject to prior sale, when, as and if accepted by them and subject to certain conditions. The Fund expects that delivery of any Series A Preferred or AMPS will be made in book-entry form through the facilities of The Depository Trust Company on or about , 2004.

Merrill Lynch & Co.
A.G. Edwards

Citigroup
Gabelli & Company, Inc.

The date of this prospectus is , 2004.

6

(continued from previous page)

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

The net proceeds of the offering, which are expected to be \$, will be invested in accordance with the Fund's investment objective and policies. See "Investment Objective and Policies" beginning on page 27.

The Fund expects that dividends paid on the Series A Preferred and AMPS will consist of (i) long-term capital gain (gain from the sale of a capital asset held longer than 12 months), (ii) qualified dividend income (dividend income from certain domestic and foreign corporations) and (iii) investment company taxable income (other than qualified dividend income), including interest income, short-term capital gain and income from certain hedging and interest rate transactions. For individuals, the maximum federal income tax rate on long-term capital gain is currently 15%, on qualified dividend income is currently 15%, and on ordinary income (such as

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2008. We cannot assure you, however, as to what percentage of the dividends paid on the Series A Preferred or AMPS will consist of long-term capital gains and qualified dividend income, which are taxed at lower rates for individuals than ordinary income. For a more detailed discussion, see "Taxation."

Neither the Series A Preferred nor the AMPS may be issued unless each is rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"). In addition, the AMPS may not be issued unless they are also rated "AAA" by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc. ("S&P"). In order to keep these ratings, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series A Preferred and AMPS under guidelines established by each of Moody's and S&P. See "Description of the Series A Preferred and the AMPS - Rating Agency Guidelines." The Fund is also required to maintain a minimum asset coverage by the Investment Company Act of 1940. If the Fund fails to maintain any of these minimum asset coverage requirements, the Fund may, at its option (and in certain circumstances must) require, in accordance with its governing documents and the requirements of the Investment Company Act of 1940, that some or all of its outstanding preferred shares, including the Series A Preferred and/or AMPS, be sold back to it (redeemed). Otherwise, prior to , 2009 the Series A Preferred will be redeemable at the option of the Fund only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. Subject to certain notice and other requirements (including those set forth in Section 23(c) of the Investment Company Act of 1940), the Fund at its option may redeem (i) the Series A Preferred beginning on , 2009 and (ii) the AMPS following the initial dividend period (so long as the Fund has not designated a non-call period). In the event the Fund redeems Series A Preferred, such redemption will be for cash at a redemption price equal to \$25 per share plus accumulated but unpaid dividends (whether or not earned or declared). In the event the Fund redeems AMPS, such redemptions will be for cash, generally at a redemption price equal to \$25,000 per share plus accumulated but unpaid dividends (whether or not earned or declared), although if the AMPS have a dividend period of more than one year, the Fund's Board of Trustees may determine to provide for a redemption premium.

7

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

The Fund has also filed with the Securities and Exchange Commission a Statement of Additional Information, dated , 2004, which contains additional information about the Fund. The Statement of Additional Information is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the Statement of Additional Information on page 75 of this prospectus. You may request a free copy of the Statement of Additional Information by writing to the Fund at its address at One Corporate Center, Rye, New York 10580-1422 or calling the Fund toll-free at (800) 422-3554. You may also obtain the Statement of Additional Information as well as reports, proxy and information statements and other information regarding registrants, including the Fund, that file electronically with the Securities and Exchange Commission on the Securities and Exchange Commission's web site (<http://www.sec.gov>).

The Fund's Series A Preferred and AMPS do not represent a deposit or

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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

8

TABLE OF CONTENTS

	Page
Prospectus Summary.....	1
Financial Highlights.....	24
Use of Proceeds.....	25
The Fund.....	25
Capitalization.....	26
Investment Objective and Policies.....	27
Risk Factors and Special Considerations.....	35
How the Fund Manages Risk.....	44
Management of the Fund.....	45
Portfolio Transactions.....	48
Dividends and Distributions.....	48
Description of The Series A Preferred And AMPS.....	49
The Auction of AMPS.....	61
Authorized and Outstanding Shares.....	65
Taxation.....	65
Anti-Takeover Provisions of the Fund's Governing Documents.....	68
Custodian, Transfer Agent, Auction Agent and Dividend-Disbursing Agent.....	69
Underwriting.....	71
Legal Matters.....	73
Experts	73
Additional Information.....	73
Privacy Principles of the Fund.....	74
Special Note Regarding Forward-Looking Statements.....	74
Table of Contents of the Statement of Additional Information.....	75

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

9

Prospectus Summary

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

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

The Fund.....

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

The Offering.....

The Fund offers by this prospectus, in the aggregate, shares of either Series A Preferred or AMPS, or a com series. The Series A Preferred and/or the AMPS are b of underwriters led by Merrill Lynch, Pierce, Fenner ("Merrill Lynch") and including Citigroup Global Mark & Sons, Inc. and Gabelli & Company, Inc. as underwrit the Series A Preferred and the AMPS will have equal s to dividends and liquidation preference. See "Descri Preferred and the AMPS."

Series A Preferred. The Fund is offering shares of % value \$.001 per share, liquidation preference \$25 per price of \$25 per share. Dividends on the shares of Se accumulate from the date on which such shares are iss been made to list the Series A Preferred on the NYSE that trading of the Series A Preferred on the NYSE wi days from the date of this prospectus.

AMPS. The Fund is offering shares of Series B AMPS an AMPS, each par value \$.001 per share, liquidation pre share at a purchase price of \$25,000 per share, plus have accumulated from the commencement date of the di which such AMPS are issued. The AMPS will not be list Instead, investors may buy or sell AMPS in an auction to broker-dealers that have entered into an agreement agent.

Generally, investors in Series A Preferred or AMPS wi certificates representing ownership of their shares.

depository (The Depository Trust Company ("DTC") or a nominee for the account of the investor's broker-deal ownership of the preferred shares in book-entry form. broker-dealer, in turn, will maintain records of that ownership of preferred shares.

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

Investment Objective.....

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

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

Dividends and Distributions.....

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

AMPS. The holders of AMPS are entitled to receive cash dividends at annual rates of its \$25,000 per share liquidation preference from dividend period to dividend period. The table below sets forth the rate, the dividend payment date and the number of days in each dividend period on each series of the AMPS.

2

	Initial Dividend Rate	Dividend Payment Date for Initial Dividend Period	Number of Days in Dividend Period
	----	-----	----
Series B AMPS.....	%	, 2004	
Series C AMPS.....	%	, 2004	

For subsequent dividend periods, each series of AMPS will be based on a rate set at auctions, normally held weekly. In some instances, dividends are payable weekly, on the first business day following the end of the dividend period. If the day otherwise would be paid is not a business day, then dividends will be paid on the next business day.

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

paid on the first business day that falls after the end of the dividend period. The Fund may, subject to certain conditions, pay dividends during special dividend periods of more (or less) than seven days. The payment date for any such special dividend period will be the date specified in the notice designating the special dividend period. Dividends of each series of AMPS will be cumulative from the date of the last dividend issued and will be paid out of legally available funds.

Any designation of a special dividend period will be subject to the condition that, among other things, proper notice has been given, the special dividend period was not an auction and the Fund has confirmed that it has assets of sufficient liquidated value at least equal to the Basic Maintenance Amount (as described under "Description of the Series A Preferred Shares" and "Rating Agency Guidelines"). See "Description of the Series A Preferred Shares" and the AMPS -- Dividends on the AMPS" and "The Auction Process".

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

3

The applicable percentages and applicable spreads are:

Credit Ratings		Applicable Percentage
Moody's	S&P	
Aaa	AAA	125%
Aa3 to Aa1	AA- to AA+	150%
A2 to A1	A- to A+	200%
Baa3 to Baa1	BBB- to BBB+	250%
Ba1 and lower	BB+ and Lower	300%

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

Reference Rate		
Reference Rate	Maximum Applicable Rate Using the Applicable Percentage	Maximum Applicable Rate Using the Reference Rate
1%	1.25%	2.25%

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

2%	2.50%	3.25%
3%	3.75%	4.25%
4%	5.00%	5.25%
5%	6.25%	6.25%
6%	7.50%	7.25%

See "Description of the Series A Preferred and the AMPS -- Maximum Rate." For example, calculated as of June 30, 2003 and June 30, 2004, respectively, the maximum rate of AMPS (assuming a rating of "Aaa" by Moody's and "A" by S&P) have been approximately 2.40% and 2.86%, for dividend periods of 30 days, and approximately 3.02% and 4.04% for dividend periods of 90 days. (1) There is no minimum rate with respect to any

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

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

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

Common Share Dividends. In order to allow its holders to realize a predictable, but not assured, level of income and some liquidity periodically on their investment in the Fund, and to allow investors to sell shares, the Fund has adopted a policy, which may be modified from time to time by the Board of Trustees, of paying distribution on the common shares of \$.30 per quarter, which is equal to an annual dividend of \$1.20 per share, the offering price per common share. On September 24, 2003, the Fund paid a dividend of \$0.30 per share, a portion of which

return of capital. The composition of this dividend is based on the Fund's earnings as of the record date. The actual composition of the dividend distribution may change based on the Fund's investment performance through December 31, 2004.

Auction Procedures.....

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

Provided that the Fund has not defaulted on its payment obligations to the holders of each series of AMPS, the auction rate for each series of AMPS, except that no dividend will be paid from the auction process will be higher than the then-current dividend rate. "Description of the Series A Preferred and the AMPS - Series B." AMPS."

If you own shares of AMPS, you may instruct your broker to enter one of three kinds of orders in the auction with respect to your shares: sell, bid and hold.

If you enter a sell order, you indicate that you want to sell your shares at \$25,000 per share, no matter what the next dividend period's rate will be.

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

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

You may enter different types of orders for different series of AMPS. All orders must be for whole shares. All orders are irrevocable. There is a fixed number of AMPS, and the number of shares likely will vary from auction to auction depending on the number of bidders, the number of shares the bidders seek to buy, the AMPS and general economic conditions including current interest rates. If you own AMPS and submit a bid order specifying a dividend rate higher than the then maximum rate, your bid order will be deemed a sell order. If you do not enter an order, the broker-dealer will ordinarily assume that you want to continue to hold your shares. If you fail to submit an order and the dividend period is over a certain number of days, the broker-dealer will treat your failure to submit an order as a sell order.

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

Broker-dealers will submit orders from existing and pending orders.

of AMPS to the auction agent. Neither the Fund nor the broker-dealer will be responsible for a broker-dealer's failure to submit orders for AMPS to existing or potential holders of AMPS. A broker-dealer may submit orders for AMPS held by it or its customers in the same manner as a holder's failure to submit an order to a broker-dealer. A broker-dealer may submit orders to the auction agent for its own account provided that the broker-dealer is not an officer or director of the Fund. If a broker-dealer submits an order for AMPS to the auction agent in any auction, it may have knowledge of orders placed by other broker-dealers in that auction and therefore have an advantage over other broker-dealers. A broker-dealer would not have knowledge of orders submitted by other broker-dealers in that auction. As a result of bidding in an auction, the auction rate may be higher than the rate that would have prevailed had the broker-dealer not submitted an order. The Fund may not submit an order in any auction.

The auction agent after each auction for the AMPS will pay the winning broker-dealer, from funds provided by the Fund, a sum equal to the amount of the dividend to, in the case of any auction immediately preceding a dividend period of less than one year, the product of (i) a fraction, the numerator of which is the number of days in such dividend period and the denominator of which is 360, times (ii) 1/4 of 1%, times (iii) \$2 multiplied by the aggregate number of AMPS placed by such broker-dealer in such auction. In the case of any auction immediately

6

preceding a dividend period of one year or longer, the rate of the dividend shall be determined by mutual consent of the Fund and the broker-dealer and shall be based upon a selling concession rate that may be applicable to an underwriting of fixed or variable rate securities or shares with a similar final maturity or variable rate of interest, respectively, at the commencement of the dividend period. A broker-dealer may share a portion of the dividend with non-participating broker-dealers that submit orders to the auction agent. A broker-dealer for an auction that are placed by that broker-dealer in such Auction.

There are sufficient clearing bids for shares of AMPS if the number of AMPS subject to bid orders by broker-dealers or potential holders with a dividend rate equal to or lower than the then-maximum rate is at least equal to the number of AMPS subject to sell orders and the number of shares of AMPS subject to bid orders with rates higher than the then-maximum rate for the AMPS is not deemed submitted to the auction agent by broker-dealers or potential holders. If there are sufficient clearing bids for shares of AMPS, the dividend rate for the next dividend period will be the highest rate submitted which, taking into account that rate and all other rates submitted from existing and potential holders, would result in the highest dividend rate and potential holders owning all the AMPS available for sale in such auction.

If there are not sufficient clearing bids for shares of AMPS, an auction is considered to be a failed auction, and the dividend rate will be the maximum rate. If the Fund has declared a dividend period and there are not sufficient clearing bids, the dividend rate will not be effective and the dividend period will be the same as during the current rate period. In the event, existing holders that have submitted sell orders (including holders as having submitted sell orders) may not be able to sell

the AMPS for which they submitted sell orders.

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

If broker-dealers submit or are deemed to submit hold
outstanding AMPS, the auction is considered an "all h
the dividend rate for the next dividend period will b
rate," which is 90% of the then-current reference rat
be less than the rate that would have been determined
occurred.

7

The auction procedures include a pro rata allocation
AMPS for purchase and sale. This allocation process m
existing holder selling, or a potential holder buying
than the number of each series of AMPS in its order.
broker-dealers that have designated themselves as exi
potential holders in respect of customer orders will
make appropriate pro rata allocations among their res

Settlement of purchases and sales will be made throug
business day after the auction date (which also is a
date). Purchasers will pay for their AMPS through bro
same-day funds to DTC against delivery to the broker-
make payment to the sellers' broker-dealers in accord
normal procedures, which require broker-dealers to ma
delivery in same-day funds. As used in this prospectu
is a day on which the NYSE is open for trading, and w
Saturday, Sunday or any other day on which banks in N
authorized or obligated by law to close.

The first auction for each series of AMPS will be hel
business day preceding the dividend payment date for
dividend period. Thereafter, except during special di
auctions for Series B AMPS normally will be held ever
next preceding business day if Tuesday is a holiday),
subsequent dividend period for the Series B AMPS norm
the following Wednesday. Following the first auction o
during special dividend periods, auctions for Series
will be held every Thursday (or the next preceding bu
Thursday is a holiday), and each subsequent dividend
Series C AMPS normally will begin on the following Fr

Tax Treatment of Preferred
Share Dividends.....

The Fund expects that dividends paid on the Series A
will consist of (i) long-term capital gain (gain from
asset held longer than 12 months), (ii) qualified div
income from certain domestic and foreign corporations
company taxable income (other than qualified dividend
interest income, short-term capital gain and income f
and interest rate transactions. For individuals, the
income tax rate on long-term capital gain is currentl
dividend income is currently 15%, and on ordinary inc
distributions from investment company taxable income

for treatment as qualified dividend income) is current rates are scheduled to apply through 2008. We cannot as to what percentage of the dividends paid on the Series AMPS will consist of long-term capital gains and qualified dividends which are taxed at lower rates

8

for individuals than ordinary income. For a more detailed description, see "Taxation."

Rating and Asset
Coverage Requirements.....

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

AMPS. In order to be issued, each series of AMPS must maintain a rating of "Aaa" from Moody's and a rating of "AAA" from Standard & Poor's. In addition, the Series A Preferred, the Statement of Preferences and each series of AMPS contains certain tests that the Fund must obtain and maintain a rating of "Aaa" from Moody's and "AAA" from Standard & Poor's. See "Description of the Series A Preferred and the AMPS -- Agency Guidelines."

Asset Coverage Requirements. Under the asset coverage requirements, each of the Series A Preferred and/or each series of AMPS of the Fund is required to maintain (i) assets having an aggregate discounted value greater than or equal to a Basic Maintenance Ratio (as described under "Description of the Series A Preferred -- Rating Agency Guidelines") for each such series calculated in accordance with the applicable rating agency guidelines and (ii) a value of at least 200% (or such higher or lower percentage as may be determined by the Board of Directors) of the value at the time under the Investment Company Act of 1940 of the net asset value of the Series A Preferred and each series of AMPS. See "Description of the Series A Preferred and the AMPS -- Asset Maintenance Requirements."

The Fund estimates that if the shares offered hereby were issued and sold as of September 15, 2004, the asset coverage ratio of the Series A Preferred and each series of AMPS under the Investment Company Act would have been approximately 633% immediately following the offering (after giving effect to the deduction of offering discounts and estimated offering expenses for such shares of \$5,750,000). The asset coverage would have been computed as follows:

Value of Fund assets less liabilities not constituting senior securities	\$1,000,000,000
-----	-----
Senior securities representing indebtedness = plus liquidation value of the AMPS	= \$300,000,000

The Statement of Preferences for each of the Series A Preferred and each series of the AMPS, which contain the technical details of the various components of the asset coverage tests, will be filed as exhibits to this registration statement and may be obtained from the web site of the Securities and Exchange Commission (http://www.secdatabase.com).

Mandatory Redemption.....

The Series A Preferred and each series of the AMPS may be redeemed at the Fund's option at any time after the date of the Fund's formation by the Fund to the extent the Fund has sufficient assets to satisfy the asset coverage requirements in accordance with the guidelines or the 1940 Act described above and does not exceed the amount available by the applicable cure date. If the Fund redeems the Series A Preferred mandatorily, it may, but is not required to, redeem all of the Series A Preferred shares so that after the redemption the Fund will have the asset coverage required by the guidelines of each of the applicable agencies and the 1940 Act by 10%.

With respect to the Series A Preferred, any such redemption made for cash at a redemption price equal to \$25 per share plus an amount equal to accumulated and unpaid dividends (whether or declared) to the redemption date.

With respect to each series of the AMPS, any such redemption made for cash at a redemption price equal to \$25,000 plus an amount equal to accumulated but unpaid dividends (whether or declared) to the redemption date, plus, in the case of the AMPS having a dividend period of more than one year, an applicable redemption premium determined by the Board of Directors. See "Description of the Series A Preferred and the AMPS --

In the event of a mandatory redemption, such redemption will be made from the Series A Preferred, each series of the AMPS and the Fund's shares of the Fund in such proportions as the Fund may determine, subject to the limitations of the 1940 Act and Delaware law.

Optional Redemption.....

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

Series A Preferred. Commencing on or after January 1, 2009 and at the Fund's option, the Fund at its option may redeem the Series A Preferred in whole or in part, for cash at a redemption price per share equal to the Fund's net asset value plus an amount equal to accumulated and unpaid dividends (whether or declared) to the redemption date. If fewer than all of the Series A Preferred are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. If, on or after January 1, 2009, the Series A Preferred will be subject to optional redemption, the Fund at the redemption price only to the extent necessary to continue to qualify for tax treatment as a regulated investment company. See "Description of the Series A Preferred and the AMPS -- Optional Redemption of the Series A Preferred."

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

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

The redemption price per share of each series of AMPS \$25,000, plus an amount equal to any accumulated but thereon (whether or not earned or declared) to the re the case of each series of the AMPS having a dividend one year, any redemption premium applicable during su "Description of the Series A Preferred and the AMPS - Optional Redemption of the AMPS."

Voting Rights.....

At all times, holders of the Fund's preferred shares the Series A Preferred and/or each series of the AMPS class, will be entitled to elect two members of the F Trustees, and holders of the preferred shares and com a single class, will elect the remaining trustees. H by the Fund to pay dividends on any of its preferred equal to two full years dividends, holders of the pre as a single class, will have the right to elect addit would then constitute a simple majority of the Board cumulative dividends on all preferred shares have bee for.

Holders of outstanding Series A Preferred, each serie any other preferred shares will vote separately as a other matters as required under the applicable Statem Preferences, the 1940 Act and Delaware law. Except as indicated in this prospectus and as otherwise require law, holders of Series A Preferred and/or each series be entitled to one vote per share on each matter subm shareholders and will vote together with holders of c any other preferred shares as a single class. See "De Series A Preferred and the AMPS -- Voting Rights."

Liquidation Preference.....

The liquidation preference of Series A Preferred is \$ preference of each series of the AMPS is \$25,000 per liquidation, preferred shareholders will be entitled liquidation preference with respect to their preferre amount equal to accumulated but unpaid dividends with shares (whether or not earned or declared) to the dat See "Description of the Series A Preferred and the A

Use of Proceeds.....

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

Listing of the Series A Preferred.....

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

Limitation on Secondary Market Trading of the AMPS

The AMPS will not be listed on an exchange. Broker-d not obliged to, maintain a secondary trading market i AMPS outside of auctions. There can be no assurance market will provide owners with liquidity. You may t the AMPS outside of auctions only to or through a bro entered into an agreement with the auction agent or o

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

Special Characteristics
and Risks.....

Fund permits.

Risk is inherent in all investing. Therefore, before Series A Preferred or the AMPS you should consider the

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

Fluctuations in Market Price. The market price for the Series A Preferred will be influenced by changes in interest rates and perceived credit quality of the Series A Preferred and the Fund. See "Risk Factors and Special Considerations -- Special Risks of the Series A Preferred -- Fluctuations in Market Price."

Illiquidity Risk. Prior to the offering, there has been no market for the Series A Preferred. In the event the Series A Preferred is issued, prior application will have been made to list the Series A Preferred on the NYSE. However, during an initial period expected to exceed 30 days after the date of its issuance, the Series A Preferred will not be listed on any securities exchange. During this period, the underwriters intend to make a market in the Series A Preferred, however, they have no obligation to do so. The Series A Preferred may be illiquid during such period and no assurance can be provided that listing on any securities exchange or a market making by the underwriters will result in the Series A Preferred being liquid at any time. See "Risk

12

Factors and Special Considerations -- Special Risks of the Series A Preferred -- Illiquidity Risk."

AMPS. Primary risks specially associated with an investment in the AMPS include:

Auction Risk. You may not be able to sell your AMPS at the auction if the auction fails, i.e., if there are more shares offered than there are buyers for those shares. Also, if you place an order at the auction to retain AMPS only at a specified rate that is not set at the auction, you will not retain your shares. If you place a hold order without specifying a rate below the market rate, you may not wish to continue to hold your shares and the auction rate is below-market rate, you will receive a lower rate of return on your shares than the market rate. Finally, the dividend payment may be changed, subject to certain conditions and with notice, of the affected series of AMPS, which could also affect the value of your investment. See "Risk Factors and Special Considerations -- Special Risks of the AMPS -- Auction Risk."

Secondary Market Sale Risk. If you try to sell your AMPS in the secondary market, you may not be able to sell them for \$25,000 plus accumulated dividends. If the Fund has designated a special dividend period of more than seven days, high interest rates could affect the price you would receive for your shares in the secondary market. Broker-dealers trading in the secondary market for AMPS are not required to provide a market, and the Fund is not required to redeem AMPS in the secondary market if an auction or an attempted secondary market sale fails because of a lack of buyers. In addition, a broker-dealer may, in its discretion, decide to sell AMPS in the secondary market to invest in other securities and at any price, including at prices equivalent to,

par value of the AMPS. The AMPS are not listed on a stock exchange or the NASDAQ stock market. If you sell your AMPS to a buyer between auctions, you may receive less than the price you paid for them, especially when market interest rates have risen since the auction or during a special dividend period. See "Risk Factors -- Special Considerations -- Special Risks of the AMPS -- Sale Risk."

Both the Series A Preferred and AMPS. An investment in the Series A Preferred or AMPS also includes the following:

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

The credit rating on the Series A Preferred and/or AMPS may be reduced or withdrawn while an investor holds shares,

13

rating does not eliminate or mitigate the risks of investing in the Series A Preferred and/or B AMPS. A reduction or withdrawal of the credit rating would likely have an adverse effect on the value of the Series A Preferred and AMPS.

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

The value of the Fund's investment portfolio may decline if the asset coverage for the Series A Preferred and/or the AMPS is insufficient. This could occur if the Fund invests in an issuer of a common stock in which the Fund invests and the issuer has financial difficulties or if an issuer's preferred stock is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, which could have a negative impact on the income and/or asset value of the Fund's investment portfolio. In such circumstances, the Fund may be required to mandatorily redeem shares of Series A Preferred and/or the AMPS.

In general, the Fund may redeem your AMPS at any time and may redeem your Series A Preferred at any time after January 1, 2009, and may redeem shares of either or both series to meet regulatory and agency requirements. Because of historically low interest rates, the current low cost of the AMPS to the Fund may rise dramatically in the future, which in turn may prompt the Fund to redeem the AMPS earlier than otherwise might. The Series A Preferred and/or AMPS are subject to redemption under specified circumstances and investors are not required to reinvest the proceeds of any such redemption in the Fund or to provide the same or a better rate than that of the Series A Preferred or each series of the AMPS. Subject to such circumstances, the Series A Preferred and/or each series of the AMPS are perpetual.

The Series A Preferred and the AMPS are not obligations of the Fund. The Series A Preferred and/or AMPS would be junior in priority to the Fund's debt, including any senior securities of the Fund, in the event of liquidation or the Fund's assets are insufficient to pay the Fund's debt. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient

redeem all of the Series A Preferred and/or the AMPS at the redemption price.

Leverage Risk. The Fund intends to use financial leverage for investment purposes by issuing preferred shares and/or securities representing debt. It is currently anticipating into account the Series A Preferred and/or the AMPS by this prospectus, the amount of leverage will represent a percentage of the Fund's managed assets (as defined below). The amount of leverage depending on interest rates and available investment opportunities will increase its financial leverage through the issuance of senior securities up to approximately 33% of

14

the Fund's total assets including the proceeds of the Series A Preferred and/or the AMPS. The Fund's leveraged capital structure creates special risks not associated with unleveraged capital structure similar investment objective and policies. These include the possibility of greater loss and the likelihood of higher volatility of the net asset value of the Fund and the asset coverage of the Series A Preferred and/or the AMPS. Such volatility may increase the risk of the Fund having to sell investments in order to meet its obligations to make dividend payments on the preferred shares or interest payments on debt securities, or to redeem preferred shares or repay debt, when it may be disadvantageous to do so. By utilizing leverage, a decline in net asset value could reduce the ability of the Fund to make common share dividend payments. A failure to pay dividends or make distributions could result in the Fund ceasing to qualify as a regulated investment company.

See "Taxation." Because the fee paid to the Investment Advisor is calculated on the basis of the Fund's assets, which include all purpose assets attributable to the aggregate net assets of the Fund, common shares plus assets attributable to any outstanding securities, with no deduction for the liquidation preference of the Series A preferred shares, the fee may be higher when leverage is utilized. The Series A preferred shares is utilized, giving the Investment Advisor an incentive to utilize such leverage. However, the Investment Advisor has agreed not to accept an incremental fee on any Series A preferred shares or AMPS, as the case may be, to the extent the Fund's total assets allocable to the common shares fails to meet certain requirements under "Management of the Fund -- General." See "Risk Factors -- Special Considerations -- Risks Associated with both the Series A Preferred and the AMPS -- Leverage Risk."

Special Risks Related to Preferred Shares of Senior Securities Representing Debt. As provided in the 1940 Act, and to ensure compliance with the Fund's investment limitations, the Fund may issue senior securities representing debt. In the event the Fund issues such securities, the Fund's obligations to pay interest upon liquidation of the Fund, liquidation payments in respect of the Series A preferred shares would be subordinate to the Fund's obligations to pay any principal and/or interest payments due and owing on its outstanding debt securities. Accordingly, the Fund's issuance of senior securities representing debt would have the effect of creating special risks for the Fund's preferred shareholders (including holders of Series A Preferred and/or AMPS) that would not exist if the Fund had a capital structure that did not include such securities. See "Risk Factors and Special Considerations -- Risks Associated with the Series A Preferred and AMPS -- Special Risks to Preferred Shares."

Securities Representing Debt."

Restrictions on Dividends and Other Distributions. Re on the declaration and payment of dividends or other

15

distributions to the holders of the Fund's common sha shares, both by the 1940 Act and by requirements impo agencies, might impair the Fund's ability to maintain as a regulated investment company for federal income While the Fund intends to redeem its preferred shares Series A Preferred and/or the AMPS) to the extent nec the Fund to distribute its income as required to main qualification as a regulated investment company under can be no assurance that such actions can be effected the Code requirements. See "Taxation" in the SAI.

Securities and Exchange Commission Inquiries. Merrill Citigroup Global Markets Inc. have advised the Fund t certain broker-dealers and other participants in the securities markets, including both taxable and tax ex received letters from the Securities and Exchange Com that each of them voluntarily conduct an investigatio respective practices and procedures in those markets. Citigroup Global Markets Inc. and those other broker-cooperating and expect to continue to cooperate with Exchange Commission in providing the requested inform assurance can be given as to whether the results of t affect the market for the AMPS or the auctions.

Risks of Investing in the Fund

Limited Operating History. The Fund is a non-diversif management investment company with a limited operatin "Risk Factors and Special Considerations -- Risks of Fund -- Limited Operating History."

Common Stock Dividend Policy Risk. The Fund has adopt may be changed at any time by the Board of Trustees, dividend on its common shares of \$.30 per quarter, wh annual rate of 6% of the original issue price of the the event investment returns do not provide sufficien such distributions, the Fund may be required to retur of such distribution, which may have the effect of de coverage per share with respect to the Fund's Series each series of AMPS. The Fund made its first dividend 25, 2004, a portion of which constituted a return of

Value Investing Risk. The Fund focuses its investment dividend-paying common and preferred stocks that the believes are undervalued or inexpensive relative to o These types of securities may present risks in additi risks associated with investing in common and prefer Fund focuses its investments on dividend-paying commo stocks that the Investment Adviser believes are under inexpensive relative to other investments. These type

16

may present risks in addition to the general risks associated with investing in common and preferred stocks including the risk of misestimation of certain fundamental factors. In addition, during certain time periods market dynamics may strongly favor the price of issuers that do not display strong fundamentals relative to price based upon positive price momentum and other factors. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Value Investing Risk."

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

Industry Concentration Risk. The Fund may invest up to 25% of its assets in the securities of companies principally engaged in a single industry. In the event the Fund makes substantial investments in a single industry, the Fund would become more susceptible to economic or regulatory occurrences affecting that industry. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Industry Concentration Risk."

Special Risks Related to the Fund's Preferred Securities. The Fund has no limit on its investment in non-cumulative preferred securities. The deferral of distributions or dividend payments, in some cases, of an issuer never to pay missed dividends, subordinate rights and limited voting rights and redemption by the issuer. The Fund has no limit on its investment in non-cumulative preferred securities. The amount of dividends the Fund pays may be adversely affected by the issuer of a non-cumulative preferred stock held by the Fund. The Fund may not pay dividends on such stock. There is no assurance that dividends or distributions on preferred stock in which the Fund has an investment will be declared or otherwise made payable. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Special Risks Related to Preferred Securities."

Illiquid Securities. The Fund has no limit on the amount of its assets it may invest in unregistered and otherwise illiquid securities. Unregistered securities are securities that are not publicly traded in the United States without registration under the Securities Act of 1933. Unregistered securities generally can be sold only through privately negotiated transactions with a limited number of investors or in a public offering registered under the Securities Act. Considerable delay could be encountered in either event. If the Fund is otherwise contractually provided for, the Fund's proceeds from the sale may be reduced by the costs of registration or underwriting.

17

The difficulties and delays associated with such transactions may result in the Fund's inability to realize a favorable price for the disposition of unregistered securities, and at times the disposition of such securities impossible. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Illiquid Securities."

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

Smaller Companies. While the Fund intends to focus on investments in established suppliers of accepted products and services, it may also invest in smaller companies which may benefit from the development of new products and services. These smaller companies may offer greater opportunities for capital appreciation, and may also carry a greater investment risk than larger, more established companies. For example, smaller companies may have more limited production or financial resources, and their securities may trade in lower volume than the securities of larger, more established companies. As a result, the prices of the securities of smaller companies may fluctuate to a greater degree than the prices of the securities of other issuers. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Smaller Companies."

Investment Companies. The Fund may invest in the securities of investment companies to the extent permitted by law. If the Fund invests in the common equity of investment companies, the Fund will bear its ratable share of any such investment costs, including management fees. The Fund will also remain liable for its share of management fees to the Investment Adviser with respect to investments in the securities of other investment companies. In certain circumstances, holders of the Fund's common shares will not be able to avoid duplicative investment expenses. See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Investment Companies."

Lower Grade Securities. The Fund may invest up to 10% of its assets in fixed-income securities rated below investment grade by recognized statistical rating agencies or unrated securities of comparable quality. The prices of these lower grade securities are more sensitive to negative developments, such as a decline in interest rates, revenues or a general economic downturn, than are the prices of investment grade securities. Securities of below investment grade

18

quality are predominantly speculative with respect to their ability to have the capacity to pay interest and repay principal when due. These securities involve a greater risk of default and are commonly referred to as "junk bonds." See "Risk Factors and Special Considerations -- Risks of Investing in the Fund -- Lower Grade Securities."

Special Risks of Derivative Transactions. The Fund may engage in certain derivative transactions. Such transactions may involve execution, market, liquidity, hedging and tax risks. The Fund's use of the options or futures markets and in currency exchange involves investment risks and transaction costs to which the Fund may not be subject absent the use of these strategies. If the Investment Adviser's prediction of movements in the direction of interest rate or foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave the Fund in a worse

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

purposes as a regulated investment company. Qualification among other things, compliance by the Fund with certain requirements. Statutory limitations on distributions of shares if the Fund fails to satisfy the 1940 Act's asset requirements could jeopardize the Fund's ability to meet distribution requirements. The Fund presently intends to purchase or redeem preferred shares to the extent necessary to maintain compliance with such asset coverage requirements. "Taxation" for a more complete discussion of these and other income tax considerations.

Management and Fees.....

Gabelli Funds, LLC serves as the Fund's Investment Adviser and is compensated for its services and its related expenses at a rate of 1.00% of the Fund's average weekly net assets. As used herein, net assets means the aggregate net asset value of the Fund for purposes of the Investment Adviser's compensation (not attributable to outstanding preferred shares, with no liquidation preference of any preferred shares). Notwithstanding the foregoing, the Investment Adviser has voluntarily agreed to a portion of its investment advisory fee attributable to the Fund equal to the aggregate stated value of the Fund's Series A Preferred or AMPS, as the case may be, for a period in which the net asset value total return of the Fund attributable to shares, including distributions and the advisory fee waiver, is less than (i) in the case of the Series A Preferred, the annual dividend rate of such series and (ii) in the case of the AMPS, the net cost of capital to the Fund.

20

with respect to each series of the AMPS for such year as a percentage (including, without duplication, dividends and interest on each series of the AMPS and the net cost to the Fund of any associated swap or cap transaction if the Fund hedges its interest obligations). This waiver will apply to the portion of the net assets attributable to the Series A Preferred and AMPS for so long as any shares of such series remain outstanding. The Investment Adviser is responsible for administration of the Fund and currently utilizes and pays the fees of a third party sub-administrator. See "Management of the Fund."

The Securities and Exchange Commission, the New York State Department of Banking and Insurance, and other officials of other states have been conducting inquiries, enforcement and other proceedings regarding, trading and other open-end investment companies. The Investment Adviser has received information requests and subpoenas from the New York State Department of Banking and Insurance, the Securities and Exchange Commission in connection with its investigations. The Investment Adviser and its affiliates have been cooperating with these requests and have been independently reviewing their operations in a variety of areas. For further details regarding the Investment Adviser's ongoing review in connection with these requests, see "Management of the Fund -- Regulatory Matters."

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

The Fund's Board of Trustees has authorized the Fund to repurchase common shares in the open market when the common shares are trading at a discount of 7.5% or more from net asset value. Such repurchases are subject to certain notice and other requirements under the Securities Act. Since the Fund commenced operations, it has repurchased 220,000 common shares in the open market.

Certain provisions of the Fund's Agreement and Declaration of Trust and By-Laws (collectively, the "Governing Documents") may contain "anti-takeover" provisions. Pursuant to these provisions, a three class trustee is elected each year, and the vote of the holders of 75% of the outstanding shares is necessary to authorize the conversion of the Fund from an open-end investment company. The overall effect of these provisions is to render more difficult the accomplishment of a change of control by, a principal shareholder. These provisions have the effect of depriving Fund common shareholders the right to sell their shares at a premium to the prevailing market price. "Anti-Takeover Provisions of the Fund's Governing Documents"

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

State Street Bank and Trust Company (the "Custodian")
Royal Street, Canton, Massachusetts 02021, serves as

21

custodian of the Fund's assets pursuant to a custody agreement, the Custodian holds the Fund's assets in compliance with the 1940 Act. For its services, the Custodian receives a monthly fee based upon, among other things, the value of the total assets of the Fund, plus certain charges for transactions.

EquiServe Trust Company, N.A., located at P.O. Box 430, Providence, Rhode Island 02940-3025, serves as the Fund's dividend agent, as agent under the Fund's automatic dividend reinvestment plan.

>

Ø Audit Committee

Ø Compensation Committee

Ø Nominating & Corporate Governance Committee

Code of Business Conduct and Ethics

Code of Ethics for Senior Financial Officers

Director Independence Standards

The Code of Business Conduct and Ethics applies to the Company's directors, officers and other employees. The Code of Ethics for Senior Financial Officers applies to the Company's Chief Executive Officer, Chief Financial Officer, Chief Accounting Officer, or

Table of Contents

persons performing similar functions. The Company intends to disclose future amendments to, and any waivers for directors or officers (though none are anticipated) from, the Code of Business Conduct and Ethics or the Code of Ethics for Senior Financial Officers under *Governance* on the Company's website at www.unitrin.com.

Related Person Transactions

The Board of Directors has adopted a written policy (*Policy on Related Person Transactions*) for review, approval and ratification of transactions involving the Company and related persons (directors, executive officers, shareholders owning five percent or more of the Company's Common Stock, or immediate family members of any of the foregoing). The *Policy on Related Person Transactions* covers any related person transaction unless it involves: (i) a transaction generally available to all employees of the Company; (ii) less than \$120,000 in the aggregate; or (iii) a relationship as an insurance policyholder entered and maintained in the ordinary course of business of a subsidiary of the Company on terms no more favorable to the related person than those applicable to non-affiliated third parties or those generally available to employees of the Company. Covered related person transactions must be approved or ratified by the Nominating & Corporate Governance Committee of the Board of Directors. In addition, approval under the *Policy on Related Person Transactions* is required before the Company can make charitable contributions exceeding \$120,000 in the aggregate in any fiscal year to a charitable organization for which a related person serves as an executive officer, director, trustee or in a similar capacity.

Upon learning of a proposed or existing related person transaction requiring review under the *Policy on Related Person Transactions*, management is required to submit the matter for consideration by the Nominating & Corporate Governance Committee, which will review the transaction and make a determination as to whether it is consistent with the best interests of the Company and its shareholders. In its review, the Nominating & Corporate Governance Committee may consider the facts and circumstances it deems significant and relevant to the particular transaction, including such factors as the related person's relationship to the Company and interest in the transaction, the value of the transaction and any reasonable alternatives, and the potential impact of the transaction on the Company, the related person and other applicable parties. No director who is on the Nominating & Corporate Governance Committee will participate in the review or approval under the *Policy on Related Person Transactions* of a transaction involving such director or a member of his or her immediate family.

In accordance with the *Policy on Related Person Transactions*, the Nominating & Corporate Governance Committee reviewed certain transactions with the Company involving Fayez Sarofim & Co. (*FS&C*), a registered investment advisory firm of which Mr. Sarofim, a member of the Company's Board of Directors, serves as Chairman of the Board, President, a director, and is the majority shareholder. Certain of the Company's insurance company subsidiaries and *FS&C* are parties to an agreement under which *FS&C* provides investment management services to these subsidiaries. In addition, *FS&C* provides investment

Table of Contents

management services with respect to certain funds of the Company's pension plans. The agreement governing these arrangements is terminable by either party at any time on 30 days advance written notice.

Under these investment advisory arrangements, FS&C is entitled to a fee calculated and payable quarterly based on the fair market value of the assets under management. At December 31, 2007, the Company's subsidiaries and the Company's pension plans had \$226.2 million and \$99.6 million, respectively, in assets under management with FS&C. During 2007, the Company's subsidiaries and the Company's pension plans paid \$0.8 million in the aggregate to FS&C.

With respect to the Company's 401(k) Savings Plan, one of the alternative investment choices afforded to participating employees is the Dreyfus Appreciation Fund, an open-end, diversified management investment fund (the Fund). FS&C provides investment management services to the Fund as a sub-investment advisor. According to published reports filed by FS&C with the SEC, the Fund pays monthly fees to FS&C according to a graduated schedule computed at an annual rate based on the value of the Fund's average daily net assets. The Company does not compensate FS&C for services provided to the Fund. As of December 31, 2007, Company employees participating in the Company's 401(k) Savings Plan had allocated \$25.3 million for investment in the Fund, representing 9% of the total amount invested in the Company's 401(k) Savings Plan.

Following its review of the relevant facts and circumstances, the Nominating & Corporate Governance Committee determined that the transactions involving Mr. Sarofim and FS&C were entered into and maintained on terms no less favorable to the Company than could have been negotiated with non-affiliated third parties, concluded that they were consistent with the best interests of the Company and its shareholders, and ratified the transactions under the Company's Policy on Related Person Transactions.

Director Independence

To assist in its determination of director independence, the Board of Directors has adopted categorical standards (Director Independence Standards) consistent with Section 303A of the Listed Company Manual (NYSE Listing Standards) of the NYSE. The Director Independence Standards are posted under *Governance* on the Company's website at www.unitrin.com. Under the Director Independence Standards, a director is not independent unless the director and his or her immediate family members meet the independence requirements under the NYSE Listing Standards and applicable SEC rules.

The Director Independence Standards incorporate by reference the relationships listed in the NYSE and SEC independence rules. In addition, the Director Independence Standards define four specific types of relationships as categorically immaterial. Two of these types of relationships involve an organization or entity that either received charitable contributions from the Company or engaged in transactions with the Company, in either case to the extent

the annual amounts involved did not exceed \$120,000. The other two types of relationships

Table of Contents

are: (i) status as an insurance policyholder of a Company subsidiary in the ordinary course of business of the subsidiary on terms no more favorable to the director than those applicable to policies with unaffiliated third parties or those generally available to Company employees; and (ii) the receipt by a director of administrative support or retirement compensation for prior service from a former employer of such director that has a business relationship with the Company. The Board of Directors believes that these specified types of relationships would not affect or influence the Company's business relationships or create a direct or indirect material interest in the Company's business transactions on the part of a director.

In connection with its annual independence assessment, the Board of Directors reviewed the applicable independence rules and the factual information derived from the questionnaires and affirmations completed by the individual directors and other available information. The Board of Directors examined certain relationships between particular directors and the Company or other entities with which the Company has business dealings from time to time, and concluded that all such relationships were categorically immaterial under the Director Independence Standards. Based on its review and discussion, the Board of Directors affirmatively determined that, under the NYSE Listing Standards, applicable SEC rules, and the Director Independence Standards, the majority of the members of the Board of Directors is independent, and that Messrs. Annable, Fites, Geoga, Hedlund, Johnston and Kauth and Ms. Ziegler are each independent and have no material relationships with the Company.

Meetings and Committees of the Board of Directors

The Company's Board of Directors met four times during 2007.

The Board of Directors has four committees: the Executive Committee, the Audit Committee, the Compensation Committee and the Nominating & Corporate Governance Committee. The following table shows Board committee membership and the number of meetings held in 2007:

Executive Committee	Audit Committee	Compensation Committee	Nominating & Corporate Governance Committee
James E. Annable	Douglas G. Geoga	James E. Annable *	James E. Annable
Jerrold V. Jerome *	Reuben L. Hedlund	Donald V. Fites	Donald V. Fites
Fayez S. Sarofim	William E. Johnston, Jr. *	Douglas G. Geoga	Reuben L. Hedlund *
Donald G. Southwell	Wayne Kauth	William E. Johnston, Jr.	Ann E. Ziegler
Richard C. Vie 1 meeting	Ann E. Ziegler 9 meetings	Wayne Kauth 4 meetings	4 meetings
held in 2007 **	held in 2007	held in 2007	held in 2007

* Committee Chairman

** In addition, the Executive Committee took action by unanimous consent in lieu of meetings four times in 2007.

Under the Company's Corporate Governance Guidelines, directors are expected to attend Board meetings and meetings of the Board committees on which they serve. In 2007, each director attended at least 75% of the meetings of the Board of Directors and Board committees

Table of Contents

on which such director served. Under the Company's Policy on Director Attendance at Annual Meetings, all directors are expected to attend annual meetings of the Company's shareholders unless unavoidable obligations or other circumstances prevent their attendance. Each of the directors attended the 2007 Annual Meeting of Shareholders.

The non-management members of the Board of Directors meet regularly in executive session. The Chairman of the Nominating & Corporate Governance Committee presides at these executive sessions.

The following is a description of each of the four Board committees:

Executive Committee May exercise all powers and authority of the Board of Directors in the management of the business of the Company except for:

certain powers which, under Delaware law, may be exercised only by the full Board of Directors; and

such other powers as may be granted to other committees by resolution of the Board of Directors or as defined in the charters of such committees.

Audit Committee Assists the Board of Directors in fulfilling its oversight responsibilities with respect to:

the integrity of the Company's financial statements;

the Company's compliance with legal and regulatory requirements;

the independent registered public accountant's qualifications, independence and performance; and

the performance of the Company's internal audit function.

The Audit Committee is a separately-designated standing audit committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. Among other things, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Company's independent registered public accountant, including prior approval of the audit engagement fees and terms.

The Board of Directors has determined that each member of the Audit Committee is independent and financially literate in accordance with the NYSE Listing Standards, that each member of the Audit Committee meets the independence requirements for audit committee membership under the SEC rules, and that Mr. Johnston, Chairman of the Audit Committee, is qualified as an audit committee financial expert under the SEC rules. The Audit Committee Charter is posted under *Governance* on the Company's website at www.unitrin.com.

Compensation Committee Assists the Board of Directors in fulfilling its responsibilities relating to:

overseeing the compensation of the Company's executive officers, operating company presidents and group executives;

Table of Contents

reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer's compensation, evaluating the Chief Executive Officer's performance and compensation in light of such goals and objectives, and setting the Chief Executive Officer's compensation based on such evaluation;

reviewing and making recommendations to the Board of Directors regarding the Company's incentive compensation and equity-based compensation plans;

reviewing and approving the base salary, bonus and equity award components of the annual compensation of the executive officers, operating company presidents and group executives;

setting performance criteria for bonuses under the Unitrin, Inc. Incentive Bonus Plan (*Incentive Bonus Plan*);

reviewing and approving any employment agreements or severance or change-in-control arrangements involving any of the Company's executive officers;

administering the Company's 1990, 1997 and 2002 Stock Option Plans (*Employee Stock Option Plans*), 1995 Non-Employee Director Stock Option Plan (*Director Stock Option Plan*) and 2005 Restricted Stock and Restricted Stock Unit Plan (*Restricted Stock Plan*);

approving award recipients and determining the terms of awards pursuant to the 2002 Employee Stock Option Plan and the Restricted Stock Plan (no new grants may be awarded under the 1990 or 1997 Stock Option Plans); and

reviewing and making recommendations to the Board of Directors on director compensation.

The Board of Directors has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. The Compensation Committee Charter is posted under *Governance* on the Company's website at www.unitrin.com. Additional information about the Compensation Committee procedures is provided below in the section entitled *Executive Compensation*.

Nominating & Corporate Governance Committee Assists the Board of Directors in fulfilling its responsibilities with respect to:

identifying potential candidates qualified to become Board members and recommending director nominees to the Board in connection with each annual meeting of shareholders;

developing and assessing principles and guidelines for corporate governance, business conduct and ethics and recommending their adoption and periodic revision to the Company's Board of Directors;

leading the Board of Directors in its annual review of the Board's performance; and

recommending director nominees to the Board for each Board committee.

Table of Contents

The Board of Directors has determined that each member of the Nominating & Corporate Governance Committee is independent in accordance with the NYSE Listing Standards. The Nominating & Corporate Governance Committee Charter is posted under *Governance* on the Company's website at www.unitrin.com.

Selection of Board Nominees

In accordance with its charter, the Nominating & Corporate Governance Committee recommends a full slate of director nominees for election each year at the Annual Meeting. As needed to fill actual or anticipated vacancies on the Board of Directors, the Nominating & Corporate Governance Committee recruits, screens and interviews candidates, and conducts inquiries into each candidate's background, qualifications and independence in accordance with the NYSE Listing Standards and SEC rules. The Nominating & Corporate Governance Committee may retain search firms to identify director candidates.

The Nominating & Corporate Governance Committee evaluates potential nominees for director against the following standards:

The highest ethical standards and integrity.

Must be willing and able to devote sufficient time to the work of the Board.

Must be willing and able to represent the interests of shareholders as a whole rather than those of special interest groups.

No conflicts of interest that would interfere with performance as a director.

A reputation for working constructively with others.

A history of achievement at a high level in business or the professions that reflects superior standards.

Possess qualities that contribute to the Board's diversity.

The Company will consider director recommendations by shareholders that are made in writing, addressed to Unitrin's Secretary, and include: (a) the candidate's name, address and telephone number; (b) a brief biographical description of the candidate, including his or her occupation for the last five years and a statement of the qualifications of the candidate to serve as director; and (c) the candidate's signed consent to serve as a director if elected and to be named in the Company's proxy statement as a nominee. The Nominating & Corporate Governance committee will consider

shareholder recommendations using the same standards it uses to assess all other candidates for director.

Compensation Committee Interlocks and Insider Participation

The Board of Directors has determined that each member of the Compensation Committee is independent in accordance with the NYSE Listing Standards. The Compensation Committee consists of James E. Annable, Donald V. Fites, Douglas G. Geoga, William E. Johnston, Jr. and Wayne Kauth. None of these individuals is a current or former

Table of Contents

officer or employee of the Company or any of its subsidiaries, and none of these individuals had a relationship with the Company during 2007 which required disclosure by the Company under the SEC rules on transactions with related persons. Related person transactions and the independence of the non-employee members of the Company's Board of Directors are discussed in more detail above under the headings "Related Person Transactions" and "Director Independence."

No executive officer of the Company has served as a member of the compensation committee, any other board committee, or the board of directors, of another entity that had an executive officer who served on the Company's Compensation Committee or Board of Directors.

Table of Contents

AUDIT COMMITTEE REPORT

This report concerns the Audit Committee and its activities regarding the Company's financial reporting and auditing processes.

The Audit Committee consists of the following members of the Company's Board of Directors: William E. Johnston, Jr. (Chairman), Douglas G. Geoga, Reuben L. Hedlund, Wayne Kauth and Ann E. Ziegler.

The role of the Audit Committee is one of oversight, and does not include conducting audits or determining whether the financial statements are complete and accurate. The responsibility for the completeness and accuracy of the Company's financial statements and the assessment of the effectiveness of the Company's internal control over financial reporting rests with the Company's management. It is the responsibility of the Company's independent registered public accountant to perform an audit of, and to express an opinion on, whether the Company's annual financial statements are fairly presented in conformity with accounting principles generally accepted in the United States of America and the effectiveness of the Company's internal control over financial reporting. The responsibility of the Audit Committee is to review and monitor these processes on behalf of the Board of Directors.

In this context, the Audit Committee has reviewed and discussed with management and Deloitte & Touche LLP (Deloitte & Touche), the Company's independent registered public accountant for the fiscal year ended December 31, 2007, the Company's audited financial statements and the effectiveness of the Company's internal control over financial reporting. The Audit Committee has also discussed with Deloitte & Touche the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees). The Audit Committee has received from and discussed with Deloitte & Touche its written disclosures and letter regarding its independence required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) and has discussed with Deloitte & Touche its independence. The Audit Committee has considered whether the provision of the non-audit services by Deloitte & Touche described in this Proxy Statement is compatible with maintaining the independence of Deloitte & Touche.

In reliance on these reviews and discussions, and the report of Deloitte & Touche as the Company's independent registered public accountant, the Audit Committee recommended to the Board of Directors that the Company's audited financial statements for the year ended December 31, 2007 be included in the Company's Annual Report on Form 10-K for that year for filing with the SEC.

AUDIT COMMITTEE OF THE BOARD
OF DIRECTORS OF UNITRIN, INC.

William E. Johnston, Jr. *Chairman*

Douglas G. Geoga

Reuben L. Hedlund

Wayne Kauth

Ann E. Ziegler

Table of Contents**INDEPENDENT REGISTERED PUBLIC ACCOUNTANT****Independent Registered Public Accountant Fees for 2007 and 2006**

Deloitte & Touche, a registered public accountant with the Public Company Accounting Oversight Board, served as the Company's independent registered public accountant for and during the years ended December 31, 2007 and 2006. The following table provides information regarding the fees for professional services provided by Deloitte & Touche for 2007 and 2006.

	2007	2006
Audit Fees	\$ 3,690,123	\$ 3,584,560
Audit-Related Fees	36,500	
Tax Fees		
All Other Fees		10,000
Total Fees	\$ 3,726,623	\$ 3,594,560

Audit Fees in 2007 included fees for: (a) the audit of the Company's annual financial statements and to provide an opinion on the effectiveness of the Company's internal control over financial reporting; (b) the review of the financial statements included in the Company's quarterly reports on Form 10-Q; and (c) other services normally provided by the independent registered public accountant, including services in connection with regulatory filings by the Company and its subsidiaries for the 2007 fiscal year. Audit-Related Fees in 2007 represent fees incurred to audit one of the Company's employee benefit plans and fees to review auditor workpapers in connection with the Company's pre-acquisition due diligence reviews.

Audit Fees in 2006 included fees for: (a) the audit of the Company's annual financial statements and to provide an opinion on the effectiveness of the Company's internal control over financial reporting and an opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting; (b) the review of the financial statements included in the Company's quarterly reports on Form 10-Q; and (c) other services normally provided by the independent registered public accountant, including services in connection with regulatory filings by the Company and its subsidiaries for the 2006 fiscal year.

All Other Fees in 2006 represent a fee related to the issuance of an independent actuarial opinion required by a state insurance department in connection with the initial licensing of one of the Company's insurance subsidiaries in the state.

Pre-Approval of Services

Under its charter, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accountant, including the prior approval of audit engagements and all permitted non-audit engagements of the independent registered public accountant. Prior approval of non-audit

Table of Contents

services may be delegated to the Chairman of the Audit Committee. All services provided to the Company by Deloitte & Touche in 2007 and 2006 were pre-approved by the Audit Committee.

PROPOSAL 2:

RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANT

The Audit Committee has selected Deloitte & Touche as the Company's independent registered public accountant for 2008, and the Board is asking shareholders to ratify that selection. Under applicable laws, rules and regulations, the Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the Company's independent registered public accountant. The Board believes that shareholder ratification of the appointment of the independent registered public accountant, while not legally required, represents good governance practice in light of the significance of the independent registered public accountant's role in the process of ensuring the integrity of the Company's financial statements.

The affirmative vote of a majority of the outstanding Common Stock having voting power present, in person or by proxy, at the Annual Meeting is required to ratify the selection of Deloitte & Touche as the Company's independent registered public accountant for the 2008 fiscal year. In the event that the appointment is not ratified, the Audit Committee will consider whether the appointment of a different independent registered public accountant would better serve the interests of the Company and its shareholders. Despite shareholder ratification, the Audit Committee may appoint a new independent registered public accountant at any time if it determines in its sole discretion that such appointment is appropriate and in the best interests of the Company and its shareholders.

It is expected that representatives from Deloitte & Touche will be present at the Annual Meeting. Such representatives may make a statement if they desire to do so and will be available to respond to appropriate questions.

Recommendation of the Board of Directors

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU

VOTE *FOR* APPROVAL OF PROPOSAL 2.

UNITRIN EXECUTIVE OFFICERS

The following narratives summarize the business experience over at least the last five years of the Company's executive officers, other than Messrs. Vie, Southwell and Draut, whose business experience is described above in the section entitled Business Experience of Nominees. The executive officers serve at the pleasure of the Board of Directors.

David F. Bengston, 59, was elected a Vice President of the Company in April 1992, and served as Treasurer between February 1990 and April 1992.

Table of Contents

John M. Boschelli, 39, was elected a Vice President of the Company in May 2007 and Treasurer in February 2002. Before becoming Treasurer, Mr. Boschelli served as the Assistant Treasurer of the Company's wholly-owned subsidiary, Unitrin Services Company, a position he held from December 1997 through April 2002.

Edward J. Konar, 51, was elected a Vice President of the Company in January 2001. Mr. Konar has served as Group Executive since January 2008, and as Vice President of Corporate Administration since October 2002. Mr. Konar joined the Company in March 1990 as Tax Director and served in that capacity until October 2002.

Scott Renwick, 56, was elected a Senior Vice President of the Company in February 2002, and has served as General Counsel since February 1999, Secretary since May 1996, and was Counsel between January 1991 and February 1999.

Richard Roeske, 47, was elected a Vice President of the Company in January 2001, and has served as Chief Accounting Officer since August 1999. Mr. Roeske joined the Company in January 1990 as Manager of External Financial Reporting. He became the Company's Assistant Controller in April 1992 and Corporate Controller in February 1997.

EXECUTIVE COMPENSATION

Discussion of Compensation Committee Governance

Compensation Committee Authority and Delegation

The scope and authority of the Compensation Committee is described in the Corporate Governance section above and is set forth in the committee's charter, which is posted under *Governance* on the Company's website at www.unitrin.com.

The Compensation Committee has the sole authority to retain outside legal, accounting or other advisors, including compensation consultants to assist the committee in its evaluation of executive compensation, and to approve related fees and other terms of retention of such advisors. Under the terms of its charter, the Compensation Committee may delegate to its subcommittees such power and authority as it deems appropriate, except where delegation is inconsistent with applicable legal and regulatory requirements. However, the Compensation Committee does not have any subcommittees, and no such delegations have been made.

Under the terms of the Restricted Stock Plan, the Compensation Committee may delegate administrative duties to Company officers and specified categories of other individuals. Under the terms of the Employee Stock Option Plans and the Restricted Stock Plan, the Board of Directors may by resolution authorize one or more officers of the Company to designate recipients for awards under the plans, and the size, terms and conditions for such awards, but no authorized officer may make such an award to himself or herself or to any of the Company's officers who are required to file reports of their beneficial ownership of shares of Common Stock under Section 16 of the Exchange Act (Section 16 Officers). Any such Board resolution under the Restricted Stock Plan must specify an aggregate number of shares

Table of Contents

of Common Stock that may be awarded under such delegated authority and require any authorized officers to report periodically to the Compensation Committee regarding the nature and scope of any awards granted pursuant to such delegated authority. More information about delegations and awards thereunder which have been made under these plans is included under the heading **Equity-Based Compensation Granting Process** in the Compensation Discussion and Analysis section below.

Compensation Committee Process

The Compensation Committee performs an annual review of the Company's executive compensation policies, practices and programs, and of the compensation paid to the Company's executive officers and directors. The evaluation generally begins with an offsite meeting of the Compensation Committee held in the last quarter of each year without the presence of management. At its first meeting of each year, typically held in late January or early February, the Compensation Committee makes its determinations as to the current year base salary and equity-based compensation awards and prior year bonuses to be paid to the Company's executive officers, operating company presidents and group executives, as well as any changes to the director compensation program. The Compensation Committee also sets the formulas under the Incentive Bonus Plan for the current year and approves equity-based compensation awards to other employees under the Employee Stock Option Plans and the Restricted Stock Plan.

Compensation Consultant

The Compensation Committee engaged the services of Hewitt Associates (Hewitt) as its independent compensation consultant in connection with its deliberations on executive officer and director compensation for 2007. The Compensation Committee directed Hewitt to provide the committee with benchmarking data based on comparable companies in the industry for the executive officer and operating company president positions. Hewitt also provided to the Committee data and practices with respect to the pay of a non-CEO executive chairman and outside director compensation, and also advised the committee on current trends and developments related to executive compensation matters in the context of annual shareholder meetings and proxy disclosures. The involvement of Hewitt in the 2007 executive compensation decision-making process is described in more detail in the discussion under the heading **Benchmarking Analysis** in the Compensation Discussion and Analysis section below.

The Role of Executive Officers

The Chief Executive Officer plays an important role in the annual compensation decision-making process for the executive officers of the Company other than himself and the Chairman, by providing performance assessments and making compensation recommendations to the Compensation Committee. The information provided by the Chief Executive Officer includes annual recommendations regarding any changes to the annual base

Table of Contents

salary and the number of options to be granted to the other members of senior management and the selection and weighting of the specific performance criteria under the Incentive Bonus Plan for the Company and individual business units.

The Chief Financial Officer is also involved in the annual compensation decision-making process for executive officers who report directly to him, by providing performance assessments and making compensation recommendations to the Chief Executive Officer for consideration by the Compensation Committee. Additionally, at the request of the Compensation Committee, the Company's management provides data to the committee's independent compensation consultant about the Company's equity compensation programs, employee benefit and retirement plans and the compensation and stock holdings of the Company's executive officers.

In addition to considering the benchmarking data provided by Hewitt, the Compensation Committee, relies on the recommendations provided by the Chief Executive Officer with regard to the compensation of executive officers other than himself and the Chairman, and discusses the rationale and strategy involved in determining these recommendations in meetings with the Chief Executive Officer. The Committee views its role with regard to the compensation of these other executive officers as collaborative, giving due consideration to the Chief Executive Officer's knowledge and judgment in determining the recommended levels of their compensation.

Neither the Chief Executive Officer nor any other executive officer makes recommendations or is otherwise involved in the process of analyzing and determining compensation for the non-employee members of the Board of Directors. Non-employee director compensation is determined exclusively by the Board of Directors, after considering the recommendation of the Compensation Committee.

Compensation Discussion and Analysis

Overview of the Company's Executive Compensation Program

The Company maintains an uncomplicated executive compensation program with bonus and long-term incentive plans designed to reward its executives for increasing shareholder value. The basic objective of the program is to attract, retain and motivate the performance of the Company's executives by providing compensation packages that include reasonable and competitive direct compensation. The Company's executive officers receive few, modest perquisites, and participate in employee health and welfare benefits and retirement plans generally consistent with those provided to other full-time salaried employees.

The fundamental and historical principle underlying the Company's executive compensation program is that executive compensation should be structured so as to focus management on increasing shareholder value. The Company's

long-standing philosophy embodies this principle and emphasizes long-term compensation linked to Company and stock performance, thereby aligning the interests of the Company's management and shareholders. The Compensation Committee has carried out this basic Company philosophy by providing

Table of Contents

the executive officers with programs that tie a substantial portion of compensation to the long-term appreciation in the value of the Company's stock.

Historically, the alignment of management and shareholder interests has been achieved primarily through the Company's employee stock option program, which facilitates turning key executives into shareholders of the Company. The Compensation Committee strongly believes that stock options provide the most effective means of motivating shareholder-focused behavior by key executives, since the compensation associated with stock options is truly at risk, i.e., stock options ultimately have value to the executive only to the extent that the Company's share price appreciates after the grant date. The restorative option feature of the Company's stock option plans has been instrumental in encouraging shareholdings by its executive officers. (The restorative option feature is explained in more detail below on pages 36 and 42 under the headings "Equity-Based Compensation Granting Process" and "Grants of Plan-Based Awards", respectively.)

Allocation of Specific Elements of Compensation

To enable the Company to successfully compete for talent and retain its valued executives, the Company provides a package of compensation that is generally competitive with the marketplace, and consists of a variety of elements emphasizing long-term and contingent rewards linked to Company performance. The Compensation Committee believes that the success of the program is illustrated by the fact that there has been substantially no turnover among the Company's executive officers in its eighteen-year history. The Company's executive compensation consists principally of cash salary, cash bonus and stock options. Although grants under the Restricted Stock Plan are generally not included as a basic component of annual executive officer compensation, they are considered by the Company as an additional compensation tool available to provide flexibility in response to changing circumstances and specific developments.

There are no fixed formulas in the Company's executive compensation program which allocate compensation between cash and non-cash compensation, or determine the mix or levels of compensation, except in connection with formula bonuses under the Incentive Bonus Plan. Rather, the program includes a range of tools aimed at providing competitive advantage and flexibility to respond to developments within or otherwise affecting the Company from time to time. Consistent with its overall program objectives and underlying philosophy, as described above, the Company emphasizes the compensation elements linked most closely to increasing shareholder value.

Providing a competitive salary is important in achieving the Company's objective of attracting and retaining superior executive talent. Salary generally reflects an individual's responsibilities and experience as well as competitive marketplace factors. The bonus component of compensation furthers the fundamental principle of linking compensation to Company performance, particularly growth and profitability, two metrics which the Company believes are critical to driving the creation of shareholder value. Equity-based compensation is considered a key source of contingent compensation intended to align management incentives with shareholder interests.

Table of Contents

Compensation Strategy and Analysis

General Strategy

In its deliberations on executive compensation, the Compensation Committee considers cash and equity-based compensation in light of its consistency with the Company's underlying principles and objectives, the total value to individual executives and the cost to the Company. Executive compensation decisions incorporate the following three-part strategy by the Compensation Committee:

Reward results primarily through long-term incentives with contingent value based on stock performance;

Consider, with the assistance of its independent compensation consultant, industry data on levels of executive compensation for certain specific positions at similar companies in the industry to assess the extent to which the Company's practices may vary from industry practices and determine whether any noted variances are reasonable, appropriate and purposefully designed to successfully attract and retain skilled executives in a highly competitive marketplace; and

Obtain a clear understanding of the business strategies and objectives of the Chief Executive Officer and other members of senior management, and their reasoning and recommendations for motivating their key subordinates. The Compensation Committee believes it is important and appropriate to give serious consideration to the views of senior management who run the Company and supervise its key managerial employees.

Benchmarking Analysis

The background work for the compensation decisions made in the first quarter of 2007 was performed at the end of 2006. In the course of its executive compensation review for 2007, the Compensation Committee considered a benchmarking analysis of the compensation of the Named Executive Officers. The compensation components in the analysis, which was provided by Hewitt, included base salary, actual bonus, target bonus, long-term incentives, and total compensation. In addition, the Committee considered a benchmarking analysis of the compensation of Unitrin's operating company presidents.

Two different groups of comparator companies were utilized in the Hewitt compensation benchmarking analysis. One comparator group (Proxy Group) consisted of eleven publicly-traded companies in the insurance industry with profiles similar to the Company's based on information disclosed in their proxy statements. Most of the companies included in the Proxy Group had a majority of their operations in the property and casualty insurance sector of the insurance industry and revenues, assets and market capitalization at levels comparable to those of the Company. The following

companies were included in the Proxy Group: W. R. Berkley Corporation; Cincinnati Financial Corporation; HCC Insurance Holdings, Inc.; Leucadia National Corporation; Markel Corporation; Ohio Casualty Corporation; Old Republic International Corporation; Progressive Corporation; Selective Insurance Group, Inc.; Torchmark Corporation; and White Mountains Insurance Group, Ltd.

Table of Contents

The chief executive officer and other executive officer positions were matched for the Proxy Group analysis and were based on compensation data disclosed in proxy statements filed in 2006. As reported in such proxy statements, bonus data included in the analysis were actual bonuses earned in 2005 and paid in 2006. Long-term incentives were annualized and valued using Hewitt's valuation methodology.

The second comparator group (Custom Insurance Group) included in the Hewitt analysis encompassed a custom group of thirty-seven companies derived from a proprietary Hewitt database of the insurance industry, which includes many privately-held corporations. The large number of companies in this group enabled Hewitt to better identify positions within those companies that are comparable to Unitrin's operating company presidents, whose blended responsibilities make such a matching process difficult. The following companies were included in the Custom Insurance Group:

- | | |
|--|---|
| AEGON USA, Inc. | Health Net |
| Aetna Inc. | Humana Inc. |
| Alfa Corporation | Kaiser Permanente |
| American Family Insurance Group | Liberty Mutual Insurance Group |
| American International Group, Inc. | Lincoln National Corporation |
| American National Insurance Company | Mercury Insurance |
| American United Life Insurance Co | Metropolitan Life Insurance Company |
| Aon Corporation | Nationwide Insurance Companies |
| Arkansas Blue Cross and Blue Shield | The Northwestern Mutual Life Insurance Company |
| The Auto Club Group Michigan | Pacific Life Insurance Co. |
| Blue Cross and Blue Shield of South Carolina | Pennsylvania National Mutual Casualty Insurance Company |
| Blue Cross Blue Shield of Kansas City | |
| Blue Shield of California | PMA Capital Corporation |
| The Chubb Corporation | The PMI Group, Inc. |
| CIGNA Corporation | Protective Life Corporation |
| CNA Financial Corporation | SAFECO Corporation |
| Coventry Health Care | Sentry Insurance |
| Fireman's Fund Insurance Company | State Farm Insurance Companies |
| The Hartford Financial Services Group, Inc. | Wellpoint, Inc. |

The Custom Insurance Group analysis compared the compensation of Unitrin's Chief Executive Officer and its operating company presidents with the compensation for comparable positions at companies within the Custom Insurance Group. Because of the variance in size among companies within the Custom Insurance Group, compensation data were selected from companies with the same percentile ranking as the Company's ranking, based in each case on assets. The Company ranked at the 33rd percentile of the Custom Insurance Group based on assets. Accordingly, compensation data were extracted from other companies in the 33rd percentile. Long-term incentives were annualized and valued using Hewitt's valuation methodology.

The Compensation Committee utilized the benchmarking data as a test of the reasonability of the compensation paid to the Company's Chief Executive Officer, other executive officers, and operating company presidents. All of the benchmarking data were subjectively considered by the Compensation Committee as one point of reference in its deliberations on compensation levels for

Table of Contents

these executives, along with other factors such as Company and individual performance. In evaluating the benchmarking data, the Compensation Committee did not follow a rigid process, did not have a specific pay objective in evaluating the benchmarking data (such as, for example, targeting different elements of compensation at the median), and did not utilize the data as part of specific formulas when making compensation determinations for these executives.

The Compensation Committee considered the benchmarking analysis as a means of identifying any outliers and determining whether the levels of compensation provided to the Chief Executive Officer, other executive officers, and operating company presidents are fair, reasonable and within appropriate ranges in comparison to comparable companies. The Compensation Committee believes that the Company's executive compensation program is competitive with marketplace practices and effective in enhancing shareholder value.

Annual Determination of Specific Compensation

The determination of the specific amount of salary and stock options to be awarded to a particular executive officer depends in substantial part on the nature and scope of the responsibilities of the individual's job and the quality and impact of the individual's performance and contributions.

Salary

In determining the amount of base salary for the Chief Executive Officer for 2007, the Compensation Committee gave substantial consideration to Mr. Southwell's new responsibilities as the Company's Chief Executive Officer, and to the Company's performance in light of the key role he played in his prior position as Chief Operating Officer. The Committee also took into account the other components of Mr. Southwell's total compensation and the benchmarking analysis provided by Hewitt.

In determining the amount of base salary for the Chairman for 2007, the Compensation Committee considered Mr. Vie's revised role and responsibilities following the relinquishment of his duties as Chief Executive Officer and the data provided by Hewitt for a non-CEO executive chairman position. The Compensation Committee reduced Mr. Vie's base salary to better correspond to his new role as an advisor to the Company with limited involvement in the Company's policy-making and operational oversight.

In reviewing the amount of base salary for each of the other executive officers for 2007, the Compensation Committee considered the recommendations made by the Chief Executive Officer based on his assessment of the individual's job performance and contributions, relevant benchmarking analysis, and observations of the Committee regarding the individual's job performance. The executive officer performance assessments were subjective and did not entail

measurement against specific goals or other objective factors.

Formula Bonuses

The Named Executive Officers other than Mr. Vie and Mr. Roeske are eligible for annual cash bonuses under the Company's Incentive Bonus Plan based on formulas set by the Compensation Committee in the form of financial measures of Company performance. The

Table of Contents

Incentive Bonus Plan is an annual cash incentive program used to motivate and reward eligible executives of the Company and its subsidiaries for achieving the Company's performance objectives. The Incentive Bonus Plan is designed to qualify as a performance-based compensation program under Section 162(m) of the Internal Revenue Code of 1986, as amended, and the regulations and interpretations promulgated thereunder (the Internal Revenue Code) to preserve the Company's federal income tax deduction for bonuses paid thereunder. The Incentive Bonus Plan was approved by the Company's shareholders at the 2004 Annual Meeting of the Shareholders.

The Compensation Committee made the decision to discontinue Mr. Vie's eligibility for participation in the Incentive Bonus Plan beginning in 2007 following the relinquishment of his duties as Chief Executive Officer. The Committee determined that, in light of Mr. Vie's more limited role in the Company's day-to-day operations as executive Chairman, the bonus component of his compensation would no longer be appropriate.

To ensure the absence of any actual or potential conflict of interest, or even the appearance of any such conflict of interest, under the Incentive Bonus Plan and related Company policy, the Company's principal accounting officer and controller, and certain other financial employees involved in the preparation of the Company's financial statements or the process of setting the Company's insurance reserves, are not eligible to participate in the Incentive Bonus Plan in light of their key roles in these processes. As the Company's principal accounting officer and controller, Mr. Roeske is therefore not eligible for bonuses under the Incentive Bonus Plan. For information about the discretionary bonus provided to Mr. Roeske, see the discussion below under the heading Discretionary Bonuses.

The award of a bonus under the Incentive Bonus Plan for any particular year is conditioned on the attainment of the relevant performance criteria as established by the Compensation Committee the previous year. The Committee makes an annual selection of the specific performance criteria applicable for the next year from a range of performance indicators set forth in the Incentive Bonus Plan. Once established by the Compensation Committee, the performance criteria for a particular year cannot be changed by the Committee or the Company. Such criteria may (but need not) differ for each participant in the Incentive Bonus Plan, but must be based on one or more of the following factors, individually or in combination: operating income of the Company or any of its subsidiaries or operating units; operating earnings per share of the Company; return on revenues, assets or equity; increases in revenues or cash flow; reductions in costs; bad debt experience of the Company's automobile finance business; or the market value of the Company's Common Stock.

In 2007, the selected criteria applicable to the eligible Named Executive Officers related to the increase in revenues and operating income (adjusted and measured as profit margin as described below) of the Company's business units. These particular metrics were chosen because Company management believes, and the Compensation Committee concurs, that they emphasize operational excellence and building healthy businesses and are instrumental in driving increased shareholder value. The 2007 bonus formulas heavily weighted profits, while

Table of Contents

recognizing the importance of revenue growth. For 2007, the eligible Named Executive Officers could potentially have received cash bonuses of up to 70% of their base salaries based on formulas that were adopted by the Compensation Committee at its February 2007 meeting.

The bonus percentage that was applied against base salary for the eligible Named Executive Officers of the Company was comprised of two parts. The first part was growth in 2007 in insurance earned premium revenues and automobile finance revenues, compared to 2006, expressed as a percentage (Revenue Growth Component). The second part was adjusted net operating income as a percentage of insurance premium and automobile finance revenues (Profit Margin Percentage), multiplied by a bonus factor that varied from 6 to 12 depending on the achievement of certain levels of performance (Profit Margin Component). In calculating Profit Margin Percentage, net operating income from both continuing and discontinued operations was adjusted to exclude net realized investment gains, equity in net income of the Company's investee (Intermec, Inc.), investment income on capital, and various other non-operating revenues or expenses. The total bonus percentage was the sum of the Revenue Growth Component and the Profit Margin Percentage. No bonuses were to be payable if the Profit Margin Percentage was below 1% or if the Revenue Growth Component was lower than a negative 10%.

At its meeting in February 2008, the Compensation Committee determined the extent to which performance criteria for 2007 under the Incentive Bonus Plan had been met and awarded bonuses to eligible executive officers in accordance with the plan. The amounts paid to the eligible Named Executive Officers in 2008 for 2007 performance are disclosed below in the Non-Equity Incentive Plan Compensation column of the SUMMARY COMPENSATION TABLE FOR 2007.

Discretionary Bonuses

As noted above, Mr. Roeske is not eligible for bonuses under the Incentive Bonus Plan in light of his key role as Chief Accounting Officer in the preparation of the Company's financial statements. Mr. Roeske may be awarded a discretionary bonus by the Compensation Committee based on the subjective evaluation of the Compensation Committee and members of senior management with regard to his performance and specific recommendations provided by the Company's Chief Executive Officer that take into account his individual performance and contributions to the Company as well as competitive job market factors.

In determining whether to award Mr. Roeske a discretionary bonus for 2007, and the amount of any such bonus, the Compensation Committee considered the recommendation provided by the Chief Executive Officer, which took into account such factors as Mr. Roeske's particular contributions over the year and whether his overall compensation with or without a bonus would be fair and appropriate as a member of the senior management team, as well as the Committee's own assessment of Mr. Roeske's performance. At its meeting in February 2008, the Compensation Committee awarded a discretionary bonus to Mr. Roeske.

Table of Contents

The amount paid to Mr. Roeske in 2008 for 2007 performance is disclosed below in the Bonus column of the SUMMARY COMPENSATION TABLE FOR 2007.

Discretionary cash bonuses are occasionally awarded by the Compensation Committee to other executive officers in addition to formula bonuses under the Incentive Bonus Plan. Mr. Roeske was the only Named Executive Officer awarded a discretionary bonus for 2007.

Stock Options

As noted above, stock options are an integral part of the Company's compensation program. The Compensation Committee pays close attention to share retention resulting from the exercise of option awards previously granted to the Company's executive officers, and includes share retention as one of the factors considered in determining the appropriate award level for new equity grants. However, the Committee does not utilize formulas in making such determinations, other than to assess compliance with the Stock Ownership Policy described below. The Committee believes that the Company's stock option program, including its restorative option feature, has played the principal role in the acquisition of significant levels of Company stock held by its executive officers, thereby better aligning the interests of the Company's management and shareholders.

In considering the number of stock options to award to a particular executive officer, the Compensation Committee also takes into account the subjective evaluation of the Committee or the Chief Executive Officer as to the individual's ability to influence the long-term growth and profitability of the Company, given his or her particular job responsibilities. In light of his overall responsibility for the Company's operations and financial results, the Chief Executive Officer would ordinarily be deemed to have the greatest ability to influence the long-term growth and profitability of the Company.

In determining the size of the 2007 annual option grant to the Chief Executive Officer, the Compensation Committee focused on incenting Mr. Southwell to increase his shareholdings in the Company to better align his interests with those of the other shareholders, and on establishing his leadership role with regard to share ownership by executive officers. The Committee considered the number of options previously awarded to, and shares already held by, Mr. Southwell, his accountability for the Company's performance in both his new and prior positions with the Company, and the benchmarking analysis provided by Hewitt.

The Compensation Committee ended Mr. Vie's participation in the Company's long-term compensation programs in 2007. In making the decision to grant him no further stock options, the Compensation Committee considered Mr. Vie's more limited advisory role as the Company's executive Chairman, the prior option grants he had been awarded during his fourteen-year tenure as Chief Executive Officer and in previous positions with the Company and his current stockholdings in the Company. In reviewing his prior awards and noting his significant holdings of Company stock,

the Compensation Committee concluded that the option program had accomplished its goals with regard to aligning the interests of Mr. Vie and the other shareholders.

Table of Contents

The size of the option grant for each of the other executive officers was determined by the Compensation Committee after considering recommendations made by the Chief Executive Officer, the number of options previously granted to, and shares already held by, such officer.

Stock Ownership Policy

Consistent with its fundamental executive compensation principles, Company philosophy has always encouraged long-term ownership of the Company's Common Stock by its executive officers, although mandatory levels of stock ownership were not imposed prior to 2006. The Company maintains a Stock Ownership Policy that applies to the Company's non-employee directors and specified executive officers ("Designated Officers"). The required ownership amounts applicable to the Designated Officer range from: (i) the lesser of 5,000 or the number of shares valued at the officer's annual base salary; to (ii) the lesser of 50,000 or the number of shares valued at three times the officer's annual base salary. More importantly, as noted above, the Compensation Committee closely monitors shareholdings by executive officers and expects them to substantially exceed the formal minimums set forth in the policy. The shareholdings of each of the Named Executive Officers exceeded the minimum levels required under the policy as of December 31, 2007. The shareholdings of the Named Executive Officers represent the following multiples of their respective 2007 Salaries (as shown in the Summary Compensation Table for 2007 on page 40), based on the closing price of a share of Common Stock and the number of shares held as of March 14, 2008: Southwell (4.2); Draut (5.2); Vie (22.5); Renwick (3.4); and Roeske (6.3).

In addition, pursuant to the Stock Ownership Policy, each grant agreement executed after January 31, 2006 between the Company and a Designated Officer imposes a holding period of one year for shares of Common Stock acquired in connection with the exercise of stock options or the vesting of restricted stock, with the exception of shares sold, tendered or withheld to pay the exercise price or settle tax liabilities in connection with such exercise or vesting.

Equity-Based Compensation Granting Process

The Compensation Committee follows an established Company process for the review, approval and timing of grants of equity-based compensation. The Compensation Committee believes that non-discretionary timing is necessary for effective operation of the Company's long-term incentive program, and insists that, with the exceptions noted below, all original equity-based compensation awards occur at predictable cycles, with grant dates scheduled in advance. The Company's practice with regard to timing of equity-based compensation grants is the same for all eligible employees of the Company, including the executive officers.

The Company's predominant practice is to award options and restricted stock at the same time each year following release of its annual earnings and the filing of its Annual Report on Form 10-K with the SEC. The Compensation Committee approves option grants to executive officers at its regular meeting in late January or early February each

year. The dates of regular

Table of Contents

Board and Board committee meetings in a given year, and hence the dates of annual equity-based compensation grants, are typically set in advance by the Board in the middle of the preceding year. Each option grant other than a restorative option grant (as discussed below) is effective on the date that the grant is specifically approved by the Compensation Committee, and the exercise price of such option is the closing price of a share of Common Stock on the effective date.

The Board of Directors has delegated authority to the Chief Executive Officer to grant up to an aggregate total of 100,000 option shares under the 2002 Stock Option Plan in connection with new hires or employee promotions, and up to an aggregate total of 50,000 shares of restricted stock under the Restricted Stock Plan in connection with new hires, provided that such awards are not made to himself or any Section 16 Officer. A total of 60,000 option shares and 9,500 restricted stock shares have been awarded under the delegated authority through 2007. The exercise price of stock option awards granted under the delegated authority is the closing price of a share of Common Stock on the grant date. The Compensation Committee is informed periodically about the awards granted pursuant to the delegated authority. In 2007, no options were granted under the delegated authority, and 7,500 shares of restricted stock were granted under the delegated authority, representing approximately 6% of all shares of restricted stock granted in 2007.

As discussed in more detail below in the narrative under the caption Grants of Plan-Based Awards, the Company's stock option plans provide for automatic grants of restorative options (Restorative Options) to replace shares of previously-owned common stock that an exercising option holder surrenders, either actually or constructively, or are withheld by the Company, to satisfy the exercise price and/or tax withholding obligations relating to the exercise of the underlying option (Underlying Option), so long as certain requirements are met at the time of exercise. Each Restorative Option is granted at the time of the exercise of the Underlying Option. As Restorative Options are granted automatically under the express terms of the option plans and the individual option agreements previously approved by the Compensation Committee, they are deemed to have been approved by the Compensation Committee on their grant dates.

In making his annual option grant recommendations to the Compensation Committee, the Chief Executive Officer follows the established option grant cycle, with the limited exception of infrequent, off-cycle option grants made in connection with key new hires or promotions under the delegated authority mentioned above. The Company's executive officers play no role in the timing of option grants except with regard to such new hire or promotion awards (the timing of which is driven by the particular circumstances of the underlying personnel action), and to Restorative Option grants received by an executive officer (the timing of which is determined by the option holder when he or she decides to exercise the Underlying Option).

Ongoing administration of the Company's equity-based compensation plans is performed by the Company. Following Compensation Committee approval, the Company promptly delivers stock option and restricted stock agreements for signature by the option recipients. All forms of stock option and restricted stock agreements are approved by the Compensation Committee in advance of their initial use.

Table of Contents

Perquisites

Consistent with the Company's fundamental approach to executive compensation, executive officers receive a few, modest perquisites from the Company. Perquisites received by the Named Executive Officers include eligibility for annual physical examinations and membership in certain dining clubs at the Company's cost, payment for spousal travel when accompanying the officer to occasional off-site business meetings when required for bona fide business reasons in accordance with Company policy, and incidental personal use of cell phones, PDAs, computer equipment and other resources provided primarily for business purposes. The Company does *not* provide the Named Executive Officers with certain other commonly provided personal benefits or perquisites, such as country club memberships, financial planning or tax preparation services, personal use of Company-provided automobiles, or use of private airplanes for business or personal travel.

Employee Benefit Plans

The Named Executive Officers are eligible for employee welfare benefits under plans which are available generally to all full-time salaried employees and which do not discriminate in scope, terms or operation in favor of executive officers. Under these plans, the Named Executive Officers:

receive at the Company's cost basic life and accident insurance coverage in an amount equal to the individual's annual base salary up to a maximum of \$400,000, business travel insurance in an amount based on the individual's annual base salary up to a maximum of \$200,000, and short-term disability coverage for up to 26 weeks; and

are eligible to participate in the Company's employee welfare benefit plans that provide typical offerings such as health and dental insurance, health and dependent care reimbursement accounts, supplemental life, accident and long-term disability insurance.

Deferred Compensation Plans

The Named Executive Officers are eligible under the Unitrin, Inc. Non-Qualified Deferred Compensation Plan (Deferred Compensation Plan) to elect to defer a portion of their cash salaries and bonuses. Information about the Company's Deferred Compensation Plans in general, and more specific information about participation therein by the Named Executive Officers, is provided in the Executive Compensation section below in the narrative discussion to the NONQUALIFIED DEFERRED COMPENSATION IN 2007 table.

Retirement Plans

The Named Executive Officers are generally eligible for the following plans:

Tax-qualified defined benefit Pension Plan applicable to all full-time salaried employees hired prior to 2006, including executive officers, meeting age and service-based eligibility requirements (such employees hired after 2005 are instead eligible for the Company's Defined Contribution Retirement Plan);

Table of Contents

Supplemental non-qualified pension plan available to key employees, including executive officers, so designated annually by the Board of Directors; and

Voluntary 401(k) plan participation which includes a Company matching contribution feature offered to all full-time salaried employees, including executive officers, meeting age and service-based eligibility requirements.

Additional information about the Company's retirement plans and participation therein by the Named Executive Officers is provided in the Executive Compensation section below in the narrative discussions to the PENSION BENEFITS IN 2007 table.

Other Post-Employment Compensation

Change-in-control benefits applicable to the Named Executive Officers are described in more detail below under the section entitled Potential Payments Upon Termination or Change in Control. These benefits are provided under individual severance agreements with the Named Executive Officers, and provisions in their stock option and restricted stock agreements which are included in agreements with all grant recipients under these equity-based compensation plans. The Named Executive Officers are not entitled to other post-termination benefits except pursuant to the standard provisions of any of the plans discussed above.

Impact of Accounting and Tax Regulations

Compensation-related plans have been and may be amended from time to time to accommodate changes in tax and accounting rules. To the extent practicable and consistent with the objectives and underlying philosophy of its executive compensation program, the Company generally intends executive compensation to qualify as tax deductible for federal income tax purposes.

The Employee Stock Option Plans and the Incentive Bonus Plan have been designed to qualify as performance-based compensation under Section 162(m) of the Internal Revenue Code. Section 162(m) generally disallows a tax deduction to the Company for compensation in excess of \$1 million paid to the Company's Named Executive Officers other than its Chief Financial Officer. The tax deduction limitation does not currently apply to the Company's Chief Financial Officer as a result of revised SEC rules adopted in 2006 which changed the definition of the named executive officers to be included in proxy statement compensation tables. However, legislation was introduced in 2007 that, if enacted, would reinstate the tax deduction limitation with regard to chief financial officers. Under Section 162(m) and the regulations and interpretations promulgated thereunder, certain performance-based compensation (Performance-Based Compensation) is specifically exempt from the deduction limit of Section 162(m). All outstanding stock options that have been granted to the Company's executive officers through the end of 2007 are exempt from Section 162(m) because they qualify as Performance-Based Compensation, and therefore are not subject

to the deduction limit thereunder.

The Incentive Bonus Plan was also designed to qualify as a Performance-Based Compensation program under Section 162(m) to preserve the Company's federal income tax

Table of Contents

deduction for bonuses paid thereunder. A discretionary bonus, such as the discretionary bonus paid to Mr. Roeske for 2007, is not considered Performance-Based Compensation. However, Mr. Roeske's compensation in 2007 was substantially below the Section 162(m) limit and thus no disallowance occurred.

The September 1, 2006 restricted stock grants made to Messrs. Draut and Roeske may not qualify as Performance-Based Compensation under Section 162(m). The amount of compensation related to these grants that will be disallowed under Section 162(m) cannot be determined at this time. It is reasonable to expect that some portion of these grants may be disallowed as a tax deduction in the year in which they vest, scheduled to occur in 2010. In addition, dividends paid on these grants do not qualify as Performance-Based Compensation.

COMPENSATION COMMITTEE REPORT

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis set forth above. Based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement.

COMPENSATION COMMITTEE OF THE
BOARD OF DIRECTORS OF UNITRIN, INC.

James E. Annable *Chairman*

Donald V. Fites

Douglas G. Geoga

William E. Johnston, Jr.

Wayne Kauth

Table of Contents**EXECUTIVE OFFICER COMPENSATION AND BENEFITS****SUMMARY COMPENSATION TABLE FOR 2007**

The following table shows the compensation paid to the Named Executive Officers, which include the Company's Chief Executive Officer, Chief Financial Officer and three other most highly compensated executive officers serving during the year ended December 31, 2007.

Name and Principal Position	Year	Salary \$(1)	Bonus \$(2)	Stock Awards \$(3)	Option Awards \$(4)	Non-Equity Incentive Plan Compensation \$(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings \$(6)	All Other Compensation \$(7)	Total (\$)
Donald G. Southwell	2007	\$ 937,500	\$	\$	\$ 1,694,075	\$ 240,350	\$ 360,826	\$ 6,750	\$ 3,239,501
<i>President and Chief Executive Officer</i>	2006	881,250			1,533,219	630,000	273,346	6,600	3,330,003
Eric J. Draut	2007	687,500		220,091	1,112,205	177,100	234,410	6,750	2,438,057
<i>Executive Vice President & Chief Financial Officer</i>	2006	637,500		73,569	1,018,028	455,000	194,664	6,600	2,405,959
Richard C. Vie	2007	925,000			3,808,495		197,683	6,750	4,937,928
<i>Chairman</i>	2006	1,000,000			2,104,980	700,000	312,214	6,600	4,123,431
Scott Renwick	2007	480,000			436,563	123,970	228,453	6,750	1,275,736
<i>Senior Vice President, General Counsel & Secretary</i>	2006	440,000			309,952	315,000	180,637	6,600	1,252,189
Richard Roeske	2007	282,500	50,000	165,079	203,078		57,685	6,750	765,092
<i>Vice President & Chief Accounting Officer</i>	2006	253,750	80,000	55,188	336,792		47,401	6,600	786,741

- (1) The amounts included in the Salary column represent all salary earned for 2007. None of the Named Executive Officers elected to defer compensation earned in 2007 under the Deferred Compensation Plan. See the narrative discussion below under the caption Deferred Compensation Plan for more information about the plan.
- (2) The amount included in the Bonus column represents discretionary cash bonuses for 2007 and 2006 that were paid in 2008 and 2007, respectively.

- (3) The amounts included in the Stock Awards column represent the compensation expense recognized by the Company in 2007 and 2006 related to restricted stock awards granted under the Restricted Stock Plan in 2006 to the designated Named Executive Officer, as calculated in accordance with Statement of Financial Accounting Standards No. 123(R). The Company recognizes compensation expense on a straight-line basis over the total requisite service period for the entire award. The grant date fair values of the restricted stock awards were determined using the closing price (\$44.08) of a share of Common Stock on September 1, 2006, the grant date. Amounts shown do not include an estimate of forfeitures, as the Company does not assume a forfeiture rate for its executive officer group. For a discussion of valuation assumptions, see Note 11 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. These shares of

Table of Contents

restricted stock are subject to forfeiture and transfer restrictions until they vest on the fourth anniversary of the grant date. Under the Restricted Stock Plan, outstanding shares of restricted stock may be voted and are entitled to receive dividends on the same basis as all other outstanding shares of Common Stock.

- (4) The amounts included in the **Option Awards** column represent the compensation expense recognized by the Company in 2007 and 2006 related to stock option awards to the designated Named Executive Officers, as calculated in accordance with Statement of Financial Accounting Standards No. 123(R). The Black-Scholes option pricing model was used to estimate the fair value of each option (including its tandem stock appreciation right) on the grant date. Amounts shown do not include an estimate of forfeitures, as the Company does not assume a forfeiture rate for its executive officer group. For a discussion of valuation assumptions, see Note 11 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

All options in this column were granted pursuant to the Company's 1990, 1997 and 2002 Stock Option Plans and include automatic grants of Restorative Options, which are listed individually below in the GRANTS OF PLAN-BASED AWARDS IN 2007 table. All grants awarded under the 2002 Stock Option Plan and certain grants awarded under the 1997 Stock Option Plan are coupled with tandem stock appreciation rights (SARs). For further information about Restorative Options and SARs, see the narrative discussion under the caption **Grants of Plan-Based Awards** in the next section below.

- (5) The amounts included in the **Non-Equity Incentive Plan Compensation** column represent formula bonuses earned under the Company's Incentive Bonus Plan for 2007 and 2006 which were paid in 2008 and 2007, respectively.
- (6) Except for Mr. Vie, the amounts included in this column represent the change in pension value for each Named Executive Officer under the Company's qualified Pension Plan and non-qualified Pension Equalization Plan as of December 31, 2007 from the value at the end of the prior year (**Pension Value Change**). For Mr. Vie, the amount shown includes a change in pension value of \$197,152 and preferential or above-market earnings of \$531 on his deferred compensation balance in the Deferred Compensation Plan. Preferential or above-market earnings is defined under applicable SEC rules as the amount of the total annual earnings for 2007 credited to the Named Executive Officer's account under the plan in excess of 5.68%, which is 120% of the long-term Applicable Federal Rate of interest for December 2007. More information about Mr. Vie's balance in the Deferred Compensation Plan is included below in the narrative preceding the NONQUALIFIED DEFERRED COMPENSATION IN 2007 table and in footnote (1) to that table.
- (7) The amounts shown in the **All Other Compensation** column represent Company matching contributions to the Named Executive Officers' accounts under the Company's 401(k) Savings Plan. None of the Named Executive Officers received perquisites or other personal benefits in 2007 or 2006 with aggregate incremental costs to the Company in excess of \$10,000.

Table of Contents

Grants of Plan-Based Awards

Stock Appreciation Rights. Grants awarded under the 2002 Stock Option Plan and original grants awarded under the 1997 Stock Option Plan after January 31, 2005 (including Restorative Options related to such original grants), are coupled with tandem stock appreciation rights (SARs). A SAR entitles the holder to surrender all or a portion of an unexercised vested option in exchange for shares of Common Stock having an aggregate value equal to the embedded gain in the surrendered option. The embedded gain in an option is derived by taking the difference between the per share exercise price of the option and the market price of a share of Common Stock on the date of exercise and multiplying such difference by the number of shares covered by such option.

Option Features. Each option granted to the Named Executive Officers in 2007 was a non-qualified option for federal income tax purposes, with an exercise price that is the closing price of a share of Common Stock on its grant date. Each original stock option grant (Original Option) granted to the Named Executive Officers in 2007 becomes exercisable in four equal, annual installments beginning on the six-month anniversary of the grant date and expires on the tenth anniversary of its grant date. Each Restorative Option granted in 2007 becomes exercisable on the six-month anniversary of its grant date and expires on the expiration date of the Underlying Option.

Restorative Options. All options granted to the Named Executive Officers under the Employee Stock Option Plans include the right to receive Restorative Options in defined circumstances. These stock option plans provide for automatic grants of Restorative Options to replace shares of previously-owned Common Stock that an exercising option holder surrenders, either actually or constructively, or that the Company withholds to satisfy the exercise price and/or tax withholding obligations relating to the exercise of the Underlying Option, subject to certain restrictions at the time of exercise. Restorative Options are subject to the same terms and conditions as the Underlying Options, including the expiration date, except that the exercise price of a Restorative Option is equal to the fair market value of Common Stock on the date of its grant. Restorative Options cannot be exercised until six months after the date of grant.

The grant of a Restorative Option does not result in an increase in the total number of shares and options held by an option holder, but changes the mix of the two. A Restorative Option is intended to enable an option holder to remain in essentially the same economic position with respect to potential appreciation of the Common Stock as if he or she had continued to hold the Underlying Option unexercised.

Pursuant to 2006 stock option plan amendments approved by the Board of Directors and stock option grant agreement amendments approved by the Compensation Committee, Restorative Options will not be granted to an option holder in connection with the exercise of an Original Option granted on or after February 1, 2006, or a Restorative Option granted thereunder, unless: (i) the closing price of a share of Common Stock is at least 15% higher than the exercise price of the Underlying Option; and (ii) the Underlying Option is not scheduled to expire within twelve months of the exercise date.

Table of Contents**GRANTS OF PLAN-BASED AWARDS IN 2007**

The following table shows each grant of an award to the Named Executive Officers in 2007 under the Company's executive compensation plans. These plans include the Incentive Bonus Plan, Employee Stock Option Plans and the Restricted Stock Plan.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)(4)	Equity Plan Reference (5)	Exercise or Base Price of Option Awards (\$/Sh)(6)	Grant Date Fair Value(7)
		Threshold (\$)	Target (\$)	Maximum (\$)					
Donald G. Southwell		\$ 45,500	\$ 240,350	\$ 665,000					
	2/6/2007(1)				*100,000	2002 plan	\$ 49.79	\$ 816,630	
	3/26/2007(2)				12,217	2002 plan	47.59	70,914	
	5/22/2007(2)				13,705	1997 plan	48.81	78,697	
	5/22/2007(2)				28,575	2002 plan	48.81	164,083	
	6/1/2007(2)				401	1997 plan	49.58	2,279	
	6/1/2007(2)				4,992	1997 plan	49.58	28,376	
	6/1/2007(2)				11,136	1997 plan	49.58	63,299	
	6/1/2007(2)				124	2002 plan	49.58	705	
	6/1/2007(2)				20,426	2002 plan	49.58	116,105	
	9/18/2007(2)				16,407	1997 plan	47.67	89,764	
	9/26/2007(2)				16,476	2002 plan	49.11	92,865	
Eric J. Draut		\$ 35,000	\$ 177,100	\$ 490,000					
	2/6/2007(1)				*50,000	2002 plan	\$ 49.79	\$ 408,315	
	5/23/2007(2)				1,183	2002 plan	48.76	6,786	
	5/23/2007(2)				2,490	2002 plan	48.76	14,283	
	5/23/2007(2)				4,566	2002 plan	48.76	26,192	
	5/23/2007(2)				15,595	2002 plan	48.76	89,458	
	5/23/2007(2)				7,820	2002 plan	48.76	44,858	
	5/23/2007(2)				399	1997 plan	48.76	2,289	
	5/23/2007(2)				7,170	1997 plan	48.76	41,129	
	5/23/2007(2)				7,503	1997 plan	48.76	43,039	
	5/23/2007(2)				11,432	1997 plan	48.76	65,577	
	5/23/2007(2)				8,915	1997 plan	48.76	51,139	
	5/23/2007(2)				3,082	1997 plan	48.76	17,679	
	5/23/2007(2)				359	1997 plan	48.76	2,059	
	5/23/2007(2)				3,807	1997 plan	48.76	21,838	
	5/23/2007(2)				5,284	1997 plan	48.76	30,311	
	5/23/2007(2)				270	1997 plan	48.76	1,549	

Table of Contents

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards(3)			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)(4)	Equity Plan Reference (5)	Exercise or Base Price of Option Awards (\$/Sh)(6)	Grant Date Fair Value(7)
		Threshold (\$)	Target (\$)	Maximum (\$)					
Richard C. Vie	5/23/2007(2)				34,449	2002 plan	\$ 48.76	\$ 172,727	
	9/20/2007(2)				46,568	1997 plan	48.30	237,301	
	9/21/2007(2)				46,725	2002 plan	49.75	245,250	
	9/21/2007(2)				27,351	2002 plan	49.75	143,560	
	9/21/2007(2)				16,049	2002 plan	49.75	84,238	
	9/21/2007(2)				36,937	1997 plan	49.75	193,875	
	9/21/2007(2)				53,970	1997 plan	49.75	283,278	
	9/21/2007(2)				6,465	1997 plan	49.75	33,933	
	9/21/2007(2)				23,249	1997 plan	49.75	122,029	
	9/21/2007(2)				10,946	1997 plan	49.75	57,453	
	9/21/2007(2)				30,308	1997 plan	49.75	159,081	
	9/21/2007(2)				7,532	1997 plan	49.75	39,534	
	9/21/2007(2)				1,141	1997 plan	49.75	5,989	
	9/21/2007(2)				24,861	1997 plan	49.75	130,490	
	9/21/2007(2)				3,447	1997 plan	49.75	18,093	
	9/21/2007(2)				2,320	1997 plan	49.75	12,177	
	9/21/2007(2)				3,820	1997 plan	49.75	20,050	
Scott Renwick		\$ 24,000	\$ 123,970	\$ 343,000					
	02/06/2007(1)				*25,000	2002 plan	\$ 49.79	\$ 204,158	
	05/22/2007(2)				13,523	1997 plan	48.81	77,652	
	05/22/2007(2)				1,398	1997 plan	48.81	8,028	
	05/22/2007(2)				4,068	2002 plan	48.81	23,359	
	06/04/2007(2)				11,276	2002 plan	50.04	64,689	
Richard Roeske									
	02/06/2007(1)				*15,000	2002 plan	\$ 49.79	\$ 122,495	
	06/04/2007(2)				3,197	2002 plan	50.04	18,341	
	09/23/2007(2)				2,263	2002 plan	49.75	12,921	
	09/23/2007(2)				2,308	2002 plan	49.75	13,178	

- (1) These are Original Options, granted on the date the award was approved by the Compensation Committee.
- (2) These are Restorative Options, granted on the date of exercise of the Underlying Option, and deemed approved by the Compensation Committee under the automatic grant provisions of the Restorative Option feature under the stock option plans and the stock option agreements approved by the Compensation Committee at the time of the Original Option grant. For additional information on Restorative Options see the discussion in the narrative section preceding this table.
- (3) These columns show the range of payouts for 2007 performance that were possible under the Company's Incentive Bonus Plan as described in the section titled "Formula Bonuses" in the Compensation Discussion and Analysis. The bonuses shown in the "Target" column were earned in 2007 and paid in 2008, and are also shown above in the SUMMARY.

Table of Contents

COMPENSATION TABLE FOR 2007 in the column titled Non-equity Incentive Plan Compensation. The amounts shown in the Threshold and Maximum columns represent, respectively, 5% and 70% of the individual's 2007 annual base salary, the minimum and maximum amounts of payouts that were possible for any bonuses paid under the Incentive Bonus Plan for 2007.

- (4) All options granted in 2007 were non-qualified options for federal income tax purposes. Grants in this table marked with an asterisk represent Original Option awards made to the Named Executive Officers by the Compensation Committee in 2007. Grants not so marked represent Restorative Options granted automatically under the Restorative Option feature of the plans.
- (5) All options were granted to the Named Executive Officers under the Unitrin, Inc. 1990, 1997 and 2002 Employee Stock Option Plans (1990 Plan, 1997 Plan and 2002 Plan, respectively).
- (6) The exercise price of the awards is equal to the closing price of a share of Common Stock on the grant date.
- (7) For stock options, the Black-Scholes option pricing model was used to estimate the fair value of each option/SAR on the grant date. For a discussion of valuation assumptions, see Note 11 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. Amounts shown do not include an estimate of forfeitures, as the Company does not assume a forfeiture rate for its executive officer group.

Table of Contents**OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR-END**

The following table shows the unexercised stock option awards and unvested restricted stock awards for each Named Executive Officer which were outstanding as of December 31, 2007. The awards were granted under the Company's Employee Stock Option and Restricted Stock Plans.

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards			Vesting Date	Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Donald G. Southwell	1,777		\$ 52.17	5/13/2008			
	13,705		48.81	5/13/2008			
	1,182		50.00	5/5/2009			
	10,151		52.17	5/5/2009			
	4,992		49.58	5/5/2009			
	6,703		52.17	5/3/2010			
	5,824		48.50	5/3/2010			
	10,329		48.70	5/3/2010			
	401		49.58	5/3/2010			
	3,383		48.50	5/2/2011			
	28,576		48.70	5/2/2011			
	14,312		48.70	5/1/2012			
	28,575		48.81	5/1/2012			
	20,426		49.58	5/1/2012			
	23,054		52.17	2/5/2013			
	11,347		48.50	2/5/2013			
	12,217		47.59	2/5/2013			
	124		49.58	2/5/2013			
	32,896		48.50	2/3/2014			
	16,665		48.16	2/3/2014			
		16,476	49.11	2/3/2014	3/26/2008		
		17,500	43.10	2/1/2015	8/1/2008		
	4,808		48.50	2/1/2015			
	16,386		48.16	2/1/2015			
	11,136		49.58	2/1/2015			
		16,407	47.67	2/1/2015	3/18/2008		
	50,000	50,000	47.86	2/1/2016	(1)		
	25,000	75,000	49.79	2/6/2017	(2)		

Table of Contents

Name	Option Awards				Vesting Date	Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Eric J. Draut	4,284		\$ 47.40	5/13/2008			
	8,256		48.16	5/13/2008			
	18,935		48.76	5/13/2008			
	11,137		47.31	5/5/2009			
	1,846		46.69	5/5/2009			
	4,708		48.16	5/5/2009			
	16,163		48.76	5/5/2009			
	8,430		47.37	5/3/2010			
	10,043		47.31	5/3/2010			
	13,123		48.76	5/3/2010			
	21,788		46.67	5/2/2011			
	1,731		47.15	5/2/2011			
	17,145		47.37	5/2/2011			
	377		46.69	5/1/2012			
	29,629		48.58	5/1/2012			
	15,481		47.40	5/1/2012			
	1,831		52.00	2/5/2013			
	7,080		47.31	2/5/2013			
	8,295		47.40	2/5/2013			
	8,186		48.16	2/5/2013			
	8,239		48.76	2/5/2013			
	12,500		44.37	2/3/2014			
	19,903		48.16	2/3/2014			
	15,595		48.76	2/3/2014			
	12,500	12,500	43.10	2/1/2015	8/1/2008		
	11,699		47.40	2/1/2015			
	3,873		46.06	2/1/2015			
	7,820		48.76	2/1/2015			
	25,000	25,000	47.86	2/1/2016	(1)		
	12,500	37,500	49.79	2/6/2017	(2)		
				9/1/2010	20,000	\$ 881,600	

Table of Contents

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Option Awards			Vesting Date	Stock Awards	
		Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date		Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
Richard C. Vie	1,620		\$ 47.64	5/13/2008			
	38,167		49.96	5/13/2008			
	32,255		50.83	5/13/2008			
		36,937		49.75	5/13/2008	3/21/2008	
	16,831		47.64	5/5/2009			
	8,356		50.87	5/5/2009			
		131,544		49.75	5/5/2009	3/21/2008	
	8,934		49.96	5/3/2010			
	30,727		51.74	5/3/2010			
	31,667		50.53	5/3/2010			
		25,569		49.75	5/3/2010	3/21/2008	
	2,079		47.64	5/2/2011			
	38,935		50.53	5/2/2011			
	76,483		50.83	5/2/2011			
	38,828		50.87	5/2/2011			
	54,182		49.96	5/1/2012			
	52,476		52.97	5/1/2012			
	26,608		51.74	5/1/2012			
	44,619		50.87	5/1/2012			
	34,495		52.00	2/5/2013			
	16,066		48.90	2/5/2013			
	34,449		48.76	2/5/2013			
		43,400		49.75	2/5/2013	3/21/2008	
	139,724		50.03	2/3/2014			
		46,725		49.75	2/3/2014	3/21/2008	
		50,000		43.10	2/1/2015	8/1/2008	
	34,224		51.74	2/1/2015			
46,435		48.85	2/1/2015				
	46,568		48.30	2/1/2015	3/20/2008		
	10,946		49.75	2/1/2015	3/21/2008		
50,000	50,000		47.86	2/1/2016	(1)		
Scott Renwick	8,205		\$ 46.65	5/13/2008			
	1,398		48.81	5/13/2008			
	2,105		47.10	5/05/2009			
	2,645		46.65	5/05/2009			
	7,814		48.16	5/05/2009			
	9,019		46.43	5/03/2010			
	2,943		47.46	5/03/2010			
	20,425		46.65	5/02/2011			
	9,096		48.16	5/01/2012			
	13,523		48.81	5/01/2012			
	4,249		46.43	2/05/2013			
	4,075		47.46	2/05/2013			
	4,336		44.81	2/05/2013			
	4,068		48.81	2/05/2013			
	25,000		44.37	2/03/2014			

Table of Contents

Name	Option Awards					Stock Awards	
	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Option Exercise Price (\$)	Option Expiration Date	Vesting Date	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(3)
	6,250	6,250	43.10	2/01/2015	8/1/2008		
	11,276		50.04	2/01/2015			
	12,500	12,500	47.86	2/01/2016	(1)		
	6,250	18,750	49.79	2/06/2017	(2)		
Richard Roeske	3,143		\$ 47.89	5/13/2008			
	4,675		48.26	5/13/2008			
	3,844		47.89	5/03/2010			
	2,959		48.26	5/03/2010			
	810		50.03	5/03/2010			
	5,994		47.89	5/02/2011			
	1,984		48.26	5/02/2011			
	3,423		47.89	5/01/2012			
	948		52.17	5/01/2012			
	4,672		48.26	5/01/2012			
	3,187		52.17	2/05/2013			
	3,267		48.26	2/05/2013			
	3,163		50.03	2/05/2013			
	3,197		50.04	2/05/2013			
	2,396		47.14	2/03/2014			
	4,618		50.03	2/03/2014			
		2,308	49.75	2/03/2014	3/23/2008		
		2,500	43.10	2/01/2015	8/1/2008		
	2,309		48.26	2/01/2015			
	2,348		47.14	2/01/2015			
		2,263	49.75	2/01/2015	3/23/2008		
	7,500	7,500	47.86	2/01/2016	(1)		
	3,750	11,250	49.79	2/06/2017	(2)		
					9/1/2010	15,000	\$ 661,200

(1) These options vest ratably in equal increments on 8/1/2008 and 8/1/2009.

(2) These options vest ratably in equal increments on 8/6/2008, 8/6/2009 and 8/6/2010.

(3) Market value in this column was determined using the closing price (\$47.99) of a share of Common Stock on December 31, 2007, the last business day of the year.

Table of Contents**OPTION EXERCISES AND STOCK VESTED IN 2007**

The following table shows the stock options exercised by each of the Named Executive Officers in 2007 on an aggregated basis. No shares of restricted stock held by Named Executive Officers vested in 2007.

Name	Option Awards	
	Number of	Value
	Shares	Realized on
	Acquired on	Exercise (\$)(2)
	Exercise (#)(1)	
Donald G. Southwell	131,401	\$ 496,428
Eric J. Draut	88,068	250,737
Richard C. Vie	393,893	1,394,518
Scott Renwick	33,462	223,062
Richard Roeske	8,565	56,100

- (1) The shares of Common Stock shown in this column are the gross number of shares issued in the exercise transactions, without deduction of any previously acquired shares surrendered or withheld to satisfy the exercise price and/or tax withholding obligations related thereto. (See the narrative discussion above under the caption Grants of Plan-Based Awards.) Taking into account such surrendered and withheld shares, the actual net increase in the number of shares issued to these officers was as follows: Southwell (6,942); Draut (3,647); Vie (17,755); Renwick (3,197); and Roeske (797).
- (2) Value Realized on Exercise represents the difference between the exercise price of the shares acquired and the market price of such shares on the date or dates of exercise, without regard to any related tax obligations.

Retirement Plans

The Unitrin, Inc. Pension Plan (the Pension Plan) is a tax-qualified defined benefit pension plan that covers certain full-time salaried employees meeting minimum age and service-based eligibility requirements. In general, to be eligible, employees must be at least 21 years old and have provided at least one year of service (as defined in the Pension Plan) to the Company. The Company's Pension Plan covers employees hired prior to January 1, 2006, while those hired on or after January 1, 2006 are instead eligible to participate in the Company's Defined Contribution Retirement Plan. All of the Company's current executive officers were hired prior to January 1, 2006 and therefore are participants in the Pension Plan.

A participant earns a benefit under the Pension Plan in an amount equal to specified percentage of Average Monthly Compensation plus an additional specified percentage of Average Monthly Compensation above the monthly Social Security Covered Compensation, multiplied by the participant's eligible years of service, up to a maximum of 30 years.

Average Monthly Compensation is generally equal to the average of a participant's highest monthly compensation over a 60-consecutive-month period during the 120-month period which ends three calendar months prior to a participant's termination date.

Table of Contents

The Social Security Covered Compensation amount is determined from tables published by the Internal Revenue Service and changes each year. For 2007, the annual Social Security Covered Compensation was \$51,349.

Compensation covered by the Pension Plan is the participant's annual base salary, formula bonus under the Incentive Bonus Plan and annual discretionary bonus. The normal retirement age under the Pension Plan is age 65, and the normal form of distribution under the Pension Plan is a life annuity for a single retiree, or a joint and fifty percent survivor annuity for a married retiree. Other forms of annuity are available to participants, but all forms of payment are actuarially equivalent in value.

Messrs. Southwell and Renwick are currently eligible for early retirement under the Pension Plan. A participant is eligible for early retirement benefits upon attaining age 55 with five years of service to the Company. The early retirement benefit payable to a participant under the Pension Plan is the retirement benefit that would have been payable at the normal retirement age of 65 actuarially reduced to give effect to the participant's age at the time of early retirement.

Mr. Vie previously participated in the United Insurance Company of America Pension Plan for Management and Clerical Employees (United Insurance Company Plan), which was subsequently merged into the Company's Pension Plan. His participation in the United Insurance Company Plan was suspended on January 1, 1992 and no further contributions will be made on his behalf. However, Mr. Vie will be entitled to benefits under the plan upon his retirement from the Company based on his contributions made through the end of 1991.

The Unitrin, Inc. Pension Equalization Plan (the SERP) was established to provide benefits to certain individuals in excess of the limitations imposed on the Pension Plan under the Internal Revenue Code. The SERP benefit is computed using the same formula applicable to the Pension Plan without regard to the limits imposed under the Internal Revenue Code. An employee who earns compensation over the qualified plan limitation may be eligible to participate in the SERP by designation of the Board of Directors. For 2007, compensation to determine the benefit under the Pension Plan was limited to \$225,000. The Company's executive officers are eligible to participate in the SERP.

The executive officers are also eligible to participate in a voluntary 401(k) plan that includes a Company matching contribution feature offered to all full-time salaried employees meeting age and service-based eligibility requirements.

Table of Contents**PENSION BENEFITS IN 2007**

The following table shows the years of credited service and the present values of the accumulated benefits under the Pension Plan and SERP for each Named Executive Officer.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit (\$)(1)
Donald G. Southwell	Pension Plan	11	\$ 216,600
	SERP	11	1,137,349
Eric J. Draut	Pension Plan	16	228,368
	SERP	16	813,721
Richard C. Vie	Pension Plan	16	609,272(2)
	SERP	16	2,890,349(2)
Scott Renwick	Pension Plan	16	310,408
	SERP	16	628,380
Richard Roeske	Pension Plan	16	184,316
	SERP	16	78,331

- (1) These present value amounts were determined on the assumption that the Named Executive Officers have been or will remain in service until age 65, the age at which retirement may occur under the Pension Plan and SERP without any reduction in benefits, using the same measurement date, discount rate assumptions and actuarial assumptions described in Note 17 to the consolidated financial statements included in the Company's 2007 Annual Report on Form 10-K. The discount rate assumption was 5.75% for 2007 and the mortality assumptions were based upon the 1983 Group Annuity Male Mortality Table. The accumulated benefits are based on the years of credited service shown in the table and the Average Monthly Compensation as of December 31, 2007 as described above in the narrative preceding this table.
- (2) This amount includes Mr. Vie's benefit under the United Insurance Company Plan. Mr. Vie's eight years of participation under the United Insurance Company Plan earned him an annual accrued benefit equal to \$20,971 in addition to the benefit earned under the Pension Plan and the SERP. The present value of his benefit under the United Insurance Company Plan is \$182,217, consisting of \$171,780 under the Pension Plan and \$10,437 under the SERP.

Deferred Compensation Plan

The Deferred Compensation Plan was established to allow certain executives that are designated by the Board of Directors, as well as the non-employee members of the Board of Directors, to elect to defer a portion of their current

year compensation to a future period. The Deferred Compensation Plan is unfunded and exempt from certain provisions of the Employee Retirement Income Security Act of 1974, as amended. The Company does not fund or make profit-sharing or matching contributions under the Deferred Compensation Plan, and

Table of Contents

participants have an unsecured contractual commitment by the Company to pay the amounts deferred, adjusted to recognize earnings or losses determined in accordance with their elections under the plan.

To participate in the Deferred Compensation Plan, an eligible individual must make an annual irrevocable election. The form and timing of the distribution of deferrals made during a particular year is chosen when a participant elects to participate for that year and generally cannot be altered or revoked. The distribution for a particular year may be in the form of annual or quarterly installments up to a maximum of ten years or a single lump-sum payment, and may begin on January 1 of any subsequent year. A participant may elect to defer up to 100% of his or her regular annual base salary, formula bonus under the Incentive Bonus Plan, and annual discretionary bonus in excess of a limit established annually under the Internal Revenue Code. For 2007, the compensation limit was \$225,000. No withdrawals are permitted under the Deferred Compensation Plan other than regularly scheduled distributions.

Each participant's bookkeeping account is deemed to be invested in the hypothetical investment choice(s) selected by the participant at the time of his or her annual election to participate in the Deferred Compensation Plan from the choices made available by the Company. Generally, the hypothetical investment alternatives offered by the Company include a range of retail mutual funds selected by the Plan Administrator, which is the Compensation Committee of the Company's Board of Directors. Investment choices selected by a participant are used only to determine the value of the participant's account. The Company is not required to follow these investment selections in making actual investments of amounts deferred under the plan. Investment choices may be changed by participants on a quarterly basis.

As employees designated by the Board of Directors, the Named Executive Officers are eligible to elect deferral of their cash salary and bonus under the Deferred Compensation Plan. None of the Named Executive Officers elected to defer any of their 2007 compensation under the Deferred Compensation Plan. The funds selected for hypothetical investments in 2007 by the Named Executive Officers with balances from prior years in the Deferred Compensation Plan, and the 2007 annual return on investment for each of these funds, are: Wells Fargo Advantage Index Fund 5.22%; Dreyfus Appreciation Fund 6.54%; and Janus Overseas Fund 27.76%.

As a former executive of the Company's former parent corporation, Teledyne, Inc., Mr. Vie had elected to defer some compensation that he earned under the Teledyne Management Bonus Compensation Plan (Teledyne Plan) until his retirement. The Company assumed liability for Mr. Vie's balance under the Teledyne Plan at the time of Unitrin's spin-off from Teledyne in 1990. The amounts deferred to the Teledyne Plan are credited with an interest rate that varies from year to year based on prevailing market interest rates. For 2007, the interest rate used was 6.50%. Upon his retirement from the Company, the bonus amounts deferred by Mr. Vie under the Teledyne Plan, along with the accrued interest on those amounts, will be paid in the form of a 10-year installment payable quarterly, although the Company has the option to pay the amount owed to him in the form of a lump sum.

Table of Contents**NONQUALIFIED DEFERRED COMPENSATION IN 2007**

The following table shows the aggregate earnings in 2007 and the balances as of December 31, 2007 for the Named Executive Officers under the Deferred Compensation Plan.

Name	Aggregate Earnings in Last Fiscal Year (\$)(1)	Aggregate Balance at Last Fiscal Year End (\$)(2)
Donald G. Southwell	\$ 4,941	\$ 34,167
Eric J. Draut	29,084	260,680
Richard C. Vie	4,212	69,018(3)
Scott Renwick		
Richard Roeske	4,215	86,741

- (1) \$531 of the aggregate earnings shown in this column for Mr. Vie is reported above in the Change in Pension Value and Nonqualified Deferred Compensation Earnings column of the SUMMARY COMPENSATION TABLE FOR 2007.
- (2) The balances shown in this column represent the balances for the respective individuals based on prior deferrals plus earnings accrued through December 31, 2007. Of the amounts shown in this column for Messrs. Southwell, Draut and Roeske, the portions representing their original deferral amounts were previously reported as compensation in the Company's SUMMARY COMPENSATION TABLE in prior years. None of the Named Executive Officers elected to defer compensation earned in 2007.
- (3) This amount is the balance on Mr. Vie's account that originated with his management bonus deferral under the Teledyne Plan as described in the narrative preceding this table.

Potential Payments Upon Termination or Change in Control

The table below shows benefits that would have been payable to the Named Executive Officers as a direct result of either a change in control of the Company or the death or disability of the individual officer, had such an event occurred on December 31, 2007. These amounts would have been payable pursuant to individual severance agreements (Severance Agreements) between the Named Executive Officers and the Company in connection with a change in control of the Company, as described below, or individual grant agreements executed with the Company in connection with stock option and/or restricted stock awards they received. However, none of the Named Executive Officers is a party to any other individual employment agreement with the Company that would entitle him to receive any other termination benefits from the Company.

In addition to the amounts shown in the table below, the Named Executive Officers would have been entitled to receive benefits to which they have vested rights, and which are generally available to salaried employees of the Company and do not discriminate in scope, terms or operation in favor of executive officers. These include benefits payable: (i) upon termination of employment, such as payments of 401(k) Savings Plan distributions and

Table of Contents

accrued vacation; and (ii) upon death or disability, such as life, business travel or long-term disability insurance. In addition, under the Deferred Compensation Plan, the Named Executive Officers other than Mr. Renwick (who has never participated in the plan), may have been entitled to receive distributions in accordance with their previously chosen elections under the plan, as described above in the section captioned Deferred Compensation Plan.

In the case of Mr. Vie, any separation from the Company as of December 31, 2007, whether resulting from a change in control, death, disability or voluntary retirement, would also have triggered the start of retirement benefit distributions under the Pension Plan, SERP and the United Insurance Company Plan (as described above in the section captioned Retirement Plans), as he had previously reached the normal retirement age under these plans. In the case of Mr. Southwell or Mr. Renwick, a voluntary early retirement election effective December 31, 2007 would have entitled him to receive vested benefits under the Pension Plan and SERP, actuarially reduced to give effect to his age on such date. The specific retirement benefit amounts that would have been paid to Messrs. Vie, Southwell or Renwick would have been determined in accordance with the form of distribution elected by such individual and based on the present values shown above in the Pension Benefits in 2007 table. Messrs. Draut and Roeske were not eligible to receive retirement benefits as of December 31, 2007.

The Company has entered into Severance Agreements with the Named Executive Officers that provide them with various severance benefits in the event their employment is involuntarily terminated (other than for cause, disability or death) or voluntarily terminated, in either case within two years after a change in control. Such benefits are also payable to such officers in the event their employment is involuntarily terminated (other than for cause, disability or death) or voluntarily terminated for certain specified reasons, in either case in anticipation of a change in control. Under the Severance Agreements, a change in control is deemed to occur if any person (excluding certain defined persons) is or becomes, directly or indirectly, the beneficial owner of 25% or more of the voting power of the Common Stock, or the individuals who comprised the Company's Board of Directors on the date of the Severance Agreement, or any of the individuals they nominate, cease to comprise a majority of the Board. Each Named Executive Officer would be entitled under the Severance Agreements to: (i) a lump sum severance payment based on the multiple (specified below) of his annualized salary; (ii) continuation for up to three years (in the case of Messrs. Southwell and Vie) or two years (for the other Named Executive Officers) of the life and health insurance benefits that were being provided by the Company to such officer and his family immediately prior to termination; and (iii) outplacement services at the Company's expense for up to fifty-two weeks. The Severance Agreements contain identical terms and conditions, except that the severance compensation multiple is 3.0 for Messrs. Southwell and Vie and 2.0 for the other Named Executive Officers.

The agreement for each stock option and restricted stock award to a Named Executive Officer provides that, in the event of a change in control as defined in the grant agreement, the Company's Board of Directors must choose one of four alternative ways to handle the award, which may include the immediate vesting of the award.

Table of Contents

Under the Severance Agreements, benefits payable as a result of a change in control, whether under the Severance Agreements or under any other arrangement with the Company, are to be grossed-up to the extent that a recipient would be subject to an excise tax under Section 4999 of the Internal Revenue Code (including any interest or penalties imposed with respect to such tax) due to the receipt of such benefits or any other benefits that constitute excess parachute payments for purposes of Section 280G of the Internal Revenue Code. Depending on what actions are taken by the Company's Board of Directors under the Company's Employee Stock Option Plans and Restricted Stock Plan in connection with a change in control, certain amounts relating to nonqualified stock options and restricted stock would be factored into the determination regarding excess parachute payments. If there had been a change in control on December 31, 2007, and as a result, severance benefits had been paid and vesting of stock options and restricted stock had been accelerated on December 31, 2007, and valued as described in the following paragraph, no Named Executive Officers would have received gross-ups for excess parachute payments.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

The following table sets forth information concerning payments and benefits that would have become payable to the Named Executive Officers in connection with the termination of their employment as of December 31, 2007 resulting from a change in control of the Company or the death or disability of the individual officer:

	Donald G. Southwell	Eric J. Draut	Richard C. Vie	Scott Renwick	Richard Roeske
<u>Change in Control</u>					
Lump Sum Severance Payments(1)	\$ 2,850,000	\$ 1,400,000	\$ 2,700,000	\$ 980,000	\$ 580,000
Value of Accelerated Stock Options(2)(3)	97,325	64,375	251,000	32,188	13,200
Value of Accelerated Restricted Stock(2)(3)		959,800			719,850
Premium for life insurance(4)	41,136	20,416	47,346	27,424	12,437
Premium for health insurance(4)	20,452	18,741	20,452	18,741	6,386
Outplacement Services(4)	25,000	25,000	25,000	25,000	25,000
Total	\$ 3,033,913	\$ 2,488,332	\$ 3,043,798	\$ 1,083,353	\$ 1,356,873
<u>Death or Disability</u>					
Value of Accelerated Stock Options(3)(5)	\$ 97,325	\$ 64,375	\$ 251,000	\$ 32,188	\$ 13,200
Value of Accelerated Restricted Stock(3)(5)		959,800			719,850
Total	\$ 97,325	\$ 1,024,175	\$ 251,000	\$ 32,188	\$ 733,050

(1) The amounts shown represent severance payable under the Severance Agreements.

Table of Contents

- (2) The amounts shown assume that the Board of Directors elected to accelerate the vesting of these stock options and restricted stock shares as of December 31, 2007.
- (3) The amounts shown represent the value of unvested stock options and restricted stock which would have been accelerated as of December 31, 2007. The value of accelerated stock options was calculated by multiplying the number of in-the-money options which would have been accelerated by the difference between the exercise price and the closing price (\$47.99) of a share of Common Stock on December 31, 2007. The value of accelerated restricted stock was calculated using the closing price of a share of Common Stock on December 31, 2007. The number of shares subject to unvested stock options and exercise prices thereof, and the number of shares of unvested restricted stock awards are set forth in the OUTSTANDING EQUITY AWARDS AT 2007 FISCAL YEAR END table.
- (4) The amounts shown are the estimated costs to provide the outplacement services and continuation for up to three years (in the case of Messrs. Southwell and Vie) or two years (for the other Named Executive Officers) of the life and health insurance benefits pursuant to the Severance Agreements.
- (5) For stock options, the amounts shown represent the value of the accelerated vesting of original stock option awards granted on or after February 1, 2005 and Restorative Options granted in connection with the exercise thereof. Acceleration of vesting of these stock option awards and of all restricted stock awards would occur automatically upon the death or disability of the holder of the options or restricted stock pursuant to the terms of the applicable plans and grant agreements. For original stock option awards granted prior to February 1, 2005 and Restorative Options granted in connection with the exercise thereof, vesting would not accelerate upon the option holder's death or disability.

Table of Contents**DIRECTOR COMPENSATION**

The following table shows the compensation earned for 2007 by the members of the Board of Directors who are not employed by the Company:

DIRECTOR COMPENSATION FOR 2007

Name	Fees Earned or Paid in Cash \$(1)	Option Awards \$(2)	All Other Compensation \$(3)	Total (\$)
James E. Annable	\$ 69,000	\$ 34,315		\$ 103,315
Donald V. Fites	68,000	34,315	\$ 20,000	122,315
Douglas G. Geoga	79,000	34,315		113,315
Reuben L. Hedlund	86,000	34,315		120,315
Jerrold V. Jerome	57,000	79,227	20,000	156,227
William E. Johnston, Jr.	92,000	34,315		126,315
Wayne Kauth	79,000	82,144		161,144
Fayez S. Sarofim	49,000			49,000
Ann E. Ziegler	76,000	34,315		110,315

- (1) Fees shown in this column were paid for service on the Board and/or Board committees, and include amounts deferred at the election of an individual board member under the Deferred Compensation Plan. For more information about the Deferred Compensation Plan, see the narrative discussion above in the Executive Compensation section above under the caption Deferred Compensation Plan.
- (2) The amounts shown in this column represent the compensation costs recognized by the Company in 2007 in connection with stock option awards to the designated non-employee directors, as calculated in accordance with Statement of Financial Accounting Standards No. 123(R). The Black-Scholes option pricing model was used to estimate the fair value of each option on the grant date. Amounts shown do not include an estimate of forfeitures, as the Company does not assume a forfeiture rate for its non-employee director group. For a discussion of valuation assumptions, see Note 11 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007.

Under the Director Stock Option Plan, eligible non-employee directors receive an annual option grant to purchase 4,000 shares of Common Stock. Only non-employee directors who first became members of the Board of Directors after November 1, 1993 are eligible to participate in the Director Stock Option Plan. As Mr. Sarofim has been a director since 1990, he is not eligible to receive options under the Director Stock Option Plan. Additional information about the Director Stock Option Plan is provided below in the narrative following the table captioned 2007 Annual Non-Employee Director Compensation Program on page 60.

Table of Contents

For each non-employee director, the following table shows the total number of outstanding option shares held as of December 31, 2007 and the grant date fair value of option shares granted in 2007:

Name	Outstanding Option Shares as of 12/31/07 (#)	Grant Date Fair Value of 2007 Option Grants (\$)
James E. Annable	33,617	\$ 32,358
Donald V. Fites	16,000	32,358
Douglas G. Geoga	36,596	32,358
Reuben L. Hedlund	24,000	32,358
Jerrold V. Jerome	51,472	32,358
William E. Johnston	39,096	32,358
Wayne Kauth	17,090	80,187
Fayez S. Sarofim	0	0
Ann E. Ziegler	28,000	32,358

The model and valuation assumptions used to estimate the fair values shown in the foregoing table are described above in the first paragraph to this footnote. These grant date fair values include the annual option award granted to each eligible non-employee director on May 3, 2007 under the Director Stock Option Plan, and, for Mr. Kauth, Restorative Options with a grant date fair value of \$47,829 granted in connection with an option exercise he made on June 4, 2007. These Restorative Options were granted pursuant to the automatic grant provisions of the Restorative Option feature under the Director Stock Option Plan. Of the option shares shown for Mr. Jerome, 26,034 shares were granted under the 1997 Stock Option Plan in connection with his prior position as an executive officer of the Company.

- (3) The amounts shown in this column represent the aggregate amount of payments by the Company pursuant to its Matching Gifts to Education Program to match donations by the designated director in 2007. Under this program, the Company will match tax deductible donations of up to \$10,000 made to eligible educational institutions by employees, directors and retirees of the Company on a \$2 for \$1 basis up to an annual aggregate of \$20,000 per donor.

Table of Contents**2007 Annual Non-Employee Director Compensation Program**

The amounts shown in the above table as Fees Earned or Paid in Cash are based on the annual non-employee director compensation program in effect for 2007 which provided for the following compensation:

<i>Board of Directors</i>	
Annual Retainer	\$35,000
Annual Option Grant	Options to purchase 4,000 shares of Common Stock
Annual Meeting Fee	\$ 1,500 for each Board Meeting attended
<i>Executive Committee</i>	
Annual Member Retainer	\$ 8,000
Annual Chairman Retainer	\$16,000
<i>Audit Committee</i>	
Annual Member Retainer	\$12,000
Annual Chairman Retainer	\$27,000
Meeting Attendance Fee	\$ 2,000 for each Audit Committee Meeting attended on a day other than a day when the Board of Directors meets
<i>Compensation Committee</i>	
Annual Member Retainer	\$ 8,000
Annual Chairman Retainer	\$15,000
<i>Nominating & Corporate Governance Committee</i>	
Annual Member Retainer	\$ 5,000
Annual Chairman Retainer	\$15,000

Under the Director Stock Option Plan, a director who (i) first became a director after November 1, 1993 and is not an employee of the Company or any subsidiary of the Company, or (ii) has retired as an employee of the Company or a subsidiary of the Company, is eligible to receive grants of options to purchase the Company's Common Stock. The Director Stock Option Plan provides that such eligible directors automatically receive at the conclusion of each Annual Meeting a grant of options to purchase 4,000 shares of Common Stock. Upon becoming a director, each new member of the Board of Directors who is not employed by the Company receives an option grant covering 4,000 shares of Common Stock under the Director Stock Option Plan.

The exercise price for all options granted under the Director Stock Option Plan is the closing price of a share of Common Stock on the grant date. All options granted under the Director Stock Option Plan become exercisable on the first anniversary of the grant date, expire on the tenth anniversary of the grant date, and include the right to receive Restorative Options in defined circumstances. Restorative Options are granted automatically to replace shares of previously-owned Common Stock that an exercising option holder surrenders, either actually or constructively, to satisfy the exercise price, so long as certain requirements are met at the time of exercise. For additional information about Restorative Options, see the narrative discussion in the Executive Officer Compensation and Benefits section above under the caption Grants of Plan-Based Awards.

Table of Contents

The non-employee directors are eligible to defer up to 100% of the fees earned for service on the board and board committees under the Deferred Compensation Plan. For more information about the Deferred Compensation Plan, see the narrative discussion in the Executive Officer Compensation and Benefits section above under the caption Deferred Compensation Plan.

All directors are entitled to reimbursement for travel expenses incurred in attending Board of Directors and Board committee meetings.

INCORPORATION BY REFERENCE

Notwithstanding any general statement to the contrary set forth in any of the Company's previous or future filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate this Proxy Statement into such filings, the Audit Committee Report and the Compensation Committee Report contained in this Proxy Statement shall not be incorporated by reference into any such filings, nor shall they be deemed to be soliciting material or deemed filed under such Acts.

This Proxy Statement and the form of proxy are being mailed and delivered to the Company's shareholders by the authority of the Board of Directors.

Scott Renwick

Secretary

Table of Contents

Electronic Voting Instructions

You can vote by Internet or telephone!

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy or voting in person at the Annual Meeting, you may choose one of the two voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 11:59 p.m., Central Daylight Saving Time on Tuesday, May 6, 2008.

Vote by Internet

Log on to the Internet and go to **www.investorvote.com**
Follow the steps outlined on the secured website.

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the United States, Canada & Puerto Rico any time on a touch tone telephone. There is **NO CHARGE** to you for the call.

Follow the instructions provided by the recorded message.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

x

À IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. À

A Proposals The Board of Directors recommends a vote FOR Proposals 1 and 2.

1. Election of Directors:

	For	Withhold		For	Withhold		For	Withhold	+
01 - James E. Annable	02 - Eric J. Draut	..	..	03 - Donald V. Fites	..	..
04 - Douglas G. Geoga	05 - Reuben L. Hedlund	..	..	06 - Jerrold V. Jerome	..	..
07 - William E. Johnston, Jr.	08 - Wayne Kauth	..	..	09 - Fayez S. Sarofim	..	..
10 - Donald G. Southwell	11 - Richard C. Vie	..	..	12 - Ann E. Ziegler	..	..

For Against Abstain
..

Edgar Filing: GABELLI DIVIDEND & INCOME TRUST - Form N-2/A

2. Ratification of selection of Deloitte & Touche LLP as Independent Registered Public Accountant for 2008.
B Non-Voting Items

3. In their discretion, the Proxies are authorized to vote upon such other business as may properly come before the meeting.

Change of Address Please print new address below.

Meeting Attendance **
Mark box to the right if you plan to attend the Annual Meeting.

C Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below.

/ /

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

Table of Contents

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting of Shareholders to be held on May 7, 2008. The Company's 2008 Proxy Statement and 2007 Annual Report to Shareholders are available under *Investors* on the Company's website at www.unitrin.com.

You may vote your shares by telephone or Internet, by mailing your proxy card, or by attending the Annual Meeting in person. To obtain directions to attend in person, you may contact Investor Relations by telephone at 312-661-4930, or by e-mail at investor.relations@unitrin.com.

q IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE. q

Proxy UNITRIN, INC.

One East Wacker Drive

Chicago, Illinois 60601

Annual Meeting of Shareholders

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned appoints Richard C. Vie, Donald G. Southwell and Eric J. Draut as Proxies, each with power of substitution, to vote all shares of Unitrin, Inc. common stock of the undersigned held as of March 14, 2008, at the Annual Meeting of Shareholders of Unitrin, Inc., to be held at the Chase Auditorium, Chase Tower, 10 S. Dearborn Street (Plaza Level), Chicago, IL 60603, at 10:00 a.m. Central Daylight Saving Time, on May 7, 2008, and at any adjournment or postponement thereof, upon the following matters. This proxy card also constitutes confidential voting instructions for all shares, if any, credited to the account of the undersigned in the Unitrin 401(k) Savings Plan (the Plan) to Wells Fargo Bank, N.A. as Trustee for the Plan. Voting instructions for Plan shares must be received by 11:59 p.m., Central Daylight Saving Time, on May 4, 2008.

This proxy, when properly executed, will be voted as directed herein by the undersigned shareholder. If no direction is made, this proxy will be voted FOR Proposals 1 and 2.

(Continued and to be signed on the reverse side)

Table of Contents

**SCRIPT OF VOTING IN ACCORDANCE WITH
RECOMMENDATIONS OF BOARD OF DIRECTORS**

Dialog between application and the caller

IVR: Welcome to InvestorVote at Computershare. <pause>
To vote, you will need to supply some information from your proxy card, this will only take a moment. If you don't have your card handy, feel free to hang-up and call back when you're ready. To start, please enter the control number (pause), this is the 6 digit number that is circled and located in the colored bar on the front of the card.

Caller: #####

IVR: Next, I'm going to need your holder account number. This number is underlined and located next to the control number. Please enter that number now, excluding any letters or leading zeroes.

Caller: #####

IVR: Thank you, please hold while I verify those numbers.

This message will play repeatedly until the host system responds
three seconds of silence followed by) still verifying (three more seconds of silence) please continue to hold

IVR: Before you can vote I need to verify one last piece of information. Located on the proxy card next to the underlined account number is a box that contains your Proxy Access Number, please enter that number now.

Caller: #####

IVR: Ok you will be voting your proxy for **Unitrin, Inc.**

IVR: You can vote one of two ways. To vote all proposals in accordance with the recommendations of the Board of Directors, press 1. To vote one proposal at a time, press 2.

Caller: *Presses 1*

IVR: If you're planning on attending the annual meeting, press 1. Otherwise, press 2

Caller: *Presses 1 OR 2*

IVR: Ok, just to confirm. You've elected to vote all proposals in accordance with the recommendations of the Board of Directors.

IVR: If this is correct, press 1; to hear how you voted again, press 2 and to change your vote, press 3.

[CONFIRMATION REPEATS IF CALLER PRESSES 2; VOTING STEPS REPEAT IF CALLER PRESSES 3]

Table of Contents

Caller: *Presses 1*

IVR: Please hold while I record your vote.

This message will play repeatedly until the host system reponds (three seconds of silence followed by) please continue to hold

IVR: Your vote has been recorded. It is not necessary for you to mail in your proxy card [*ADD IF CALLER PRESSES 1 ABOVE WHEN ASKED ABOUT ATTENDING MEETING:* and we look forward to seeing you at the meeting]. If you have another proxy card or wish to change your vote, press 1, otherwise I m now going to end this call.

[VOTING STEPS REPEAT IF CALLER PRESSES 1]

Caller: *timeout*

IVR: Thank you for voting, goodbye.

Caller: *Hang-up.*

Table of Contents

SCRIPT OF VOTING ONE PROPOSAL AT A TIME

Dialog between application and the caller

IVR: Welcome to InvestorVote at Computershare. <pause>
To vote, you will need to supply some information from your proxy card, this will only take a moment. If you don't have your card handy, feel free to hang-up and call back when you're ready. To start, please enter the control number (pause), this is the 6 digit number that is circled and located in the colored bar on the front of the card.

Caller: #####

IVR: Next, I'm going to need your holder account number. This number is underlined and located next to the control number. Please enter that number now, excluding any letters or leading zeroes.

Caller: #####

IVR: Thank you, please hold while I verify those numbers.

This message will play repeatedly until the host system responds
three seconds of silence followed by) still verifying (three more seconds of silence) please continue to hold

IVR: Before you can vote I need to verify one last piece of information. Located on the proxy card next to the underlined account number is a box that contains your Proxy Access Number, please enter that number now.

Caller: #####

IVR: Ok you will be voting your proxy for **Unitrin, Inc.**

IVR: You can vote one of two ways. To vote all proposals in accordance with the recommendations of the Board of Directors, press 1. To vote one proposal at a time, press 2.

Caller: *Presses 2*

IVR: Ok, let's vote on each proposal.

IVR: Proposal number 1. The Board of Directors recommends a vote for all nominees.

You have three ways to vote this item. You can vote for all nominees, withhold from all nominees or withhold from individual nominees. To vote for all nominees, press 1; withhold from all, press 2 or withhold from individual nominees, press 3. To cancel and start over, press star.

ALTERNATIVES 1 - 3, DEPENDING ON NUMBER PRESSED BY CALLER:

#1 **Caller:** *Presses 1*

Table of Contents

- IVR:** Okay, voting for all nominees
- Or #2** **Caller:** *Presses 2*
- IVR:** Okay, withholding from all nominees
- Or #3** **Caller:** *Presses 3*
- IVR:** For each nominee listed on your card, there is a corresponding two-digit number. Enter the number corresponding to the nominee you want to withhold.
- Caller:** *Presses [XX]*
- IVR:** Ok, withholding from nominee number [XX].
- To withhold your vote from another nominee, enter the two-digit number. If there are no other nominees you wish to withhold press zero. If you've made a mistake and want to start over, press star.
- [PROCESS STARTS OVER IF STAR IS PRESSED AND PROCESS CONTINUES IF OTHER NUMBERS ARE PRESSED UNTIL CALLER PRESSES 0]*
- Caller:** *Presses 0*
- IVR:** Ok, finished withholding for nominees
- IVR:** Proposal number 2. For which the Board of Directors recommends a vote for . To vote, for , press 1; vote against , press 2; or to abstain , press 3.
- Caller:** *Presses 1, 2 OR 3*
- IVR:** If you're planning on attending the annual meeting, press 1. Otherwise, press 2
- Caller:** *Presses 1 OR 2*
- IVR:** Ok, you've finished voting but before we process your vote let me list your choices and then you can confirm your vote at the end.
- You've elected to vote as follows .
- For proposal number 1, you voted
- [CALLER'S VOTE CONFIRMED]*
- [CALLER'S VOTE CONFIRMED ON]* proposal number 2.
- If this is correct, press 1; to hear how you voted again, press 2 and to change your vote, press 3.
- [CONFIRMATION REPEATS IF CALLER PRESSES 2; VOTING STEPS REPEAT IF CALLER PRESSES 3]*
- Caller:** *Presses 1*

Table of Contents

IVR: Please hold while I record your vote.

This message will play repeatedly until the host system reponds (three seconds of silence followed by) please continue to hold

IVR: Your vote has been recorded. It is not necessary for you to mail in your proxy card *[ADD IF CALLER PRESSES 1 ABOVE WHEN ASKED ABOUT ATTENDING MEETING: and we look forward to seeing you at the meeting].* If you have another proxy card or wish to change your vote, press 1, otherwise I m now going to end this call.

[VOTING STEPS REPEAT IF CALLER PRESSES 1]

Caller: timeout

IVR: Thank you for voting, goodbye.

Caller: Hang-up.

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents