

GABELLI EQUITY TRUST INC

Form N-2MEF

November 08, 2006

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form N-2

- Registration Statement under the Securities Act of 1933
- Pre-Effective Amendment No.
- Post-Effective Amendment No.

and/or

- Registration Statement under the Investment Company Act of 1940 Amendment No. 40

(Check Appropriate Box or Boxes)

THE GABELLI EQUITY TRUST INC.
(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 Equity Trust Inc.
One Corporate Center
Rye, New York 10580-1422
(914) 921-5100**
(Name and Address of Agent for Service)

Copies to:

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

Rose F. DiMartino, Esq.
Willkie Farr & Gallagher LLP
787 Seventh Ave.
New York, New York 10019
(212) 728-8000

Sarah E. Cogan, Esq.
Simpson Thacher & Bartlett LLP
425 Lexington Ave.
New York, NY 10017
(212) 455-2000

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

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

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

- When declared effective pursuant to section 8(c).

If appropriate, check the following box:

- This [post-effective] amendment designates a new effective date for a previously filed [post-effective amendment] [registration statement].
- This form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act and the Securities Act registration statement number of the earlier effective registration statement for the same offering is _____.

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities	Amount Being Registered	Proposed Maximum Offering Price	Proposed Maximum Aggregate Offering Price	Amount of Registration Fee
6.20% Series F Cumulative Preferred Stock	1,000,000	\$25	\$25,000,000	\$2,675.00 ⁽¹⁾

- (1) The Gabelli Equity Trust Inc. hereby certifies to the Commission that it has instructed its bank to pay the Commission the filing fee of \$2,675.00 for the additional securities being registered hereby as soon as practicable (but in any event no later than the close of business on November 8, 2006); that it will not revoke such instructions; that it has sufficient funds in the relevant account to cover the amount of the filing fee; and that it undertakes to confirm receipt of such instructions by the bank during regular business hours on November 8, 2006.**
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CROSS-REFERENCE SHEET

N-2 Item Number

Location in Part A (Caption)

PART A

1. Outside Front Cover	Outside Front Cover Page
2. Cover Pages, Other Offering Information	Outside Front Cover Page; Inside Front Cover Page
3. Fee Table and Synopsis	Summary
4. Financial Highlights	Financial Highlights
5. Plan of Distribution	Outside Front Cover Page; Summary; Underwriting
6. Selling Shareholders	Not Applicable
7. Use of Proceeds	Use of Proceeds; Investment Objectives and Policies
8. General Description of the Registrant	Outside Front Cover Page; Summary; The Fund; Investment Objectives and Policies; Risk Factors & Special Considerations; How the Fund Manages Risk; Description of the Series F Preferred; Anti-Takeover Provisions of the Fund's Charter and By-Laws
9. Management	Outside Front Cover Page; Summary; Management of the Fund; Custodian, Transfer Agent, Auction Agent and Dividend-Disbursing Agent
10. Capital Shares, Long-Term Debt, and Other Securities	Outside Front Cover Page; Summary; Investment Objectives and Policies; Description of the Series F Preferred; Description of Capital Stock and Other Securities; Taxation Policies; Authorized and Outstanding Shares; Taxation
11. Defaults and Arrears on Senior Securities	Not Applicable
12. Legal Proceedings	Management of Fund
13. Table of Contents of the Statement of Additional Information	Table of Contents of the Statement of Additional Information

N-2 Item Number

Location in Statement of Additional Information

PART B

14. Cover Page	Outside Front Cover Page
15. Table of Contents	Outside Front Cover Page
16. General Information and History	Not Applicable
17. Investment Objectives and Policies	Investment Objectives and Policies; Investment Restrictions
18. Management	Management of the Fund
19. Control Persons and Principal Holders of Securities	Not Applicable
20. Investment Advisory and Other Services	Management of the Fund
21. Portfolio Managers	Management of the Fund
22. Brokerage Allocation and Other Practices	Portfolio Transactions
23. Tax Status	Taxation
24. Financial Statements	Financial Statements

PART C

Information required to be included in Part C is set forth under the appropriate Item, so numbered, in Part C to this Registration Statement.

PROSPECTUS

\$150,000,000

The Gabelli Equity Trust Inc.

**6,000,000 Shares, 6.20% Series F Cumulative Preferred Stock
(Liquidation Preference \$25 Per Share)**

The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company registered under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable securities and warrants and rights to purchase such securities. Income is a secondary investment objective. Gabelli Funds, LLC (the Investment Adviser) serves as investment adviser to the Fund. Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities. The Fund was organized as a Maryland corporation on May 20, 1986 and commenced its investment operations on August 21, 1986. An investment in the Fund is not appropriate for all investors. We cannot assure you that the Fund's investment objectives will be achieved.

This prospectus describes the Fund's 6.20% Series F Cumulative Preferred Stock (the Series F Preferred), liquidation preference \$25 per share. Distributions on the Series F Preferred are cumulative from their original issue date at the annual rate of 6.20% of the liquidation preference of \$25 per share and are payable quarterly on March 26, June 26, September 26, and December 26 of each year, commencing on December 26, 2006.

Investing in the Series F Preferred involves risks that are described in the Risk Factors and Special Considerations section beginning on page 21 of this prospectus.

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

	Series F Preferred Per Share	Total
Public Offering Price (1)	\$ 25.0000	\$ 150,000,000
Underwriting Discount (2)	\$ 0.7875	\$ 4,725,000
Proceeds to the Fund (before expenses) (3)	\$ 24.2125	\$ 145,275,000

- (1) Plus accumulated distributions, if any, from November 10, 2006.
- (2) The Fund and the Investment Adviser have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended.
- (3) Offering expenses payable by the Fund (excluding underwriting discount) are estimated at \$510,000.

Citigroup
A.G. Edwards & Sons

Merrill Lynch & Co.
Gabelli & Company, Inc.

November 7, 2006

The Series F Preferred being offered by this prospectus is 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 F Preferred will be made in book-entry form through The Depository Trust Company on or about November 10, 2006.

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

The net proceeds of the offering are estimated at approximately \$144,765,000, after deduction of the estimated underwriting discounts and estimated offering expenses payable by the Fund. The Fund intends to use the net proceeds to redeem shares of the Series B Preferred, of which there are currently 4,950,000 shares outstanding with a liquidation preference of \$25 per share. If the amount raised in the offering exceeds the amount of Series B Preferred outstanding, the excess amount will be invested in accordance with the investment objectives and policies of the Fund. The Fund intends to redeem shares of Series B Preferred (and, if there are excess proceeds, invest those proceeds in accordance with the Fund's investment objectives and policies) within three months of the completion of the offering; however, changes in market conditions, including, in particular, factors affecting interest rates and the securities in which the Fund invests, could result in this period being as long as six months. See Use of Proceeds.

The Fund expects that distributions made on the Series F Preferred 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, provided certain holding period and other requirements are met by both the Fund and the shareholder), 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 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2010. We cannot assure you, however, as to what percentage of future distributions made on the Series F Preferred will consist of long-term capital gain, which is currently taxed at lower rates for individuals than ordinary income, and qualified dividend income, which is currently eligible to be taxed at the lower long-term capital gain rates. For a more detailed discussion, see Taxation.

In order to be issued, the Series F Preferred must receive a rating of Aaa by Moody's Investors Service, Inc. (Moody's). In order to keep this rating, the Fund will be required to maintain a minimum discounted asset coverage with respect to its outstanding Series F Preferred under guidelines established by Moody's. See Description of the Series F Preferred Rating Agency Guidelines. The Fund is also required to maintain a minimum asset coverage by the 1940 Act. 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 charter (together with any amendments or supplements thereto, including any articles supplementary, the Charter) and the requirements of the 1940 Act, that some or all of its outstanding preferred stock, including the Series F Preferred, be redeemed. Otherwise, prior to November 10, 2011 the Series F 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 1940 Act), the Fund, at its option, may redeem the Series F Preferred beginning on November 10, 2011. In the event the Fund redeems the Series F Preferred, such redemption will be for cash at a redemption price equal to \$25 per share plus accumulated but unmade distributions (whether or not earned or declared).

This prospectus concisely sets forth important information about the Fund that you should know before deciding whether to invest in Series F Preferred. 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 (the SAI), dated November 7, 2006, which contains additional information about the Fund. The

SAI is incorporated by reference in its entirety into this prospectus. You can review the table of contents of the SAI that is filed with this prospectus. You may request a free copy of the SAI 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 can also call the toll-free number to request copies of the Fund's annual and semi-annual reports, to request other information about the Fund, or to make stockholder inquiries. The SAI and the Fund's reports are also available at the website <http://www.gabelli.com>. You may also obtain the SAI and 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 F Preferred does not represent a deposit or obligation of, and is not guaranteed or endorsed by, any bank or other insured depository institution, and is not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.

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.

TABLE OF CONTENTS

	Page
<u>Summary</u>	1
<u>Financial Highlights</u>	12
<u>Use of Proceeds</u>	15
<u>The Fund</u>	15
<u>Capitalization</u>	16
<u>Investment Objectives and Policies</u>	16
<u>Risk Factors and Special Considerations</u>	21
<u>How the Fund Manages Risk</u>	28
<u>Management of the Fund</u>	29
<u>Portfolio Transactions</u>	32
<u>Dividends and Distributions</u>	33
<u>Description of the Series F Preferred</u>	33
<u>Description of Capital Stock and Other Securities</u>	41
<u>Taxation</u>	42
<u>Anti-Takeover Provisions of the Fund's Charter and By-Laws</u>	45
<u>Custodian, Transfer Agent, Auction Agent and Dividend-Disbursing Agent</u>	46
<u>Underwriting</u>	48
<u>Legal Matters</u>	49
<u>Experts</u>	50
<u>Additional Information</u>	50
<u>Privacy Principles of the Fund</u>	51
<u>Table of Contents of the Statement of Additional Information</u>	52
<u>Appendix A Corporate Bond Ratings</u>	A-1

SUMMARY

This is only a summary. This summary does not contain all of the information that you should consider before investing in the Fund's Series F Preferred, in particular the risks associated with such an investment. For a more detailed discussion of these risks, see Risk Factors and Special Considerations. You should review the more detailed information contained in this prospectus, the Statement of Additional Information (the SAI), and the Fund's Articles Supplementary for the 6.20% Series F Cumulative Preferred Stock (the Series F Articles Supplementary) on file with the Securities and Exchange Commission (the Commission).

The Fund

The Gabelli Equity Trust Inc. (the Fund) is a non-diversified, closed-end management investment company organized as a Maryland corporation on May 20, 1986.

The Fund's outstanding shares of common stock, par value \$0.001 per share, are listed and traded on the New York Stock Exchange (the NYSE) under the symbol GAB. As of September 30, 2006, the net assets of the Fund attributable to its common stock were \$1,458,720,807. As of September 30, 2006, the Fund had outstanding 167,642,009 shares of common stock; 4,950,000 shares of 7.20% Tax Advantaged Series B Cumulative Preferred Stock, liquidation preference \$25 per share (the Series B Preferred); 5,200 shares of Series C Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series C Auction Rate Preferred); 2,949,700 shares of 5.875% Series D Cumulative Preferred Stock, liquidation preference \$25 per share (the Series D Preferred); and 2,000 shares of Series E Auction Rate Cumulative Preferred Stock, liquidation preference \$25,000 per share (the Series E Auction Rate Preferred). The Fund completed its redemption of 100% of its outstanding 7.25% Tax Advantaged Cumulative Preferred Stock (the Series A Preferred) on June 17, 2003. The Fund's outstanding Series B Preferred became redeemable at the option of the Fund beginning June 20, 2006 and the Fund redeemed 25% of its then outstanding Series B Preferred on June 26, 2006. The Series B Preferred, the Series C Auction Rate Preferred, the Series D Preferred and the Series E Auction Rate Preferred (collectively, the Existing Preferred) have the same seniority with respect to distributions and liquidation preference.

The Offering

The Fund offers by this prospectus \$150,000,000 of 6.20% Series F Cumulative Preferred Stock (the Series F Preferred). The Series F Preferred is being offered by a group of underwriters led by Citigroup Global Markets Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint book running managers, and together with A.G. Edwards & Sons, Inc. and Gabelli & Company, Inc., as representatives of the other underwriters named herein. Upon issuance, the Series F Preferred will have equal seniority with respect to distributions and liquidation preference to the Fund's Existing Preferred. See Description of the Series F Preferred.

The Fund is offering 6,000,000 shares of 6.20% Series F Cumulative Preferred Stock, par value \$0.001 per share, liquidation preference \$25 per share, at a purchase price of \$25 per share. Distributions on the shares of Series F Preferred will accumulate from the date on which such stock is issued. A preliminary application has been made to list the Series F Preferred on the NYSE. Subject to notice of issuance, trading of the Series F Preferred on the NYSE will commence within 30 days from the date of this prospectus.

Generally, investors in Series F Preferred will not receive certificates representing ownership of their stock. The Depository Trust Company (DTC), any successor or its nominee for the account of the investor's broker-dealer will maintain record ownership of the preferred stock in book-entry form. An investor's broker-dealer, in turn, will

maintain records of that investor's beneficial ownership of preferred stock.

Investment Objectives

The Fund's primary investment objective is to achieve long-term growth of capital by investing primarily in a portfolio of equity securities consisting of common stock, preferred stock, convertible or exchangeable

securities and warrants and rights to purchase such securities selected by the Investment Adviser. Income is a secondary investment objective.

Under normal market conditions, the Fund will invest at least 80% of the value of its total assets in equity securities (the 80% Policy). The 80% Policy may be changed without stockholder approval. The Fund will provide stockholders with notice at least 60 days prior to the implementation of any change in the 80% Policy.

The Investment Adviser selects investments on the basis of fundamental value and, accordingly, the Fund typically invests in the securities of companies that are believed by the Investment Adviser to be priced lower than justified in relation to their underlying assets. Other important factors in the selection of investments include favorable price/earnings and debt/equity ratios and strong management.

The Fund seeks to achieve its secondary investment objective of income, in part, by investing up to 10% of its total assets in a portfolio consisting primarily of high-yielding, fixed-income securities, such as corporate bonds, debentures, notes, convertible securities, preferred stocks and domestic and foreign government obligations. Fixed-income securities purchased by the Fund may be rated as low as C by Moody's or D by Standard & Poor's Ratings Services (S&P) or may be unrated securities considered to be of equivalent quality. Securities that are rated C by Moody's are the lowest rated class and can be regarded as having extremely poor prospects of ever obtaining investment-grade standing. Debt rated D by S&P is in default or is expected to default upon maturity of payment date. These debt securities, which are often referred to in the financial press as junk bonds, are predominantly speculative and involve major risk exposure to adverse conditions.

No assurance can be given that the Fund's investment objectives will be achieved. See Investment Objectives and Policies.

Dividends and Distributions

Distributions on the Series F Preferred, at the annual rate of 6.20% of its \$25 per share liquidation preference, are cumulative from the original issue date and are payable, when, as and if declared by the Board of Directors of the Fund (the Board), out of funds legally available therefor, quarterly on March 26, June 26, September 26, and December 26 of each year, commencing on December 26, 2006.

Preferred Stock Distributions. In accordance with the Charter (together with any amendments or supplements thereto, including any articles supplementary, the Charter), all preferred stock of the Fund must have the same seniority with respect to distributions. Accordingly, no full distribution will be declared or paid on any series of preferred stock of the Fund for any dividend period, or part thereof, unless full cumulative dividends and distributions due through the most recent dividend payment dates for all series of outstanding preferred stock of the Fund are declared and paid. If full cumulative distributions due have not been declared and made on all outstanding preferred stock of the Fund ranking on a parity with the Series F Preferred as to distributions, any distributions on such preferred stock (including any outstanding Series F Preferred) will be made as nearly pro rata as possible in proportion to the respective amounts of distributions accumulated but unmade on each such series of preferred stock on the relevant dividend payment date.

In the event that for any calendar year the total distributions on shares of the Fund's preferred stock exceed the Fund's ordinary income and net capital gain allocable to such shares, the excess distributions will generally be treated as a tax-free return of capital (to the extent of the stockholder's tax basis in the shares). The amount treated as a tax-free return of capital will reduce a stockholder's adjusted tax basis in the preferred stock, thereby increasing the stockholder's potential gain or reducing the potential loss on the sale of the shares.

Common Stock Distributions. In order to allow its common stockholders to realize a predictable, but not assured, level of cash flow and some liquidity periodically on their investment without having to sell shares, the Fund has adopted a managed distribution policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common

stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Fund's Series F Preferred (as well as the Existing Preferred). Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2005, the Fund made distributions of \$0.85 per share of common stock, none of which constituted a return of capital. The Fund has made distributions of \$0.58 per share of common stock for the current year through September 30, 2006. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to common stockholders during nine of the twenty fiscal years since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through December 31, 2006.

Tax Treatment of Preferred Share Distributions

The Fund expects that distributions made on the Series F Preferred 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, provided certain holding period and other requirements are met by both the Fund and the shareholder), 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 15%, and on ordinary income (such as distributions from investment company taxable income that are not eligible for treatment as qualified dividend income) is currently 35%. These tax rates are scheduled to apply through 2010. During the three year period from 2003-2005, approximately 91% of the Fund's distributions to common and preferred stockholders consisted of long-term capital gain and the remaining 9% distributed to stockholders constituted qualified dividend income taxable at the 15% rate for individuals. During 2005, approximately 89% of the Fund's distributions to common and preferred stockholders consisted of long-term capital gain and the remaining 11% distributed to stockholders constituted qualified dividend income taxable at the 15% rate for individuals. We cannot assure you, however, as to what percentage of future distributions made on the Series F Preferred will consist of long-term capital gain, which is currently taxed at lower rates for individuals than ordinary income; and qualified dividend income, which is currently eligible to be taxed at the lower long-term capital gain rates. For a more detailed discussion, see "Taxation."

Rating and Asset Coverage Requirements

In order to be issued, the Series F Preferred must receive a rating of "Aaa" from Moody's. The Series F Articles Supplementary setting forth the rights and preferences of the Series F Preferred contain certain tests that the Fund must satisfy to obtain and maintain a rating of "Aaa" from Moody's on the Series F Preferred. See "Description of the Series F Preferred" Rating Agency Guidelines.

Asset Coverage Requirements. Under the asset coverage tests to which the Series F Preferred is subject, the Fund is required to maintain (i) assets having in the aggregate a discounted value greater than or equal to a Basic Maintenance Amount (as described under "Description of the Series F Preferred" Rating Agency Guidelines) for each such series calculated pursuant to the applicable rating agency guidelines and (ii) an asset coverage of at least 200% (or such higher or lower percentage as may be required at the time under the Investment Company Act of 1940 (the "1940 Act")) with respect to all outstanding preferred stock of the Fund, including the Series F Preferred. See "Description of the Series F Preferred" Asset Maintenance Requirements.

The Fund estimates that if the shares offered hereby had been issued and sold as of September 30, 2006, the asset coverage under the 1940 Act would have been approximately 376% immediately following such issuance (and after giving effect to the deduction of the estimated underwriting discounts of \$4,725,000 and

estimated offering expenses for such shares of \$510,000). The asset coverage would have been computed as follows:

Value of Fund assets less liabilities and indebtedness not constituting senior securities	=	\$1,980,978,307	=	376%
Senior securities representing indebtedness plus aggregate involuntary liquidation preference of each class of senior security which is stock	=	\$ 527,492,500		

The Series F Articles Supplementary, which contain the technical provisions of the various components of the asset coverage tests, will be filed as an exhibit to this registration statement and may be obtained through the web site of the Commission (<http://www.sec.gov>).

Redemption

Mandatory Redemption. The Series F Preferred may be subject to mandatory redemption by the Fund to the extent the Fund fails to maintain the asset coverage requirements described above in accordance with the rating agency guidelines or the 1940 Act and does not cure such failure by the applicable cure date. If the Fund redeems preferred stock mandatorily, it may, but is not required to, redeem a sufficient number of such shares so that after the redemption the Fund exceeds the asset coverage required by the guidelines of each of the applicable rating agencies and the 1940 Act by 10%.

With respect to the Series F Preferred, any such redemption will be made for cash at a redemption price equal to \$25 per share, plus an amount equal to accumulated and unpaid distributions (whether or not earned or declared) to the redemption date. See Description of the Series F Preferred Redemption.

In the event of a mandatory redemption, such redemption will be made from the Series F Preferred or other preferred stock of the Fund in such proportions as the Fund may determine, subject to the limitations of the Charter, the 1940 Act and Maryland law.

Optional Redemption. Subject to the limitations of the Charter, the 1940 Act and Maryland law, the Fund may, at its option, redeem the Series F Preferred as follows:

Commencing November 10, 2011 and at any time thereafter, the Fund at its option may redeem the Series F Preferred, in whole or in part, for cash at a redemption price per share equal to \$25, plus an amount equal to accumulated and unpaid distributions (whether or not earned or declared) to the redemption date. If fewer than all of the shares of the Series F Preferred are to be redeemed, such redemption will be made pro rata in accordance with the number of such shares held. Prior to November 10, 2011, the Series F Preferred will be subject to optional redemption by the Fund at the redemption price only to the extent necessary for the Fund to continue to qualify for tax treatment as a regulated investment company. See Description of the Series F Preferred Redemption Optional Redemption of the Series F Preferred.

Series A Preferred, Series B Preferred, Series C Auction Rate Preferred, Series D Preferred, and Series E Auction Rate Preferred. The Fund redeemed 100% of its outstanding Series A Preferred on June 17, 2003. The Fund's outstanding Series B Preferred became redeemable at the option of the Fund beginning June 20, 2006 and the Fund redeemed 25% of its then outstanding Series B Preferred on June 26, 2006. The Fund generally may redeem the outstanding Series C Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. The Fund's outstanding Series D Preferred will be redeemable at the option of the Fund beginning October 7, 2008. The Fund generally may

redeem the outstanding Series E Auction Rate Preferred, in whole or in part, at any time other than during a non-call period. Such redemptions are subject to the limitations of the Charter, the 1940 Act and Maryland law. See Description of the Series F Preferred Redemption.

Voting Rights

At all times, holders of the Fund's outstanding preferred stock (including the Series F Preferred), voting together as a single class, will be entitled to elect two members of the Board, and holders of the preferred stock and common stock, voting together as a single class, will elect the remaining directors. However, upon a failure by the Fund to make distributions on any of its shares of preferred stock in an amount equal to two full years of distributions, holders of the preferred stock, voting together as a single class, will have the right to elect additional directors that would then constitute a simple majority of the Board until all cumulative distributions on all shares of preferred stock have been made or provided for. Holders of outstanding shares of Series F Preferred and any other preferred stock will vote separately as a class on certain other matters as required under the Charter, the 1940 Act and Maryland law. Except as otherwise indicated in this prospectus and as otherwise required by applicable law, holders of Series F Preferred will be entitled to one vote per share on each matter submitted to a vote of stockholders and will vote together with holders of common stock and any other preferred stock as a single class. See Description of the Series F Preferred Voting Rights.

Liquidation Preference

The liquidation preference of the Series F Preferred is \$25. Upon liquidation, holders of the Series F Preferred will be entitled to receive the liquidation preference with respect to their shares of preferred stock plus an amount equal to accumulated but unmade distributions with respect to such shares (whether or not earned or declared) to the date of liquidation. See Description of the Series F Preferred Liquidation Rights.

Use of Proceeds

The net proceeds of the offering are estimated at approximately \$144,765,000, after deduction of the estimated underwriting discounts and estimated offering expenses payable by the Fund. The Fund intends to use the net proceeds to redeem shares of the Series B Preferred, of which there are currently 4,950,000 shares outstanding with a liquidation preference of \$25 per share. If the amount raised in the offering exceeds the amount of Series B Preferred outstanding, the excess amount will be invested in accordance with the investment objectives and policies of the Fund. The Fund intends to redeem shares of Series B Preferred (and, if there are excess proceeds, invest those proceeds in accordance with the Fund's investment objectives and policies) within three months of the completion of the offering; however, changes in market conditions, including, in particular, factors affecting interest rates and the securities in which the Fund invests, could result in this period being as long as six months. See Use of Proceeds.

Listing of the Series F Preferred

Following its issuance, the Series F Preferred is expected to be listed on the NYSE. However, during an initial period which is not expected to exceed 30 days after the date of its initial issuance, the Series F Preferred will not be listed on any securities exchange and consequently may be illiquid during that period. Prior to this offering, there has been no public market for the Series F Preferred. There can be no assurance that a secondary market will provide owners with liquidity.

Special Characteristics and Risks

Risk is inherent in all investing. Therefore, before investing in the Series F Preferred you should consider the risks carefully. See Risk Factors and Special Considerations. Primary risks specially associated with an investment in the Series F Preferred include:

The market price for the Series F Preferred will be influenced by changes in interest rates, the perceived credit quality of the Series F Preferred and other factors. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Fluctuations in Market Price.

Prior to this offering, there has been no public market for the Series F Preferred. A preliminary application has been made to list the Series F Preferred on the NYSE. However, during an initial period which

is not expected to exceed 30 days after the date of its issuance, the Series F Preferred will not be listed on any securities exchange. During such 30-day period, the underwriters may make a market in the Series F Preferred; however, they have no obligation to do so. Consequently, the Series F Preferred may be illiquid during such period. No assurances can be provided that listing on any securities exchange or market making by the underwriters will result in the market for Series F Preferred being liquid at any time. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Illiquidity Risk.

You will have no right to require the Fund to repurchase or redeem your shares of Series F Preferred at any time.

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

The Fund may not meet the asset coverage requirements or earn sufficient income from its investments to make distributions on the Series F Preferred.

The value of the Fund's investment portfolio may decline, reducing the asset coverage for the Series F Preferred. Further, if an issuer of a common stock in which the Fund invests experiences financial difficulties or if an issuer's preferred stock or debt security is downgraded or defaults or if an issuer in which the Fund invests is affected by other adverse market factors, there may be a negative impact on the income and asset value of the Fund's investment portfolio. In such circumstances, the Fund may be forced to mandatorily redeem shares of the Series F Preferred.

The Fund generally may redeem the Series F Preferred at any time after November 10, 2011 and may at any time redeem shares of Series F Preferred to meet regulatory or rating agency requirements. The Series F Preferred is subject to redemption under specified circumstances and investors may not be able to reinvest the proceeds of any such redemption in an investment providing the same or a better rate than that of the Series F Preferred. Subject to such circumstances, the Series F Preferred is perpetual.

The Series F Preferred is not an obligation of the Fund. The Series F Preferred is junior in respect of distributions and liquidation preference to any indebtedness incurred by the Fund. Although unlikely, precipitous declines in the value of the Fund's assets could result in the Fund having insufficient assets to redeem all of the Series F Preferred for the full redemption price.

The Fund currently uses, and intends to continue to use, financial leverage for investment purposes by issuing preferred stock. It is currently anticipated that, taking into account the Series F Preferred, the amount of leverage will represent approximately 27% of the Fund's managed assets (as defined below). If the proposed spin-off of a portion of the Fund's assets (see Additional Information) were to occur, subject to receipt of regulatory and shareholder approval, the amount of leverage as a percentage of Fund total assets would increase because the Fund's managed assets would decrease by the amount contributed to the spin-off fund. The Fund's leveraged capital structure creates special risks not associated with unleveraged funds having similar investment objectives 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 for the Series F Preferred. Such volatility may increase the likelihood of the Fund having to sell investments in order to meet its obligations to make distributions on the preferred stock, or to redeem preferred stock when it may be disadvantageous to do so. Also, if the Fund is utilizing leverage, a decline in net asset value could affect the ability of the Fund to make common stock distributions and such a failure to make distributions could result in the Fund ceasing to qualify as a regulated investment company under the Internal Revenue Code of 1986, as amended (the Code). See Taxation. As used in this prospectus, the Fund's managed assets include the aggregate net asset value of the Fund's common stock plus assets attributable to its outstanding preferred stock, with no deduction for the liquidation preference of such preferred stock.

Because the fee paid to the Investment Adviser will be calculated on the basis of the Fund's assets, which include for this purpose assets attributable to the aggregate net asset value of the common stock plus assets

attributable to any outstanding senior securities, with no deduction for the liquidation preference of any preferred stock, the fee may be higher when leverage in the form of preferred stock is utilized, giving the Investment Adviser an incentive to utilize such leverage. However, the Investment Adviser has agreed to reduce the management fee on the incremental assets attributable to the Existing Preferred and the Series F Preferred during the fiscal year if the total return of the net asset value of the common stock, including distributions and advisory fees subject to reduction for that year, does not exceed the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. In other words, if the effective cost of the leverage for any series of preferred stock exceeds the total return (based on net asset value) on the Fund's common stock, the Investment Adviser will waive that portion of its management fee on the incremental assets attributable to the leverage for that series of preferred stock to mitigate the negative impact of the leverage on the common stockholder's total return. This fee waiver is voluntary and may be discontinued at any time. The Fund's total return on the net asset value of the common stock is monitored on a monthly basis to assess whether the total return on the net asset value of the common stock exceeds the stated dividend rate or corresponding swap rate of each particular series of preferred stock for the period. The test to confirm the accrual of the management fee on the assets attributable to each particular series of preferred stock is annual. The Fund will accrue for the management fee on these assets during the fiscal year if it appears probable that the Fund will incur the management fee on those additional assets. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Leverage Risk.

Restrictions imposed on the declaration and payment of dividends or other distributions to the holders of the common stock and preferred stock, both by the 1940 Act and by requirements imposed by rating agencies, might impair the Fund's ability to maintain its qualification as a regulated investment company for federal income tax purposes. While the Fund intends to redeem shares of its preferred stock (including the Series F Preferred) to the extent necessary to enable the Fund to distribute its income as required to maintain its qualification as a regulated investment company under the Code, there can be no assurance that such actions can be effected in time to meet the Code requirements. See Taxation in the SAI.

The Fund has adopted a policy, which may be changed at any time by the Board, of paying a minimum annual distribution of 10% of the average net asset value of the Fund to common stockholders. In the event the Fund does not generate a total return from dividends and interest received and net realized capital gains in an amount equal to or in excess of its stated distribution in a given year, the Fund may return capital as part of such distribution, which may have the effect of decreasing the asset coverage per share with respect to the Series F Preferred (as well as the Existing Preferred). Any return of capital should not be considered by investors as yield or total return on their investment in the Fund. For the fiscal year ended December 31, 2005, the Fund made distributions of \$0.85 per share of common stock, none of which constituted a return of capital. The Fund has made distributions of \$0.58 per share of common stock for the current year through September 30, 2006. The Fund has made quarterly distributions with respect to its common stock since 1987. A portion of the distributions to holders of common stock during nine of the twenty fiscal years since the Fund's inception has constituted a return of capital. The composition of each distribution is estimated based on the earnings of the Fund as of the record date for each distribution. The actual composition of each of the current year's distributions will be based on the Fund's investment activity through December 31, 2006.

As a non-diversified, closed-end management 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 fund, and 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.

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 adverse economic or regulatory occurrences affecting that industry. See Risk Factors and Special Considerations Risks of Investing in the Fund Industry Concentration Risk.

