GABELLI EQUITY TRUST INC
Form 497
November 08, 2006

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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	**Merrill Lynch & Co.**
A.G. Edwards & Sons	**Gabelli & Company, Inc.**

November 7, 2006

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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

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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.

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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

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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

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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 unmade 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 unmade 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.

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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.

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The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred and may enter into an interest rate swap or cap transaction with respect to all or a portion of its outstanding Series E Auction Rate Preferred. The use of interest rate swaps and caps is a highly specialized activity that involves certain risks to the Fund including, among others, counterparty risk and early termination risk. See How the Fund Manages Risk Interest Rate Transactions.

The Fund may invest up to 35% of its total assets in securities of foreign issuers. Investing in securities of foreign companies (or foreign governments), which are generally denominated in foreign currencies, may involve certain risks and opportunities not typically associated with investing in domestic companies and could 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.

The Fund may invest up to 10% of its total assets in fixed-income securities rated in the lower rating categories of recognized statistical rating agencies, also sometimes referred to as junk bonds. Such securities are subject to greater risks than investment grade securities, which reflect their speculative character, including (i) greater volatility; (ii) greater credit risk; (iii) potentially greater sensitivity to general economic or industry conditions; (iv) potential lack of attractive resale opportunities (illiquidity); and (v) additional expenses to seek recovery from issuers who default. Fixed-income securities purchased by the Fund may be rated as low as C by Moody s or D by 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. See Risk Factors and Special Considerations Risks of Investing in the Fund Lower Rated Securities.

The Fund may participate in certain derivative transactions. Such transactions entail certain execution, market, liquidity, hedging and tax risks. Participation in the options or futures markets and in currency exchange transactions involves investment risks and transaction costs to which the Fund would not be subject absent the use of these strategies. If the Investment Adviser s prediction of movements in the direction of the securities, foreign currency or interest rate markets is inaccurate, the consequences to the Fund may leave it in a worse position than if such strategies were not used. See Risk Factors and Special Considerations Risks of Investing in the Fund Special Risks of Derivative Transactions.

The Fund is subject to management risk because it is an actively managed portfolio. The Investment Adviser will apply investment techniques and risk analyses in making investment decisions for the Fund, but there can be no guarantee that these will produce the desired results. See Risk Factors and Special Considerations Risks of Investing in the Fund Management Risk.

The Investment Adviser is dependent upon the expertise of Mr. Mario J. Gabelli in providing advisory services with respect to the Fund s investments. If the Investment Adviser were to lose the services of Mr. Gabelli, its ability to service the Fund could be adversely affected. There can be no assurance that a suitable replacement could be found for Mr. Gabelli in the event of his death, resignation, retirement or inability to act on behalf of the Investment Adviser. See Risk Factors and Special Considerations Risks of Investing in the Fund Dependence on Key Personnel. The Fund s Charter and By-Laws include provisions that could limit the ability of other entities or persons to acquire control of the Fund or convert the Fund to an open-end fund. See Anti-Takeover Provisions of the Fund s Charter and By-Laws.

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

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Management and Fees

Gabelli Funds, LLC serves as the Fund s investment adviser. The Investment Adviser s fee is computed weekly and paid monthly at the annual rate of 1.00% of the Fund s average weekly net assets plus assets attributable to any outstanding senior securities, with no deduction for the liquidation preference of any outstanding preferred stock. The fee paid by the Fund 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.

For the year ended December 31, 2005, the Fund s total return on the net asset value of the common stock exceeded the stated dividend rate or net swap expense of the Series C Auction Rate Preferred and Series E Auction Rate Preferred. Thus, management fees were accrued on these assets. The Fund s total return on the net asset value of the common stock did not exceed the stated dividend rate or net swap expense of the Series B Preferred and Series D Preferred. Thus, management fees with respect to the liquidation value of those preferred stock assets were reduced by $2,387,425. See Risk Factors and Special Considerations Risks Associated with the Series F Preferred Leverage Risk.

A discussion regarding the basis for the Board s approval of the investment advisory contract of the Fund is available in the Fund s semi-annual report to shareholders dated June 30, 2006.

Over the past several years, the staff of the Commission (the Staff), the staff of the New York Attorney General s office (the NYAG) and officials of other states have been conducting industry-wide inquiries into, and bringing enforcement and other proceedings regarding, trading abuses involving open-end investment companies. The Investment Adviser and its affiliates have received information requests and subpoenas from the Staff and the NYAG in connection with these inquiries and have been complying with these requests for documents and testimony. The Investment Adviser has implemented additional compliance policies and procedures in response to recent industry initiatives and its internal reviews of its mutual fund practices in a variety of areas. For further details regarding the Investment Adviser s review in connection with these requests, see Management of the Fund Regulatory Matters.

Repurchase of Common Stock

The Fund s Board has authorized the Fund to repurchase shares of its common stock in the open market when the shares are trading at a discount of 10% or more from net asset value. Such repurchases are subject to certain notice and other requirements under the 1940 Act. Through September 30, 2006, the Fund has not repurchased shares of its common stock under this authorization.

Anti-Takeover Provisions of the Fund s Charter and By-Laws

Certain provisions of the Fund s Charter and By-Laws may be regarded as anti-takeover provisions. Pursuant to these provisions, only one of the three classes of directors is elected each year, and the affirmative vote of the holders of 662/3% of the Fund s outstanding shares of each class (voting separately) is required to authorize the conversion of the Fund from a closed-end to an open-end investment company or generally to authorize any of the following transactions:

(1) the merger or consolidation of the Fund with any entity;

(2) the issuance of any securities of the Fund for cash to any entity or person;

(3) the sale, lease or exchange of all or any substantial part of the assets of the Fund to any entity or person (except assets having an aggregate fair market value of less than $1,000,000); or

(4) the sale, lease or exchange to the Fund, in exchange for its securities, of any assets of any entity or person (except assets having an aggregate fair market value of less than $1,000,000);

if such person or entity is directly, or indirectly through affiliates, the beneficial owner of more than 5% of the outstanding shares of any class of capital stock of the Fund. However, such vote would not be required when, under certain conditions, the Board approves the transaction. The overall effect of these provisions is to render more difficult the accomplishment of a merger with, or the assumption of control by, a principal stockholder, or the conversion of the Fund to open-end status. These provisions may have the effect of depriving Fund stockholders of an opportunity to sell their stock at a premium above the prevailing market price. See Anti-Takeover Provisions of the Fund s Charter and By-Laws.

Custodian, Transfer Agent, Auction Agent and Dividend Disbursing Agent

Mellon Trust of New England, N.A. (the Custodian), located at 135 Santilli Highway, Everett, Massachusetts 02149, serves as the custodian of the Fund s assets pursuant to a custody agreement. Under the 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 the month end value of the total assets of the Fund, plus certain charges for securities transactions.

Computershare Trust Company, N.A. (Computershare), located at 250 Royall Street, Canton, Massachusetts 02021, serves as the Fund s dividend disbursing agent, as agent under the Fund s automatic dividend reinvestment and voluntary cash purchase plan (the Plan) and as transfer agent and registrar with respect to the common stock of the Fund.

Computershare will serve as the transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series F Preferred. Computershare currently serves in such capacities with respect to the Series B Preferred and the Series D Preferred.

The Bank of New York, located at 100 Church Street, New York, New York 10286, serves as the auction agent, transfer agent, registrar, dividend disbursing agent and redemption agent with respect to the Series C Auction Rate Preferred and the Series E Auction Rate Preferred.

Interest Rate Transactions

The Fund has entered into an interest rate swap transaction with respect to its outstanding Series C Auction Rate Preferred, and may enter into an interest rate swap or cap transaction with respect to all or a portion of its outstanding Series E Auction Rate Preferred. Through these transactions the Fund may, for example, obtain the equivalent of a fixed rate for the Series C Auction Rate Preferred or the Series E Auction Rate Preferred (collectively, the Auction Rate Preferred) that is lower than the Fund would have to pay if it issued fixed rate preferred stock. The use of interest rate swaps and caps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. Swap agreements may involve, to varying degrees, elements of marketing and counterparty risk, and exposure to loss in excess of the related amounts reflected in the Fund s Statement of Assets and Liabilities.

In an interest rate swap, the Fund would agree to pay to the other party to the interest rate swap (which is known as the counterparty) periodically a fixed rate payment in exchange for the counterparty agreeing to pay to the Fund periodically a variable rate payment that is intended to approximate the Fund s variable rate payment obligation on a series of the Auction Rate Preferred. In an interest rate cap, the Fund would pay a premium to the counterparty to the interest rate cap and, to the extent that a specified variable rate index exceeds a predetermined fixed rate, the Fund would receive from the counterparty payments of the difference based on the notional amount of such cap. Interest rate swap and cap transactions introduce additional risk because the Fund would remain obligated to pay preferred stock distributions when due in accordance with the Articles Supplementary of each of the series of Auction Rate Preferred even if the counterparty defaulted. If there is a default by the counterparty to a swap contract, the Fund will be limited to contractual remedies pursuant to the agreements related to the transaction. There is no assurance that the swap contract counterparties will be able to meet their obligations pursuant to a swap contract or that, in the event of a default, the Fund will succeed in pursuing contractual remedies. The Fund assumes the risk that it may be delayed in or prevented from obtaining payments owed to it pursuant to a swap contract. The creditworthiness of the swap contract counterparties is closely monitored in order to minimize this risk. Depending on the general state of short-term interest rates and the returns on the Fund s portfolio securities at that point in time, such a default could negatively affect the Fund s ability to make distributions on its auction rate preferred stock. In addition, at the time an interest rate swap or cap transaction reaches its scheduled termination date, there is a risk that the Fund will not be able to obtain a replacement transaction or that the terms of the replacement will not be as favorable as on the expiring transaction. If this occurs, it could have a negative impact on the Fund s ability to make distributions on its auction rate preferred stock.

A sudden and dramatic decline in interest rates may result in a significant decline in the asset coverage. If the Fund fails to maintain the required asset coverage on its outstanding preferred stock or fails to comply with other covenants, the Fund may, at its option (and in certain circumstances must) require, consistent with its Charter and the requirements of the 1940 Act, that some or all of its outstanding shares of preferred stock (including the Series F Preferred) be redeemed. Such redemption likely would result in the Fund seeking to terminate early all or a portion of any swap or cap transaction. Early termination of a swap could require the Fund to make a termination payment to the counterparty.

The Fund intends to segregate cash or liquid securities having a value at least equal to the value of the Fund s net payment obligations under any swap transaction, marked to market daily. See How the Fund Manages Risk Interest Rate Transactions.

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FINANCIAL HIGHLIGHTS

The table below sets forth selected financial data for the periods presented. The per share operating performance and ratios for the fiscal periods ended December 31, 2005, 2004, 2003, 2002 and 2001, have been audited by PricewaterhouseCoopers LLP, the Fund s Independent Registered Public Accounting Firm, as stated in its report which is incorporated by reference into the SAI. The per share operating performance and ratios for the six months ended June 30, 2006 are unaudited and are as stated in the Fund s semi-annual report which is incorporated by reference into the SAI. The following information should be read in conjunction with the Financial Statements and Notes thereto, which are incorporated by reference into the SAI.

	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005	2004	2003	2002	2001
Selected data for a share of common stock outstanding throughout each period:						
OPERATING PERFORMANCE:						
Net asset value, beginning of period	$ 8.10	$ 8.69	$ 7.98	$ 6.28	$ 8.97	$ 10.89
Net investment income	0.12	0.09	0.02	0.04	0.07	0.08
Net realized and unrealized gain (loss) on investments	0.77	0.47	1.63	2.50	(1.65)	(0.16)
Total from investment operations	0.89	0.56	1.65	2.54	(1.58)	(0.08)
DISTRIBUTIONS TO PREFERRED SHAREHOLDERS[a]						
Net investment income	(0.02)[e]	(0.01)	(0.00)[f]	(0.00)[f]	(0.01)	(0.01)
Net realized gain on investments	(0.05)[e]	(0.14)	(0.14)	(0.14)	(0.16)	(0.11)
Total distributions to preferred shareholders	(0.07)	(0.15)	(0.14)	(0.14)	(0.17)	(0.12)
NET INCREASE (DECREASE) IN NET ASSETS ATTRIBUTABLE TO COMMON SHAREHOLDERS RESULTING FROM OPERATIONS	0.82	0.41	1.51	2.40	(1.75)	(0.20)
DISTRIBUTIONS TO COMMON SHAREHOLDERS:						
Net investment income	(0.10)[e]	(0.08)	(0.01)	(0.01)	(0.05)	(0.06)

Net realized gain on investments	(0.24)[e]	(0.77)	(0.79)	(0.68)	(0.90)	(1.02)
Return of capital	(0.04)[e]			(0.00)[f]	(0.00)[f]	
Total distributions to common shareholders	(0.38)	(0.85)	(0.80)	(0.69)	(0.95)	(1.08)
CAPITAL SHARE TRANSACTIONS:						
Increase (decrease) in net asset value from common share transactions	(0.00)[f]	(0.00)[f]	0.00[f]	0.01	0.02	0.03
Decrease in net asset value from shares issued in rights offering		(0.15)				(0.62)
Increase in net asset value from repurchase of preferred shares			0.00[f]			
Offering costs for preferred shares charged to paid-in capital	0.00[f]	(0.00)[f]	0.00[f]	(0.02)	(0.01)	(0.05)
Offering costs for issuance of rights charged to paid-in capital	(0.00)[f]	(0.00)[f]				
Total capital share transactions	(0.00)	(0.15)	0.00[f]	(0.01)	0.01	(0.64)
NET ASSET VALUE ATTRIBUTABLE TO COMMON SHAREHOLDERS, END OF PERIOD	$ 8.54	$ 8.10	$ 8.69	$ 7.98	$ 6.28	$ 8.97
Net Asset Value Total Return+	10.30%	5.50%	19.81%	39.90%	(21.00)%	(3.68)%
Market Value, End of Period	$ 8.21	$ 8.03	$ 9.02	$ 8.00	$ 6.85	$ 10.79
Total Investment Return++	6.93%	0.66%	24.04%	28.58%	(28.36)%	10.32%

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	Six Months Ended June 30, 2006 (Unaudited)	Year Ended December 31, 2005	2004	2003	2002	2001
RATIOS AND SUPPLEMENTAL DATA:						
Net assets including liquidation value of preferred shares, end of period (in 000 s)	$ 1,802,858	$ 1,764,634	$ 1,638,225	$ 1,514,525	$ 1,271,600	$ 1,465,369
Net assets attributable to common shares, end of period (in 000 s)	$ 1,425,366	$ 1,345,891	$ 1,219,483	$ 1,094,525	$ 842,403	$ 1,166,171
Ratio of net investment income to average net assets attributable to common shares	2.82%[g]	1.27%	0.64%	0.67%	0.99%	0.81%
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction[b]	1.45%[g]	1.39%	1.57%	1.62%	1.19%	1.12%
RATIOS AND SUPPLEMENTAL DATA:						
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction[b]	1.12%[g]	1.04%	1.14%	1.14%	0.87%	0.95%
Portfolio turnover rate	7.4%	22.4%	28.6%	19.2%	27.1%	23.9%
PREFERRED STOCK:						
7.25% CUMULATIVE PREFERRED STOCK						
Liquidation value, end of period (in 000 s)					$ 134,198	$ 134,198
Total shares outstanding (in 000 s)					5,368	5,368
Liquidation preference per share					$ 25.00	$ 25.00
Average market value[c]					$ 25.75	$ 25.39
Asset coverage per share					$ 74.07	$ 122.44
7.20% CUMULATIVE PREFERRED STOCK						

Liquidation value, end of period (in 000 s)	$ 123,750	$ 165,000	$ 165,000	$ 165,000	$ 165,000	$ 165,000
Total shares outstanding (in 000 s)	4,950	6,600	6,600	6,600	6,600	6,600
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00	$ 25.00
Average market value[c]	$ 25.23	$ 25.92	$ 26.57	$ 27.06	$ 26.40	$ 25.60
Asset coverage per share	$ 119.40	$ 105.35	$ 97.81	$ 90.15	$ 74.07	$ 122.44
AUCTION RATE SERIES C CUMULATIVE PREFERRED STOCK						
Liquidation value, end of period (in 000 s)	$ 130,000	$ 130,000	$ 130,000	$ 130,000	$ 130,000	
Total shares outstanding (in 000 s)	5	5	5	5	5	
Liquidation preference per share	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	
Average market value[c]	$ 25,000	$ 25,000	$ 25,000	$ 25,000	$ 25,000	
Asset coverage per share	$ 119,397	$ 105,353	$ 97,806	$ 90,150	$ 74,068	
5.875% SERIES D CUMULATIVE PREFERRED STOCK						
Liquidation value, end of period (in 000 s)	$ 73,743	$ 73,743	$ 73,743	$ 75,000		
Total shares outstanding (in 000 s)	2,950	2,950	2,950	3,000		
Liquidation preference per share	$ 25.00	$ 25.00	$ 25.00	$ 25.00		
Average market value[c]	$ 23.87	$ 24.82	$ 24.81	$ 25.10		
Asset coverage per share	$ 119.40	$ 105.35	$ 97.81	$ 90.15		
AUCTION RATE SERIES E CUMULATIVE PREFERRED STOCK						
Liquidation value, end of period (in 000 s)	$ 50,000	$ 50,000	$ 50,000	$ 50,000		
Total shares outstanding (in 000 s)	2	2	2	2		
Liquidation preference per share	$ 25,000	$ 25,000	$ 25,000	$ 25,000		
Average market value[c]	$ 25,000	$ 25,000	$ 25,000	$ 25,000		
Asset coverage per share	$ 119,397	$ 105,353	$ 97,806	$ 90,150		
ASSET COVERAGE[d]	478%	421%	391%	361%	296%	490%

+ Based on net asset value per share, adjusted for reinvestment of distributions, at prices dependent upon the relationship of the net asset value per share and the market value per share on the ex-dividend dates, including the effect of shares issued pursuant to 2001 and 2005 rights offerings, assuming full subscription by shareholder. Total return for the period of less than one year is not annualized.

++ Based on market value per share, adjusted for reinvestment of distributions, including the effect of shares issued pursuant to 2001 and 2005 rights offerings, assuming full subscription by shareholder. Total return for the period of less than one year is not annualized.

(a) Calculated based upon average common shares outstanding on the record dates throughout the periods.

(b) The ratios do not include a reduction of expenses for custodian fee credits on cash balances maintained with the custodian. Including such custodian fee credits for the six months ended June 30, 2006 and the years ended December 31, 2002 and 2001, the ratios of operating expenses to average net assets attributable to common

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shares net of fee reduction would have been 1.44%, 1.19% and 1.11%, respectively, and the ratios of operating expenses to average total net assets including liquidation value of preferred shares net of fee reduction would have been 1.12%, 0.87%, and 0.94%, respectively. For the fiscal years ended December 31, 2005, 2004 and 2003, the effect of the custodian fee credits was minimal.

(c) Based on weekly prices.

(d) Asset coverage is calculated by combining all series of preferred stock.

(e) Based on fiscal year to date book income. Amounts are subject to change and recharacterization at fiscal year-end.

(f) Amount represents less than $0.005 per share.

(g) Annualized.

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.

THE FUND

The Fund is a non-diversified, closed-end management investment company registered under the 1940 Act. The Fund was organized as a Maryland corporation on May 20, 1986. The Fund commenced its investment operations on August 21, 1986. The Fund s principal office is located at One Corporate Center, Rye, New York 10580-1422.

As of September 30, 2006, the Fund had 167,642,009 shares of common stock outstanding. Pursuant to an amendment to the Fund s Articles of Incorporation that was approved by stockholders in 2004, the Board may increase or decrease the aggregate number of shares of stock of the Fund or the number of shares of stock of any class or series that the Fund has authority to issue without stockholder approval. The Fund is currently authorized to issue 252,000,000 shares of common stock, par value $0.001 per share. The common stock currently trades on the NYSE under the symbol GAB. Prior to its redemption on June 17, 2003, the Series A Preferred was listed and traded on the NYSE under the symbol GAB Pr. The Series B Preferred is listed and traded on the NYSE under the symbol GAB PrB and Series D Preferred is listed and traded on the NYSE under the symbol GAB PrD . The Series C and Series E Auction Rate Preferred are not traded on any exchange.

The following table provides information about the Fund s outstanding stock as of September 30, 2006.

Title Of Class	**Amount Authorized ***	**Amount Outstanding ***
Common Stock	252,000,000	167,642,009
Series A Preferred	5,367,900	0
Series B Preferred	6,600,000	4,950,000
Series C Auction Rate Preferred	5,200	5,200
Series D Preferred	3,000,000	2,949,700
Series E Auction Rate Preferred	2,000	2,000
Preferred Stock	3,024,900	0

* Does not include the Series F Preferred being offered pursuant to this prospectus.

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CAPITALIZATION

The following table sets forth the unaudited capitalization of the Fund as of September 30, 2006, and its adjusted capitalization assuming the Series F Preferred offered in this prospectus had been issued.

	As of September 30, 2006 Actual	As Adjusted
	(Unaudited)	
Preferred stock, $0.001 par value per share, 18,000,000 shares authorized as of September 30, 2006 and 24,000,000 shares As Adjusted (the Actual column reflects the Fund s outstanding capitalization as of September 30, 2006; the As Adjusted column assumes the issuance of 6,000,000 shares of Series F Preferred, $25 liquidation preference)	$ 377,492,500	$ 527,492,500
Shareholders equity applicable to common stock:		
Common stock, $0.001 par value per share; 252,000,000 shares authorized as of September 30, 2006; and 246,000,000 shares As Adjusted ; 167,642,009 shares outstanding	167,642	167,642
Paid-in surplus *	1,069,995,506	1,064,760,506
Distribution in excess of net investment income and net realized gains on investments	(7,800,361)	(7,800,361)
Net unrealized appreciation	396,358,020	396,358,020