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INCARA PHARMACEUTICALS CORP
Form SC 13D
September 26, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 13D
Under the Securities Exchange Act of 1934
(Amendment No.)*

INCARA PHARMACEUTICALS CORPORATION

(Name of Issuer)

Common Stock, par value \$0.001 per share

(Title of Class of Securities)

45324E103

(CUSIP Number)

Mitchell D. Kaye, Manager
Brown Simpson Asset Management, LLC
152 West 57 Street
21st Floor
New York, New York 10019
(212) 247-8200

with a copy to:
Steven E. Siesser, Esq.
Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey 07068
(973) 597-2500

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications)

September 16, 2003

(Date of Event which Requires Filing of this Statement)

If the filing person has previously filed a statement on Schedule 13G to report the acquisition that is the subject of this Schedule 13D, and is filing this schedule because of Sections 240.13d-1(e), 240.13d-1(f) or 240.13d-1(g), check the following box. []

Note: Schedules filed in paper format shall include a signed original and five copies of the schedule, including all exhibits. See Section 240.13d-7 for other parties to whom copies are to be sent.

* The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

Cusip No. 45324E103

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1. Names of Reporting Persons. I.R.S. Identification Nos. of above persons (entities only):

Brown Simpson Asset Management, LLC
13-3954392

2. Check the Appropriate Box if a Member of a Group (See Instructions):

- (a) Not
(b) Applicable

3. SEC Use Only

4. Source of Funds (See Instructions): WC

5. Check if Disclosure of Legal Proceedings Is Required Pursuant to Items 2(d) or 2(e): Not Applicable

6. Citizenship or Place of Organization: New York, United States

Number of	7. Sole Voting Power:	*
Shares Beneficially	8. Shared Voting Power:	*
Owned by		
Each Reporting	9. Sole Dispositive Power:	*
Person With	10. Shared Dispositive Power:	*

11. Aggregate Amount Beneficially Owned by Each Reporting Person:
42,264,049*

12. Check if the Aggregate Amount in Row (11) Excludes Certain Shares (See Instructions): Not Applicable

13. Percent of Class Represented by Amount in Row (11): 74.99%*

14. Type of Reporting Person (See Instructions): IA

* Goodnow Capital, L.L.C., a Delaware limited liability company ("Goodnow"), is the holder of (i) 200 shares (the "Initial Shares") of Common Stock, par value \$0.001 per share (the "Common Stock"), of Incara Pharmaceuticals Corporation, a Delaware corporation (the "Company"), and (ii) warrants (the "Company Warrant"), subject to certain exercise restrictions contained therein, to purchase up to an aggregate of 50,000,000 shares of Common Stock (the "Warrant Shares") at an exercise price of \$.10 per share, which number of Warrant Shares and the exercise price are subject to adjustment as set forth therein. The Company Warrant contains a provision which provides that in no event shall the Company Warrant be exercisable, to the extent that the issuance of Warrant Shares thereunder, after taking into account the Initial Shares and any other shares of Common Stock then owned by Goodnow and its affiliates, would result in the "beneficial ownership" (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder) by Goodnow and its affiliates, of more than 74.99% of the outstanding Common Stock (the "Issuance Limitation"). The Issuance Limitation may not be waived by Goodnow.

Goodnow is also the holder of a Guaranty, dated as of July 28, 2003 and as amended on September 16, 2003 (the "Guaranty"), made by the Company in its favor pursuant to which, among other things, (i) the Company guaranteed the obligations of Incara, Inc., a wholly-owned subsidiary of the Company, under that certain Secured Convertible Promissory Note, dated July 28, 2003 (the

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"Note"), issued by Incara, Inc. to Goodnow in the aggregate principal amount of \$3,000,000 and (ii) any cash payment made under the Note may be converted, at Goodnow's election, into shares of Common Stock at a conversion price of \$.10 per share. Pursuant to the terms of the Note, the Note may not be prepaid by Incara, Inc. prior to its December 24, 2003 maturity date and, therefore, no shares of Common Stock are issuable in accordance with the terms of the Guaranty within the next 60 days, unless the maturity date is accelerated by Goodnow as a

result of an event of default under the Note and a cash payment is thereafter made under the Note by or on behalf of Incara, Inc. As a result, for purposes of determining the beneficial ownership of Brown Simpson Asset Management, LLC, the reporting person, any shares of Common Stock issuable in accordance with the terms of the Guaranty have been excluded.

Item 1. Security and Issuer.

This statement relates to the common stock, par value \$0.001 per share (the "Common Stock"), of Incara Pharmaceuticals Corporation, a Delaware corporation (the "Company"). The Company has principal executive offices located at 79 T.W. Alexander Drive, 4401 Research Commons, Suite 200, Research Triangle Park, North Carolina 27709.

Item 2. Identity and Background.

The person filing this statement is Brown Simpson Asset Management, LLC, a New York limited liability company ("BSAM"). The business address of BSAM is 152 West 57th Street, 21st Floor, New York, New York 10019.

BSAM is the sole manager of Goodnow Capital, L.L.C., a Delaware limited liability company ("Goodnow"). Pursuant to the Operating Agreement of Goodnow, management and control of Goodnow is vested exclusively in the sole manager and, as a result, BSAM possesses the sole power to vote and direct the disposition of all securities of the Company owned by Goodnow.

Mitchell D. Kaye, whose business address is c/o Brown Simpson Asset Management, LLC, 152 West 57th Street, 21st Floor, New York, New York 10019, is the Manager of BSAM.

BSAM has never been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors), nor has it been a party to any civil proceeding commenced before a judicial or administrative body of competent jurisdiction as a result of which it was or is now subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws.

Mr. Kaye has never been convicted in any criminal proceeding (excluding traffic violations or similar misdemeanors), nor has he been a party to any civil proceeding commenced before a judicial or administrative body of competent jurisdiction as a result of which he was or is now subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, federal or state securities laws or finding any violation with respect to such laws. Mr. Kaye is a citizen of the United States.

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Item 3. Source and Amount of Funds or Other Consideration.

Pursuant to a certain Secured Convertible Promissory Note, dated July 28, 2003 (the "Note"), issued by Incara, Inc., a wholly-owned subsidiary of the Company, to Goodnow in the aggregate principal amount of \$3,000,000, Goodnow has advanced \$1,500,000 to Incara, Inc. as of the date hereof and will advance the remaining principal balance of the Note in accordance with the terms of a budget approved by Goodnow (the "\$3M Financing"). The Note is convertible, at the option of Goodnow, into shares of common stock, par value \$.001 per share, of Incara, Inc. at a conversion price of \$.10 per share (which conversion price is

subject to adjustment in accordance with the terms of the Note) and automatically converts into shares of common stock of Incara, Inc. upon consummation of the contemplated merger (the "Merger") of the Company with and into Incara, Inc., with Incara, Inc. emerging as the surviving entity. The obligations of Incara, Inc. under the Note are secured by a perfected, first-priority security interest in the assets of Incara, Inc. Each of the Company and Aeolus Pharmaceuticals, Inc., a wholly-owned subsidiary of the Company ("Aeolus"), have guaranteed the obligations of Incara, Inc. under the Note and the obligations of the Company and Aeolus pursuant to their respective guarantees are secured by a perfected, first-priority security interest in their respective assets. All funds advanced by Goodnow under the Note came directly from (or, in the case of the remaining principal amount to be advanced by Goodnow, will come directly from) the assets of Goodnow.

Pursuant to a Debenture and Warrant Agreement, dated as of September 16, 2003, among the Company, Incara, Inc. and Goodnow (the "Debenture and Warrant Purchase Agreement"), Goodnow agreed to advance, subject to the satisfaction of certain conditions set forth therein (including, without limitation, the consummation of the Merger), up to an additional \$5,000,000 to Incara, Inc. in accordance with the terms of a budget approved by Goodnow. In consideration for Goodnow entering into the Debenture and Warrant Purchase Agreement and agreeing to provide up to an additional \$5,000,000 in financing to Incara, Inc. on the terms and subject to the conditions contained therein, (i) the Guaranty, dated as of July 28, 2003 (as amended, the "Guaranty"), made by the Company in favor of Goodnow was amended to permit Goodnow, at its election, to convert any cash payments made in satisfaction of the Company's obligations thereunder into Common Stock at a price of \$.10 per share, (ii) Incara, Inc. issued Goodnow a warrant (the "Incara, Inc. Warrant"), subject to certain exercise restrictions contained therein, to purchase up to an aggregate of 50,000,000 shares of common stock of Incara, Inc. at an exercise price of \$.10 per share, which Incara, Inc. Warrant expires upon consummation of the Merger and the number of shares issuable thereunder will be reduced, share for share, by the number of shares of Common Stock actually issued under the Company Warrant (as defined below) and the number of shares of common stock of Incara, Inc. actually issued under the Debenture (as defined below), (iii) the Company issued Goodnow a warrant (the "Company Warrant" and together with the Incara, Inc. Warrant, the "Warrants"), subject to certain exercise restrictions contained therein, to purchase up to an aggregate of 50,000,000 shares of Common Stock (the "Warrant Shares") at an exercise price of \$.10 per share (the "Warrant Exercise Price"), which Company Warrant expires upon consummation of the Merger and the number of Warrant Shares issuable thereunder will be (A) increased, to the extent of any cash payment made under the Note, in an amount determined by dividing the amount of any such cash payment by the then-existing Warrant Exercise Price (a "Warrant Share Increase Event"), and (B) reduced, share for share, by the number of shares of common stock of Incara, Inc.

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actually issued upon exercise of the Incara, Inc. Warrant or conversion of the Debenture, and (iv) Incara, Inc. will issue, upon closing of the transactions contemplated by the Debenture and Warrant Purchase Agreement, a Secured Convertible Debenture (the "Debenture" and together with the Note, the Debenture and Warrant Purchase Agreement, the Guaranty and the Warrants, the "Financing Transaction Documents") in the aggregate principal amount of \$5,000,000, which Debenture is convertible into shares of common stock of Incara, Inc. at a conversion price of \$.10 per share and the number of shares issuable upon conversion thereof will be reduced, share for share, by the number of shares of common stock of Incara, Inc. or Company Common Stock that are actually issued upon exercise of the Warrants following the issuance of the Debenture.

The effect of the Financing Transaction Documents is that Goodnow will have the right to purchase (whether by (i) conversion of the principal amount of the Note into shares of common stock of Incara, Inc. or conversion of any payments made under the Guaranty into shares of Common Stock in accordance with

the terms of the Guaranty, (ii) conversion of the principal amount of the Debenture into shares of common stock of Incara, Inc., and/or (iii) exercise of the Warrants) up to a maximum of 80,000,000 shares of common stock of the Company or Incara, Inc., plus such additional number of shares of common stock of the Company or Incara, Inc., as the case may be, that may be issuable at a price of \$.10 per share upon conversion of the accrued but unpaid interest owing to Goodnow under the various Financing Transaction Documents. Pursuant to the terms of the Note, the Note may not be prepaid prior to its December 24, 2003 maturity date and, therefore, no shares of Common Stock are issuable upon conversion of payments made under the Guaranty within the next 60 days nor are any additional shares of Common Stock issuable under the Company Warrant as a result of a Warrant Share Increase Event within the next 60 days, unless the maturity date is accelerated by Goodnow as a result of an event of default under the Note and a cash payment is thereafter made under the Note or the Guaranty. As a result, for purposes of determining the beneficial ownership of Brown Simpson Asset Management, LLC, the reporting person, (i) any shares of Common Stock issuable in accordance with the terms of the Guaranty and (ii) any additional shares of Common Stock issuable under the Company Warrant as a result of a Warrant Share Increase Event, have been excluded.

Each of the Guaranty and the Warrants contain, and the Debenture when issued will contain, provisions which provide that in no event shall the Guaranty or Debenture be convertible, or the Warrants be exercisable, to the extent that the issuance of any shares of common stock issuable upon conversion or exercise thereof, after taking into account the Initial Shares and any other shares then outstanding, would result in the "beneficial ownership" (as defined in Section 13(d) of the Securities Exchange Act of 1934, as amended, and Regulations 13D-G thereunder) by Goodnow and their affiliates of more than 74.99% of the common stock of either the Company or Incara, Inc. (the "Issuance Limitation"). The Issuance Limitation may not be waived by Goodnow.

All funds to be advanced by Goodnow under the Debenture will come directly from the assets of Goodnow.

Item 4. Purpose of Transaction.

The acquisition of the securities referred to herein is for the purpose of having the ability to direct the strategic course of the Company. The person filing this statement has no present intention to direct the day-to-day management and affairs of the Company. However, through the covenants in the

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Financing Transaction Documents, its minority position on the Company's board of directors and its ability to elect a majority of the board of directors by virtue of its stock ownership, the filing person has the ability, but not the present intention, to direct the day-to-day management and affairs of the Company.

Pursuant to the terms of the Debenture and Warrant Purchase Agreement, Goodnow has agreed to provide up to an additional \$5,000,000 in financing to Incara, Inc. in consideration for, among other things, the issuance of the Warrants and the Debenture and the shares of common stock of Incara, Inc. and/or Company Common Stock issuable upon exercise or conversion thereof. As set forth in the Debenture and Warrant Purchase Agreement, the Merger is one of the conditions precedent to Goodnow's obligation to provide the additional \$5,000,000 in financing and, simultaneously with the execution and delivery of the Debenture and Warrant Purchase Agreement, the Company and Incara, Inc. entered into an Agreement and Plan of Merger and Reorganization. The Merger is subject to, among other things, the approval of the Company's stockholders. Pursuant to the Merger, it is contemplated that:

- o each share of Common Stock outstanding immediately prior to the Merger will be exchanged for the right to receive one share of Incara, Inc. common stock;
- o each share of the Company's Series B Preferred Stock outstanding immediately prior to the Merger will be exchanged for the right to receive one share of Series B Preferred Stock of Incara, Inc., with the same rights and privileges as the Company's Series B Preferred Stock; and
- o each share of the Company's Series C Preferred Stock outstanding immediately prior to the Merger will be converted into the right to receive 154.08320493 shares of common stock of Incara, Inc.

Pursuant to the Debenture and Warrant Purchase Agreement, Goodnow has the right to designate one director to the board of directors of both the Company and Incara, Inc. provided Goodnow owns at least 10% and less than 20% of the outstanding Common Stock, on an as-converted, fully diluted basis. The number of directors Goodnow may designate increases to two if Goodnow owns more than 20% of the outstanding Common Stock on an as-converted, fully-diluted basis. After consummation of the Merger, and including the directors designated by Goodnow, the board of directors of Incara, Inc., the surviving entity, will consist of seven (7) directors.

The Debenture and Warrant Purchase Agreement also provides for the payment of a break-up fee to Goodnow in the amount of Five Hundred Thousand Dollars (\$500,000) in the event that the Company or Incara, Inc., as the case may be, enters into one of the extraordinary transactions described in the Debenture and Warrant Purchase Agreement.

Other than as set forth above in this Item 4, BSAM has no present plans or intentions which relate to or would result in any of the transactions required to be described in Item 4 of Schedule 13D.

Item 5. Interest in Securities of the Issuer.

Based upon information provided by the Company in the Debenture and Warrant Purchase Agreement, there were 14,095,531 shares of Common Stock issued

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and outstanding as of September 16, 2003. As of September 16, 2003, Goodnow owns 200 shares of Common Stock and has rights to acquire 80,000,000 shares of Common Stock pursuant to the Company Warrant and/or the Guaranty (excluding any additional shares of Common Stock that may be issued as a result of any interest due and payable on the Note or the Debenture). Pursuant to the terms of the Note, the Note may not be prepaid prior to its December 24, 2003 maturity date and, therefore, no shares of Common Stock are issuable upon conversion of the Guaranty within the next 60 days nor are any additional shares of Common Stock issuable under the Company Warrant as a result of a Warrant Share Increase Event within the next 60 days, unless the maturity date is accelerated by Goodnow as a result of an event of default under the Note and a cash payment is thereafter made under the Note or the Guaranty. As a result, for purposes of determining the beneficial ownership of Brown Simpson Asset Management, LLC, the reporting person, (i) any shares of Common Stock issuable in accordance with the terms of the Guaranty and (ii) any additional shares of Common Stock issuable upon under the Company Warrant as a result of a Warrant Share Increase Event, have been excluded. As a result of the Issuance Limitation, the Company Warrant is, within the next 60 days, exercisable for an aggregate of 42,263,849 shares of Common

Stock. BSAM is the sole manager of Goodnow. Pursuant to the Operating Agreement of Goodnow, management and control of Goodnow is vested exclusively in the sole manager and, as a result, BSAM possesses the sole power to vote and direct the disposition of all securities held by Goodnow. Thus, as of September 16, 2003, for the purposes of Reg. Section 240.13d-3 of the Securities Exchange Act of 1934, as amended, BSAM may be deemed to beneficially own 42,264,049 shares of Common Stock, or 74.99% of the shares of Common Stock deemed issued and outstanding as of that date.

The 200 shares of Common Stock currently owned by Goodnow were acquired directly from the Company at a price of \$0.17 per share pursuant to a Subscription Agreement, dated as of August 28, 2003, by and between Goodnow and the Company.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

In connection with the \$3M Financing, in addition to the Guaranty issued to the Company by Goodnow, Goodnow and the Company entered into a Security Agreement, dated July 28, 2003 (the "Initial Security Agreement"), pursuant to which, among other things, the Company granted Goodnow a security interest in all of its assets to secure the Company's obligations under the Guaranty.

In connection with the financing transactions described herein, (i) the Company, Incara, Inc. and Goodnow entered into a Registration Rights Agreement, dated September 16, 2003, requiring the Company and Incara, Inc. to register for resale the shares of common stock issuable upon conversion and/or exercise, as the case may be, of the Note, the Guaranty, the Warrants and the Debenture, by the filing of a registration statement with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended, and performing certain obligations related to such registration, and (ii) the Company, Goodnow and certain stockholders of the Company entered into a Voting Agreement pursuant to which, among other things, such stockholders agreed to grant an irrevocable proxy to Goodnow to vote such stockholder's shares of Common Stock in favor of the Merger.

The descriptions of the transactions and agreements set forth in this

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Schedule 13D are qualified in their entirety by reference to the complete agreements governing such matters, each of which are incorporated by reference to this Schedule 13D as exhibits pursuant to Item 7 hereof.

Except as otherwise described herein, no contracts, arrangements, understandings or similar relationships exist with respect to the securities of the Company between BSAM and any person or entity.

Item 7. Material to be Filed as Exhibits.

1. Secured Convertible Promissory Note, dated July 28, 2003, in the aggregate principal amount of \$3,000,000 issued by Incara, Inc. to Goodnow Capital, L.L.C. as successor-by-merger to Goodnow Capital, Inc., incorporated by reference to Exhibit 10.97 to the Quarterly Report of Incara Pharmaceuticals Corporation on Form 10-Q for the fiscal quarter ended June 30, 2003.

2. Security Agreement, dated as of July 28, 2003, between Incara Pharmaceuticals Corporation and Goodnow Capital, L.L.C. as successor-by-merger to Goodnow Capital, Inc., incorporated by reference to Exhibit 10.99 to the Quarterly Report of Incara Pharmaceuticals Corporation on Form 10-Q for the fiscal quarter ended June 30, 2003.

3. Subscription Agreement, dated as of August 28, 2003, by and between Incara Pharmaceuticals Corporation and Goodnow Capital, L.L.C.

4. Guaranty, dated as of July 28, 2003 and as amended on September 16, 2003, made by Incara Pharmaceuticals Corporation in favor of Goodnow Capital, L.L.C. as successor-by-merger to Goodnow Capital, Inc., incorporated by reference to Exhibit 10.98 to the Quarterly Report of Incara Pharmaceuticals Corporation on Form 10-Q for the fiscal quarter ended June 30, 2003.

5. Debenture and Warrant Purchase Agreement, dated as of September 16, 2003, among Incara Pharmaceuticals Corporation, Incara, Inc. and Goodnow Capital, L.L.C., incorporated by reference to Exhibit 10.100 to the Registration Statement on Form S-4 filed by Incara, Inc. with the Securities and Exchange Commission on September 19, 2003.

6. Warrant, dated September 16, 2003, issued by Incara Pharmaceuticals Corporation in favor of Goodnow Capital, L.L.C., incorporated by reference to Exhibit 4.7 to the Registration Statement on Form S-4 filed by Incara, Inc. with the Securities and Exchange Commission on September 19, 2003.

7. Warrant, dated September 16, 2003, issued by Incara, Inc. in favor of Goodnow Capital, L.L.C., incorporated by reference to Exhibit 4.6 to the Registration Statement on Form S-4 filed by Incara, Inc. with the Securities and Exchange Commission on September 19, 2003.

8. Form of Secured Convertible Debenture to be issued pursuant to the Debenture and Warrant Purchase Agreement.

9. Agreement and Plan of Merger and Reorganization, dated as of September 16, 2003, by and between Incara Pharmaceuticals Corporation and Incara, Inc., incorporated by reference to Exhibit 2.1 to the Registration Statement on Form S-4 filed by Incara, Inc. with the Securities and Exchange Commission on September 19, 2003.

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10. Registration Rights Agreement, dated as of September 16, 2003, among Incara Pharmaceuticals Corporation, Incara, Inc. and Goodnow Capital, L.L.C., incorporated by reference to Exhibit 10.101 to the Registration Statement on Form S-4 filed by Incara, Inc. with the Securities and Exchange Commission on September 19, 2003.

11. Voting Agreement, dated as of September 16, 2003, among Incara Pharmaceuticals Corporation, Goodnow Capital, L.L.C. and certain stockholders of Incara Pharmaceuticals Corporation.

Signature

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

September 26, 2003

BROWN SIMPSON ASSET MANAGEMENT, LLC

/s/ Mitchell D. Kaye

Mitchell D. Kaye, Manager

Attention: Intentional misstatements or omissions of fact constitute Federal criminal violations (See 18 U.S.C. 1001).

EXHIBIT 3

SUBSCRIPTION AGREEMENT

Subscription Agreement, dated August 28, 2003 (the "Agreement"), by and between Incara Pharmaceuticals Corporation, a Delaware corporation (the "Company"), and Goodnow Capital, L.L.C., a Delaware limited liability company (the "Subscriber").

W I T N E S S E T H

WHEREAS, the Company desires to issue and sell to the Subscriber, and the Subscriber desires to subscribe for and purchase, two hundred (200) shares (the "Shares") of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"), for an aggregate purchase price of \$34.00 (the "Purchase Price") or \$0.17 per share.

NOW THEREFORE, in consideration of the premises and the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, each of the parties hereto agrees as follows:

Section 1. Purchase and Sale of Common Stock.

Upon the terms and subject to the conditions of this Agreement, the

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Company is hereby selling, assigning, transferring, conveying and delivering to the Subscriber the Shares, and the Subscriber is hereby purchasing the Shares from the Company in exchange for the Purchase Price.

Section 2. Access to Information.

The Subscriber is fully familiar with the affairs of the Company, including without limitation, its business, condition and current operations. The Company has provided to the Subscriber an opportunity to ask questions and receive answers concerning the business, condition and current operations of the Company and the terms and conditions of this subscription.

Section 3. Subscriber's Acknowledgments.

The Company has disclosed to the Subscriber and the Subscriber understands that:

(a) The Shares have not been registered under the Securities Act of 1933, as amended (the "Act"), or state securities laws and, therefore, the Shares cannot be resold or transferred unless they are subsequently registered under the Act and applicable state securities or "Blue Sky" laws or exemptions from such registration are available.

(b) A legend summarizing the restrictions on transfer of the Shares will be placed on the Shares.

(c) The Shares have not been registered under the Act in reliance upon an exemption under the provisions of the Act which depends, in part, upon the investment intent of the purchaser. In this regard, the Subscriber understands that it is the position of the Securities and Exchange Commission (the "SEC") that the statutory basis for such exemption would not be present if the representation of the purchaser merely meant that its present intention was to hold such Shares for a short period, such as the capital gains period of the Internal Revenue Code, for a deferred sale, for a market rise, or for a sale if the market does not rise (assuming that a market develops) for a year, or for any other fixed period. The Subscriber realizes that, in the view of the SEC, a purchase now with an intent to resell would represent a purchase with an intent inconsistent with this investment representation, and the SEC might regard such a sale or disposition as a deferred sale to which the exemption is not available.

(d) No federal or state agency has made any finding or determination as to the fairness of the investment, nor have they made any recommendation or endorsement concerning the Shares.

(e) This Agreement is not revocable by the Subscriber and the Subscriber is executing this Agreement intending to be legally bound thereby.

(f) For the sale of stock contemplated by this Agreement, the Subscriber hereby waives the prohibition on sales of stock by the Company contained in Section 8(d) of the Guaranty dated July 28, 2003 issued by the Company in favor of the Subscriber.

Section 4. Subscriber's Representations.

The Subscriber hereby represents and warrants to the Company as follows:

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(a) The Subscriber is a validly existing limited liability company under the laws of the State of Delaware, and has all requisite power and authority to purchase the Shares pursuant to this Agreement. The person signing this Agreement on behalf of the Subscriber has been duly authorized to act on behalf of and to bind the Subscriber.

(b) This Agreement has been duly executed and delivered by the Subscriber and constitutes a valid and binding obligation of the Subscriber, enforceable against the Subscriber in accordance with its terms, except as may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or similar laws affecting creditors' rights generally or by general equitable principles and except insofar as the enforceability of any provision of such agreement would be restricted or void by reason of public policy.

(c) The Subscriber is acquiring the Shares for its own account for investment only and not for or with a view to resale or distribution.

(d) The Subscriber can bear the economic risk of losing its entire investment in the Shares. The Subscriber is prepared to bear the economic risk of this investment for an indefinite time. The Subscriber is an "accredited investor" as that term is defined in Rule 501 of the Act.

Section 5. Representations of the Company.

The Company hereby represents and warrants to the Subscriber as follows:

(a) The Company is duly incorporated, validly existing and in good standing in its jurisdiction of incorporation. The Company has full power and authority to enter into, deliver and perform this Agreement, and it has taken all action required to authorize the execution and delivery of this Agreement and to consummate the transactions contemplated hereby, and the person signing this Agreement on behalf of the Company has been duly authorized to act on behalf of and to bind the Company.

(b) This Agreement has been duly executed and delivered by the Company and constitutes a valid and binding obligation of the Company enforceable against it in accordance with its terms, except as may be limited by bankruptcy, insolvency, fraudulent conveyance, reorganization or similar laws affecting creditors' rights generally or by general equitable principles and except insofar as the enforceability of any provision of such agreements would be restricted or void by reason of public policy.

(c) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby will not (i) violate, conflict with or result in an event of default under any agreement or contract to which the Company is a party or by which it is bound, (ii) violate any applicable law, ordinance, rule or regulation of any governmental body having jurisdiction over the Company or its business or any order, judgment or decree applicable to the Company, (iii) require the Company to obtain the consent of any third party, (iv) result in the creation of any liens, claims, charges or encumbrances on the Shares, or (v) violate any provision of its certificate of incorporation or by-laws.

(d) All of the issued shares of capital stock of the Company have been duly and validly authorized and issued and are fully paid and non-assessable. The Shares have been duly and validly authorized and, when

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issued and delivered and paid for, will be duly and validly issued and fully paid.

Section 6. Deliveries.

(a) Simultaneously with the execution of this Agreement, the Subscriber shall deliver to the Company the Purchase Price, payable by wire transfer to an account of the Company or by a certified or official bank check.

(b) Immediately after the Company's receipt of the executed signature page from the Subscriber and the Purchase Price for the Shares, the Company shall instruct its stock transfer agent to deliver to the Subscriber certificates representing the Shares registered in the name of the Subscriber or its nominees.

Section 7. Miscellaneous.

(a) This Agreement, and all matters arising directly or indirectly hereunder, shall be governed by, and construed in accordance with, the internal laws of the State of New York, without reference to the choice of law principles thereof.

(b) This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter hereof and may be amended only by a writing executed by the Company and the Subscriber.

(c) This Agreement may be executed in counterparts, each of which shall be deemed an original instrument, but all of which shall together constitute one and the same instrument.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Subscription Agreement as of the date first above written.

INCARA PHARMACEUTICALS CORPORATION

By: _____

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Name: Clayton I. Duncan
Title: President and Chief Executive Officer

GOODNOW CAPITAL, L.L.C.

By:

Name: Mitchell D. Kaye
Title: Authorized Person

EXHIBIT 8

SECURED CONVERTIBLE DEBENTURE

\$5,000,000*

Maturity Date:
December 24, 2004

FOR VALUE RECEIVED, Incara, Inc. (f/k/a Incara Cell Technologies, Inc.), a Delaware corporation (the "Maker"), hereby promises to pay to the order of Goodnow Capital, L.L.C., a Delaware limited liability company and the successor-by-merger to Goodnow Capital, Inc., or its successors, assigns and legal representatives (the "Holder"), at 152 West 57th Street, 21st Floor, New York, New York 10019, or at such other location as the Holder may designate from time to time, the aggregate principal sum of all advances (each, an "Advance" and, collectively, the "Advances") made by the Holder to the Maker, in lawful money of the United States of America, together with interest on each such Advance at a rate of 10% per annum. This Secured Convertible Debenture (this "Debenture") is the Debenture of the Maker referred to in that certain Debenture and Warrant Purchase Agreement (the "Purchase Agreement"), dated as of September 16, 2003, by and among the Holder, the Maker and Incara Pharmaceuticals Corporation, a Delaware corporation and the parent of the Maker (the "Parent"). This Debenture is subject to the terms and conditions of the Purchase Agreement. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Purchase Agreement.

1. Advances. Subject to the terms and conditions contained herein and in the Purchase Agreement, the Holder shall make Advances to the Maker from time to time upon 10 Business Days written request of the Maker, subject to an aggregate limit of Five Million Dollars (\$5,000,000)**, and only in accordance with the terms of the budget attached hereto as Exhibit A (the "Budget") or any development plan (the "Plan") approved in writing by the Holder. The proceeds of any Advance shall be used by the Maker only for the specific purposes set forth in the Budget or the Plan. For purposes of clarity, the reference in the preceding sentence to the Maker's use of proceeds of any Advance shall be deemed to include the making of advances to Parent prior to the Merger for its payment of those payables specified in the Budget. The principal amount of each Advance made by the Holder and all payments made by the Maker shall be entered by the Holder on its books and records; which books and records shall be conclusive evidence of the amounts outstanding hereunder absent manifest error.

* The face value of this Debenture will be reduced on a dollar for dollar basis by the aggregate exercise price paid by the Holder upon exercise of

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the Warrants (as defined in the Purchase Agreement) prior to the issuance of this Debenture.

** The aggregate limit of \$5,000,000 will be reduced on a dollar for dollar basis by the aggregate exercise price paid by the Holder upon exercise of the Warrants (as defined in the Purchase Agreement) prior to the issuance of this Debenture.

2. Maturity Date. Subject to acceleration as provided herein, the aggregate principal amount of the Advances and accrued interest thereon shall be due and payable on December 24, 2004 (the "Maturity Date").

3. Interest on Overdue Amounts. If the Maker fails to pay any amount hereunder when due, whether on the Maturity Date, upon acceleration or otherwise, and such failure continues for a period of five (5) Business Days or more, interest shall thereafter accrue on any overdue amounts at a rate of 15% per annum until paid in full.

4. Calculation of Interest Interest hereunder shall be calculated on the basis of a 360-day year for the actual number of days elapsed.

5. Prepayment. The Maker may not prepay this Debenture at any time without the prior written consent of the Holder. Any permitted prepayments hereunder shall be applied first, to the payment of any expenses then owed to the Holder, second, to accrued interest on this Debenture and third, to the payment of the principal outstanding under this Debenture. The Maker shall not have the right to set off or otherwise deduct from amounts payable by it hereunder any amounts whether liquidated or unliquidated, which the Holder or any of its Affiliates may owe to the Maker, which right is hereby expressly waived to the maximum extent permitted by applicable law.

6. Conversion.

(a) At any time on or prior to the Maturity Date, the Holder shall have the right to convert all or any portion of the principal of and accrued interest on this Debenture into a number (rounded down in the case of any fractional shares) of fully paid and non-assessable shares of common stock, par value \$.001 per share, of the Maker (the "Common Stock") equal to the amount being converted divided by \$0.10 (the "Conversion Price"), which Conversion Price assumes that the Parent Common Stock will be converted into Common Stock on a one-for-one basis in the Merger. The Conversion Price shall be appropriately adjusted for stock splits, reverse stock splits, reclassifications, recapitalizations, or other similar occurrences affecting the number of shares of Common Stock outstanding or the number of shares of Parent Common Stock outstanding prior to the Merger. The number of shares of Common Stock issuable upon conversion of this Debenture shall be reduced, share for share, by the number of (i) shares of Parent Common Stock that are actually issued following the issuance of this Debenture upon exercise of the Parent Warrant and (ii) shares of Common Stock that are actually issued following the issuance of this Debenture upon exercise of the Company Warrant.

(b) To effect the conversion of this Debenture, the Holder shall surrender this Debenture to the Maker together with a written notice of conversion specifying the date on which such conversion is to be effected, which date may not be less than two Business Days after the date of such notice, unless the Maker consents to an earlier date (such date, the "Conversion Date")

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and a representation letter to the Maker containing customary private placement representations and warranties so that the issuance of the shares of Common Stock upon conversion of this Debenture shall be exempt from registration under the 1933 Act. Promptly following the Conversion Date (but in no event more than three (3) Business Days thereafter), the Maker shall issue to the Holder the shares of Common Stock into which this Debenture has been converted, registered in the name of the Holder or its nominee and shall deliver the certificate(s) representing such shares to the Holder at the address specified by the Holder, and, unless the Holder has converted all of the principal and accrued interest on this Debenture into Common Stock, a new Debenture representing the principal and accrued interest which the Holder did not convert into Common Stock (which new Debenture shall be in the form of this Debenture and shall continue to be convertible into shares of Common Stock at the Holder's election). From and after the Conversion Date, the Holder shall be treated for all purposes as the owner of the shares of Common Stock into which this Debenture has been converted and the certificate(s) for such shares shall be issued as of the Conversion Date.

(c) Notwithstanding anything herein to the contrary, in no event shall the Holder be entitled to convert any portion of this Debenture in excess of that portion of this Debenture upon conversion of which the sum of (1) the number of shares of Common Stock beneficially owned by the Holder and its Affiliates (other than shares of Common Stock which may be deemed beneficially owned through the ownership of the unconverted portion of this Debenture or the unexercised or unconverted portion of any other security of the Holder subject to a limitation on exercise or conversion analogous to the limitations contained herein) and (2) the number of shares of Common Stock issuable upon the conversion of the portion of this Debenture with respect to which the determination of this Section 6(c) is being made, would result in beneficial ownership by the Holder and its Affiliates of more than 74.99% of the then outstanding shares of Common Stock. For purposes of the immediately preceding sentence, "beneficial ownership" shall be determined in accordance with Section 13(d) of the 1934 Act and Regulation 13D-G thereunder, except as otherwise provided in clause (1) of such sentence. As used in this Section 6(c), the term "Affiliate" means any person or entity that, directly or indirectly through one or more intermediaries, controls or is controlled by or is under common control with a person or entity, as such terms are used in and construed under Rule 144 under the 1933 Act.

(d) The Maker shall, at all times prior to full conversion or satisfaction of this Debenture, reserve a sufficient number of duly authorized shares of Common Stock to satisfy the conversion rights granted to the Holder hereunder without regard to the limitations specified in Section 6(c). When the shares of Common Stock issuable upon the conversion of this Debenture are authorized for quotation on Nasdaq or listing on the New York Stock Exchange (or authorized for listing or quotation on any other national securities exchange or the Over-the-Counter Bulletin Board or the "pink sheets", as the case may be), the Maker shall keep the shares of Common Stock issuable upon the conversion of this Debenture authorized for quotation on Nasdaq or listing on the New York Stock Exchange (or authorized for listing or quotation on any other national securities exchange or the Over-the-Counter Bulletin Board or the "pink sheets", as the case may be).

(e) Except as provided in Section 6(f) below, if and whenever the Maker shall issue or sell, or is, in accordance with any of Sections 6(e)(i) through (vi) hereof, deemed to have issued or sold, any shares of Common Stock for a consideration per share less than the Conversion Price in effect immediately prior to the time of such issue or sale, then and in each such case (a "Trigger Issuance") the then-existing Conversion Price shall be reduced, as

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of the close of business on the effective date of the Trigger Issuance, to a Conversion Price determined as follows:

$$\text{Adjusted Conversion Price} = \frac{(A \times B) + D}{A+C}$$

where

A = the number of shares of Common Stock outstanding (including any Additional Shares of Common Stock (as defined below) immediately preceding such Trigger Issuance);

B = the Conversion Price in effect immediately preceding such Trigger Issuance;

C = the number of Additional Shares of Common Stock (as adjusted for stock splits, stock combinations, recapitalizations, and dividends and the like) outstanding or deemed outstanding hereunder as a result of such Trigger Issuance; and

D = the aggregate consideration, if any, received or deemed to be received by the Maker upon such Trigger Issuance.

For purposes of this Section 6(e), "Additional Shares of Common Stock" shall mean all shares of Common Stock issued by the Maker or deemed to be issued pursuant to the provisions of this Section 6(e), except for those issuances covered by Section 6(f) below.

For purposes of this Section 6(e), the following Sections 6(e)(i) to 6(e)(vi) shall also be applicable (subject, in each such case, to the provisions of Section 6(f) below):

(i) Issuance of Rights or Options. In case at any time the Maker shall in any manner grant (directly and not by assumption in the Merger) any warrants or other rights to subscribe for or to purchase, or any options for the purchase of, Common Stock or any stock or security convertible into or exchangeable for Common Stock (such warrants, rights or options being called "Options" and such convertible or exchangeable stock or securities being called "Convertible Securities"), whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon the exercise of such Options or upon the conversion or exchange of such Convertible Securities (determined by dividing (A) the sum (which sum shall constitute the applicable consideration) of

(x) the total amount, if any, received or receivable by the Maker as consideration for the granting of such Options, plus (y) the aggregate amount of additional consideration payable to the Maker upon the exercise of all such Options, plus (z) in the case of such Options which relate to Convertible Securities, the aggregate amount of additional consideration, if any, payable upon the issue or sale of such Convertible Securities and upon the conversion or exchange thereof, by (B) the total maximum number of shares of Common Stock issuable upon the exercise of such Options or upon the conversion or exchange of all such Convertible Securities issuable upon the exercise of such Options) shall be less than the Conversion Price in effect immediately prior to the time of the granting of such Options, then

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the total number of shares of Common Stock issuable upon the exercise of such Options or upon conversion or exchange of the total amount of such Convertible Securities issuable upon the exercise of such Options shall be deemed to have been issued for such price per share as of the date of granting of such Options or the issuance of such Convertible Securities and thereafter shall be deemed to be outstanding for purposes of adjusting the Conversion Price. Except as otherwise provided in Section 6(e)(iii), no adjustment of the Conversion Price shall be made upon the actual issue of such Common Stock or of such Convertible Securities upon exercise of such Options or upon the actual issue of such Common Stock upon conversion or exchange of such Convertible Securities.

(ii) Issuance of Convertible Securities. In case the Maker shall in any manner issue or sell (directly and not by assumption in the Merger) any Convertible Securities, whether or not the rights to exchange or convert any such Convertible Securities are immediately exercisable, and the price per share for which Common Stock is issuable upon such conversion or exchange (determined by dividing (A) the sum (which sum shall constitute the applicable consideration) of (x) the total amount received or receivable by the Maker as consideration for the issue or sale of such Convertible Securities, plus (y) the aggregate amount of additional consideration, if any, payable to the Maker upon the conversion or exchange thereof, by (B) the total number of shares of Common Stock issuable upon the conversion or exchange of all such Convertible Securities) shall be less than the Conversion Price in effect immediately prior to the time of such issue or sale, then the total maximum number of shares of Common Stock issuable upon conversion or exchange of all such Convertible Securities shall be deemed to have been issued for such price per share as of the date of the issue or sale of such Convertible Securities and thereafter shall be deemed to be outstanding for purposes of adjusting the Conversion Price, provided that except as otherwise provided in Section 6(e)(iii), no adjustment of the Conversion Price shall be made upon the actual issuance of such Common Stock upon conversion or exchange of such Convertible Securities and no further adjustment of the Conversion Price shall be

made by reason of the issue or sale of Convertible Securities upon exercise of any Options to purchase any such Convertible Securities for which adjustments of the Conversion Price have been made pursuant to the other provisions of Section 6(e).

(iii) Change in Option Price or Conversion Rate. Upon the happening of any of the following events, namely, if (A) the purchase price provided for in any Option referred to in Section 6(e)(i) hereof, (B) the additional consideration, if any, payable upon the conversion or exchange of any Convertible Securities referred to in Sections 6(e)(i) or 6(e)(ii), or (C) the rate at which Convertible Securities referred to in Sections 6(e)(i) or 6(e)(ii) are convertible into or exchangeable for Common Stock shall change at any time (including, but not limited to, changes under or by reason of provisions designed to protect against dilution), the Conversion Price in effect at the time of such event shall forthwith be readjusted to the Conversion Price which would have been in effect at such time had such Options or Convertible Securities still outstanding provided for such changed purchase price, additional consideration or conversion rate, as the case may be, at the time initially granted, issued or sold.

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(iv) Consideration for Stock. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for cash, the consideration received therefor shall be deemed to be the net amount received by the Maker therefor, after deduction therefrom of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Company in connection therewith. In case any shares of Common Stock, Options or Convertible Securities shall be issued or sold for a consideration other than cash or for a consideration including cash and such other consideration, the amount of the consideration other than cash received by the Maker shall be deemed to be the fair value of such consideration as determined in good faith by the board of directors of the Maker, after deduction of any expenses incurred or any underwriting commissions or concessions paid or allowed by the Maker in connection therewith. In case any Options shall be issued in connection with the issue and sale of other securities of the Maker, together comprising one integral transaction in which no specific consideration is allocated to such Options by the parties thereto, such Options shall be deemed to have been issued for such consideration as determined in good faith by the board of directors of the Maker.

(v) Record Date. In case the Maker shall take a record of the holders of its Common Stock for the purpose of entitling them (A) to receive a dividend or other distribution payable in Common Stock, Options or Convertible Securities or (B) to subscribe for or purchase Common Stock, Options or Convertible Securities, then such record date shall be deemed to be the date of the issue or sale of the shares of Common Stock deemed to have been issued or sold upon the declaration of such dividend or the making of such other distribution or the date of the granting of such right of subscription or purchase, as the case may be. If the Maker shall have taken a record of the holders of its Common Stock for the purpose of entitling them to receive a dividend or distribution or subscription or purchase rights and shall,

thereafter and before the distribution to stockholders thereof, legally abandon its plan to pay or deliver such dividend, distribution, subscription or purchase rights, then thereafter no adjustment shall be required by reason of the taking of such record and any such adjustment previously made in respect thereof shall be rescinded and annulled.

(vi) Treasury Shares. The number of shares of Common Stock outstanding at any given time shall not include shares owned or held by or for the account of the Maker or any of its wholly-owned subsidiaries, and the disposition of any such shares (other than the cancellation or retirement thereof) shall be considered an issue or sale of Common Stock for the purpose of this Section 6(e).

(f) Anything herein to the contrary notwithstanding, the Maker shall not be required to make any adjustment of the Conversion Price in the case of the issuance of (i) capital stock, Options or Convertible Securities issued to directors, officers, employees or consultants of the Maker in connection with their service as directors of the Maker, their employment by the Maker or their retention as consultants by the Maker pursuant to any employee benefit plans or programs approved by the board of directors of the Maker or any committee thereof, (ii) shares of Common Stock upon the conversion or exercise of Options or Convertible Securities outstanding as of September 12, 2003, and (iii) shares of Common Stock issued or issuable by reason of a dividend, stock split or other

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distribution payable pro rata to all holders of Common Stock (but only to the extent that such a dividend, split or distribution results in an adjustment in the Conversion Price pursuant to the other provisions of this Debenture).

(g) With each adjustment to the Conversion Price pursuant to Section 6(e), the Maker shall deliver to the Holder a certificate signed by its chief financial or executive officer setting forth, in reasonable detail, the event requiring the adjustment to the Conversion Price, the method by which such adjustment was calculated, and the Conversion Price after giving effect to such adjustment, which shall be mailed by first class mail, postage prepaid to the Holder.

7. Events of Default. Each of the following shall constitute an "Event of Default" hereunder:

(a) The Maker shall fail to pay any amount under this Debenture when due (whether at the Maturity Date, upon acceleration or otherwise);

(b) (i) the Maker shall fail to use the proceeds of any Advance only for the specific purposes set forth in the Budget or the Plan or (ii) the Maker or any other party thereto (other than the Holder) shall fail to observe or perform or otherwise default or breach any of the covenants set forth herein or in any of the Transaction Documents;

(c) Any representation or warranty made by the Maker in this Debenture or any of the Transaction Documents shall have been untrue or misleading in any material respect when made;

(d) The Maker fails to make a required payment or payments on indebtedness for borrowed money of Twenty-Five Thousand Dollars (\$25,000) or more in aggregate principal amount;

(e) There shall have occurred an acceleration of the stated maturity of any indebtedness for borrowed money of the Maker of Twenty-Five Thousand Dollars (\$25,000) or more in aggregate principal amount;

(f) Any covenant, agreement or obligation of the Maker in any of the Security Documents (as defined in Section 8) shall cease to be enforceable, or shall be determined to be unenforceable in any material respect; or any of the security interests granted to the Holder in any of the Security Documents shall be determined to be void, voidable, invalid or unperfected, are subordinated or are ineffective to provide the Holder with a perfected, first priority security interest in the collateral covered by any of the Security Documents;

(g) Any Event of Default shall have occurred and be continuing under any of the Security Documents or any Other Transaction Document;

(h) The Maker shall merge or consolidate with or into any other person or entity, sell, transfer, lease or otherwise dispose of all or any substantial portion of its assets in one transaction or a series of related transactions, participate in any share exchange, consummate any recapitalization, reclassification, reorganization or other business combination transaction or adopt a plan of liquidation or dissolution or agree to do any of the foregoing (other than the Merger in accordance with the Agreement and Plan of Merger);

(i) The Merger shall not have been consummated in accordance

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with the Agreement and Plan of Merger on or before December 24, 2003;

(j) The Merger shall not for any reason result in the automatic conversion of Parent's outstanding Series C Preferred Stock, par value \$0.01 per share ("Series C Preferred Stock"), into shares of Common Stock immediately upon consummation of the Merger at a conversion price of \$6.490 per share or any holder of the Series C Preferred Stock shall commence, prior to the consummation of the Merger, an action, suit or proceeding to avoid or contest such conversion;

(k) One or more judgments in an aggregate amount in excess of Twenty-Five Thousand Dollars (\$25,000) shall have been rendered against the Maker or the Parent and such judgment or judgments remain undischarged or unstayed for a period of sixty (60) days after such judgment or judgments become or became, as the case may be, final and unappealable;

(l) The Maker shall have applied for or consented to the appointment of a custodian, receiver, trustee or liquidator, or other

court-appointed fiduciary of all or a substantial part of its properties; or a custodian, receiver, trustee or liquidator or other court appointed fiduciary shall have been appointed with or without the consent of the Maker; or the Maker is generally not paying its debts as they become due by means of available assets or is insolvent, or has made a general assignment for the benefit of creditors; or the Maker files a voluntary petition in bankruptcy, or a petition or an answer seeking reorganization or an arrangement with creditors or seeking to take advantage of any insolvency law, or an answer admitting the material allegations of a petition in any bankruptcy, reorganization or insolvency proceeding or has taken action for the purpose of effecting any of the foregoing; or if, within sixty (60) days after the commencement of any proceeding against the Maker seeking any reorganization, rehabilitation, arrangement, composition, readjustment, liquidation, dissolution or similar relief under the Federal bankruptcy code or similar order under future similar legislation, the appointment of any trustee, receiver, custodian, liquidator, or other court-appointed fiduciary of the Maker or of all or any substantial part of its properties, such order or appointment shall not have been vacated or stayed on appeal or otherwise or if, within sixty (60) days after the expiration of any such stay, such order or appointment shall not have been vacated (collectively, an "Insolvency Event"); or

(m) any Insolvency Event shall have occurred with respect to the Parent.

Upon the occurrence of any Event of Default, the Holder may, at its option, declare all amounts due hereunder to be due and payable immediately and, upon any such declaration, the same shall become and be immediately due and payable. If an Event of Default specified in clauses (l) or (m) occurs, then all amounts due hereunder shall become immediately due and payable without any declaration or other act on the part of the Holder. Upon the occurrence of any Event of Default, the Holder may, in addition to declaring all amounts due hereunder to be immediately due and payable, pursue any available remedy, whether at law or in equity, including, without limitation, exercising its rights under the Security Documents. If an Event of Default occurs, the Maker shall pay to the Holder the reasonable attorneys' fees and disbursements and all other out-of-pocket costs incurred by the Holder in order to collect amounts due and owing under this Debenture or otherwise to enforce the Holder's rights and remedies hereunder and under the Security Documents.

8. Secured Obligation; Affirmation of Collateral.

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(a) This Debenture and the indebtedness evidenced hereby are deemed future advances and are obligations secured by (i) the Amended Company Security Agreement, (ii) the Amended and Restated Parent Guaranty, (iii) the Amended Parent Security Agreement, (iv) the Amended and Restated Aeolus Guaranty, and (v) the Amended Aeolus Security Agreement (collectively, as amended or modified, the "Security Documents").

(b) The Maker hereby warrants and agrees that the liens granted under the Security Documents are validly perfected liens securing all of the

existing and future Obligations (as defined in each of the Security Documents) owing by the Maker to the Holder, whether direct or indirect.

(c) The Maker acknowledges and agrees that each of the Security Documents remains in full force and effect and that the Holder's rights and remedies thereunder are not intended to be limited by, and are not limited by, this Debenture.

9. Reimbursement of Expenses. In addition to its other obligations hereunder, not later than the close of business on the date hereof or one (1) Business Day after receipt of an invoice therefor, the Maker shall reimburse the Holder for the fees and disbursements incurred by the Holder's counsel in connection with the preparation, negotiation, execution and enforcement of this Debenture.

10. Waiver of Presentment, Demand and Dishonor. The Maker hereby waives presentment for payment, protest, demand, notice of protest, notice of non-payment and diligence with respect to this Debenture, and waives and renounces all rights to the benefit of any statute of limitations or any moratorium, appraisal, exemption or homestead now provided or that hereafter may be provided by any federal or applicable state statute, including but not limited to exemptions provided by or allowed under the Federal Bankruptcy Code, both as to itself and as to all of its property, whether real or personal, against the enforcement and collection of the obligations evidenced by this Debenture and any and all extensions, renewals and modifications hereof.

No failure on the part of the Holder hereof to exercise any right or remedy hereunder with respect to the Maker, whether before or after the happening of an Event of Default, shall constitute a waiver of any future Event of Default or of any other Event of Default. No failure to accelerate the debt of the Maker evidenced hereby by reason of an Event of Default or indulgence granted from time to time shall be construed to be a waiver of the right to insist upon prompt payment thereafter; or shall be deemed to be a novation of this Debenture or a reinstatement of such debt evidenced hereby or a waiver of such right of acceleration or any other right, or be construed so as to preclude the exercise of any right the Holder may have, whether by the laws of the state governing this Debenture, by agreement or otherwise; and the Maker hereby expressly waives the benefit of any statute or rule of law or equity that would produce a result contrary to or in conflict with the foregoing.

11. Amendment; Waiver. No modification, alteration, waiver or change of any of the provisions hereof shall be effective unless in writing and signed by the Maker and the Holder and, then, only to the extent set forth in such writing.

12. Governing Law; Consent to Jurisdiction. This Debenture shall be binding upon the Maker and its successors, assigns and legal representatives. The validity, construction and interpretation of this Debenture will be

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governed, and construed in accordance with, the laws of the State of New York.

THE MAKER HEREBY WAIVES ANY RIGHT TO REQUEST A TRIAL BY JURY IN ANY LITIGATION WITH RESPECT TO THIS DEBENTURE AND REPRESENTS THAT COUNSEL HAS BEEN CONSULTED SPECIFICALLY AS TO THIS WAIVER.

The Maker irrevocably submits to the exclusive jurisdiction of the courts of the State of New York located in New York County and the United States District Court for the Southern District of New York for the purpose of any suit, action, proceeding or judgment relating to or arising out of this Debenture and the transactions contemplated hereby. Service of process in connection with any such suit, action or proceeding may be served on the Maker anywhere in the world by the same methods as are specified for the giving of notices under the Purchase Agreement. The Maker irrevocably consents to the jurisdiction of any such court in any such suit, action or proceeding and to the laying of venue in such court. The Maker irrevocably waives any objection to the laying of venue of any such suit, action or proceeding brought in such courts and irrevocably waives any claim that any such suit, action or proceeding brought in any such court has been brought in an inconvenient forum.

[SIGNATURES ON NEXT PAGE]

IN WITNESS WHEREOF, the undersigned has duly executed this Debenture on behalf of the Maker as of the date set forth below.

ATTEST:

INCARA, INC.

Name:

By: _____
Name:
Title:

Dated: _____, 2003

[Convertible Debenture - Signature Page]

EXHIBIT 10

VOTING AGREEMENT

THIS VOTING AGREEMENT, is made as of September 16, 2003 (this "Agreement"), by and among Goodnow Capital, L.L.C., a Delaware limited liability company ("Lender"), the persons listed on Exhibit A hereto (collectively, the "Stockholders" and each a "Stockholder"), and Incara Pharmaceuticals Corporation, a Delaware corporation ("Incara").

W I T N E S S E T H:
- - - - -

WHEREAS, as of the date hereof, each Stockholder owns (either beneficially or of record) the number of shares of Incara common stock, par value \$0.001 per share (the "Incara Common Stock"), set forth opposite such Stockholder's name on Exhibit A hereto (all such shares of Incara Common Stock and any shares of capital stock of Incara hereafter acquired by the Stockholders, including any shares of Incara Common Stock whether or not set forth on Exhibit A hereto that are issued upon the exercise of options, warrants or other rights to purchase or acquire Incara Common Stock (the "Incara Options") held by such Stockholders, are collectively referred to herein as the "Shares"); and

WHEREAS, affiliates of the Lender and Incara have entered into a non-binding letter of intent, dated July 18, 2003 (the "LOI"), providing for (i) the financing of up to an aggregate amount of \$8,000,000 by the Lender in Incara, Inc. (f/k/a Incara Cell Technologies, Inc.), a Delaware corporation and a wholly-owned subsidiary of Incara ("ICT"), and (ii) the merger of Incara with and into ICT (the "Merger"); and

WHEREAS, the Lender has agreed to make and has made certain advances to ICT pursuant to the terms and conditions of a certain Convertible Secured Promissory Note, dated as of July 28, 2003, in the maximum principal amount of \$3,000,000, made by ICT payable to the order of the Lender (the "\$3M Note"); and

WHEREAS, concurrently herewith, Incara, ICT and the Lender are

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entering into a Debenture and Warrant Purchase Agreement (the "Purchase Agreement") pursuant to which, among other things, (i) the Lender will loan ICT the balance of the \$8,000,000 contemplated by the LOI, on and subject to the terms and conditions stated therein, (ii) Incara will issue to the Lender a warrant (the "Incara Warrant") to purchase 50,000,000 shares of Incara Common Stock, subject to adjustment in accordance with the terms of the Incara Warrant and (iii) the Guaranty, dated July 28, 2003, made by Incara in favor of the Lender will be amended (the "Amendment") to provide Lender with the right to convert any cash payments made under the \$3M Note into shares of Incara Common Stock; and

WHEREAS, concurrently herewith, Incara and ICT are entering into an Agreement and Plan of Merger (the "Merger Agreement") which provides, upon the terms and subject to the conditions thereof, for the Merger; and

WHEREAS, as a condition to the willingness of the Lender to enter into the Purchase Agreement and provide ICT with the balance of the \$8,000,000 contemplated by the LOI, Incara has requested that each Stockholder agree, and, in order to induce Lender to enter into the Purchase Agreement and provide such

financing, each such Stockholder is willing to agree, to vote and to grant Lender an irrevocable proxy to vote the Shares pursuant to the terms and conditions hereof;

NOW, THEREFORE, in consideration of the premises and of the mutual agreements and covenants set forth herein and in the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I.

REPRESENTATIONS AND WARRANTIES

Each Stockholder hereby represents and warrants to the Lender as follows:

Section 1.01. Due Authority. (a) Such Stockholder has full power, corporate or otherwise, and authority to execute and deliver this Agreement and to perform such Stockholder's obligations hereunder. This Agreement has been duly executed and delivered by or on behalf of such Stockholder and, assuming its due authorization, execution and delivery by Incara and the Lender, constitutes a legal, valid and binding obligation of such Stockholder, enforceable against such Stockholder in accordance with its terms, except to the extent that enforceability may be limited by bankruptcy, insolvency, moratorium, reorganization and other laws affecting the enforcement of creditors' rights generally and by general principles of equity.

(b) There is no beneficiary or holder of a voting trust certificate or other interest of any trust of which such Stockholder is a trustee whose consent is required for the execution and delivery of this Agreement or the consummation of the transactions contemplated hereby.

Section 1.02. No Conflict; Consents. (a) The execution and delivery of this Agreement by such Stockholder do not, and the performance by such Stockholder of such Stockholder's obligations under this Agreement and the compliance by such Stockholder with any provisions hereof do not and will not, (i) conflict with or violate any law, statute, rule, regulation, order, writ, judgment or decree applicable to such Stockholder or such Stockholder's Shares, (ii) conflict with or violate the Stockholder's charter, bylaws, partnership

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agreement or other organizational documents, if applicable, or (iii) result in any breach of or constitute a default (or an event that with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, or result in the creation of a lien or encumbrance on any of such Stockholder's Shares pursuant to, any note, bond, mortgage, indenture, contract, agreement, lease, license, permit, franchise or other instrument or obligation to which such Stockholder is a party or by which such Stockholder or such Stockholder's Shares are bound.

(b) The execution and delivery of this Agreement by such Stockholder do not, and the performance of this Agreement by such Stockholder will not, require any consent, approval, authorization or permit of, or filing with or notification to, any governmental or regulatory authority except for

applicable requirements, if any, of the Securities Exchange Act of 1934, as amended, and except where the failure to obtain such consents, approvals, authorizations or permits, or to make such filings or notifications, could not prevent or delay the performance by such Stockholder of his, her or its obligations under this Agreement in any material respect.

Section 1.03. Title to Shares. (a) Such Stockholder is the record or beneficial owner of such Stockholder's Shares free and clear of any proxy or voting restriction. The Shares set forth opposite such Stockholder's name on Exhibit A hereto constitute all of the shares of Incara Common Stock owned of record or beneficially by such Stockholder (except as noted on Exhibit A with respect to Clayton I. Duncan) or issuable upon the exercise of Incara Options held by such Stockholder.

(b) Such Stockholder has, and during the Proxy Term (as defined below) will have, the sole voting power with respect to the matters set forth in Article II hereof with respect to all of the Shares held by the Stockholder, with no restrictions on such rights, subject to applicable laws and the terms of this Agreement.

Section 1.04. No Encumbrances. Such Stockholder's Shares and the certificates representing such Shares are now, and at all times during the Proxy Term hereof (except as noted on Exhibit A) will be, held by such Stockholder, or by a nominee or custodian for the benefit of such Stockholder, free and clear of all claims, liens, charges, pledges, encumbrances, proxies, voting trusts and voting agreements, understandings or arrangements providing for any right on the part of any Person (as defined in the Purchase Agreement) other than such Stockholder to vote such Shares except any such encumbrances or proxies arising under this Agreement.

Section 1.05. Acknowledgment of Reliance. Such Stockholder understands and acknowledges that Lender is entering into the Purchase Agreement in reliance upon such Stockholder's execution and delivery of this Agreement.

ARTICLE II.

COVENANTS OF STOCKHOLDERS

Each Stockholder hereby covenants and agrees with Lender as follows:

Section 2.01. Transfer of Shares. Other than in connection with the Merger, during the Proxy Term each Stockholder shall not (a) sell, tender, transfer, pledge, encumber, assign or otherwise dispose of any of such Stockholder's Shares, (b) deposit such Stockholder's Shares into a voting trust

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or enter into a voting agreement or arrangement with respect to such Shares or grant any proxy or power of attorney with respect thereto, or (c) take any action that would make any representation or warranty of such Stockholder contained herein untrue or incorrect in any material respect or have the effect of preventing or disabling such Stockholder from performing such Stockholder's obligations under this Agreement.

Section 2.02. Voting of Shares; Further Assurances. (a) Each Stockholder, by this Agreement, with respect to those Shares that such Stockholder owns of record, does hereby constitute and appoint Lender, or any nominee of Lender, with full power of substitution, during and for the Proxy Term, as such Stockholder's true and lawful attorney and irrevocable proxy, for

and in such Stockholder's name, place and stead, to vote each of such Shares as such Stockholder's proxy, at every meeting of the stockholders of Incara or any adjournment thereof or in connection with any written consent of Incara's stockholders, (i) in favor of (A) the execution and delivery of the Purchase Agreement and the consummation of the transactions contemplated thereby (including, without limitation, the issuance of the Incara Warrant and the execution and delivery of the Amendment) and (B) the adoption of the Merger Agreement and approval of the Merger and the other transactions contemplated by the Merger Agreement, (ii) against any Alternative Transaction (as defined in the Purchase Agreement) and any proposal for any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of Incara or ICT under the Purchase Agreement or any Other Transaction Document (as defined in the Purchase Agreement), and (iii) in favor of any other matter necessary for consummation of the transactions contemplated by the Purchase Agreement and the Merger Agreement which is considered at any such meeting of stockholders or in such consent, and in connection therewith to execute any documents that are necessary or appropriate in order to effectuate the foregoing or, at the request of Lender, to permit Lender to vote such Shares directly. Each Stockholder further agrees to cause the Shares beneficially owned by such Stockholder to be voted in accordance with the foregoing. Each Stockholder intends this proxy to be irrevocable and coupled with an interest during the Proxy Term and hereby revokes any proxy previously granted by such Stockholder with respect to such Stockholder's Shares.

(b) Each Stockholder hereby further agrees, with respect to any Shares not voted by Lender pursuant to paragraph (a) above, that during the Proxy Term, at any meeting of stockholders of Incara, however called, or in connection with any written consent of Incara's stockholders, such Stockholder shall vote (or cause to be voted) the Shares held of record or beneficially by such Stockholder, except as specifically requested in writing by Lender in advance, (i) in favor of (A) the execution and delivery of the Purchase Agreement and the consummation of the transactions contemplated thereby (including, without limitation, the issuance of the Incara Warrant and the execution and delivery of the Amendment) and (B) the adoption of the Merger Agreement and approval of the Merger and the other transactions contemplated by the Merger Agreement, (ii) against any Alternative Transaction and any proposal for any action or agreement that would result in a breach of any covenant, representation or warranty or any other obligation or agreement of Incara or ICT under the Purchase Agreement or any Other Transaction Document, and (iii) in favor of any other matter necessary for consummation of the transactions contemplated by the Purchase Agreement and the Merger Agreement which is considered at any such meeting of stockholders or in such consent, and in connection therewith to execute any documents that are necessary or appropriate in order to effectuate the foregoing.

(c) For the purposes of this Agreement, "Proxy Term" shall mean

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the period from the execution of this Agreement until the earlier to occur of (i) the consummation of the Merger in accordance with the Merger Agreement or (ii) January 31, 2004.

(d) Each Stockholder agrees that such Stockholder will not enter into any agreement or understanding with any Person or take any action during the Proxy Term that will permit any Person to vote or give instructions to vote the Shares in any manner inconsistent with the terms of this Section 2.02. Each Stockholder further agrees to take such further action and execute such other instruments as may be reasonably necessary to effectuate the intent of this

Agreement, including without limitation, any number of proxies and other documents permitting Lender to vote the Shares or to direct the record owners thereof to vote the Shares in accordance with this Agreement.

Section 2.03. Certain Events. Each Stockholder agrees that, during the Proxy Term, this Agreement and the obligations hereunder shall attach to such Stockholder's Shares and shall be binding upon any Person to which legal or beneficial ownership of such Shares shall pass, whether by operation of law or otherwise, including without limitation, if applicable, such Stockholder's heirs, guardians, administrators or successors.

Section 2.04. Stop Transfer. (a) Each Stockholder agrees with, and covenants to, Lender that such Stockholder shall not request during the Proxy Term that Incara register the transfer (book-entry or otherwise) of any certificate or uncertificated interest representing any of such Stockholder's Shares, unless such transfer is made in compliance with this Agreement. With respect to any Shares in certificated form, Incara shall issue stop transfer instructions to its transfer agent regarding each Stockholder's Shares within ten (10) Business Days (as defined in the Purchase Agreement) after the date hereof, in such form as is acceptable to the Lender.

ARTICLE III.

GENERAL PROVISIONS

Section 3.01. Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof but shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable law, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provision hereof prohibited or unenforceable in any respect.

Section 3.02. Entire Agreement. This Agreement and those documents expressly referred to herein (including the Purchase Agreement, the Other Transaction Documents and the Merger Agreement), contain the sole and entire agreement among the parties hereto with respect to the subject matter hereof and supersede all prior discussions and agreements between the parties with respect to the subject matter hereof.

Section 3.03. Amendments. This Agreement may not be modified, amended, waived, altered or supplemented, except upon the execution and delivery of a written agreement executed by all of the parties hereto; provided, however, that Lender may in writing waive or consent to a modification of any provision of

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this Agreement with respect to any Stockholder without the agreement of any other party hereto.

Section 3.04. Assignment. This Agreement shall not be assigned by operation of law or otherwise by any Stockholder without the prior written consent of the Lender.

Section 3.05. Parties in Interest. This Agreement shall be binding upon and inure solely to the benefit of each party hereto and its heirs,

successors and assigns and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement.

Section 3.06. Specific Performance. The parties hereto agree that the Lender would suffer irreparable damage and harm in the event that any provision of this Agreement is not performed by any Stockholder in accordance with the terms hereof or is otherwise breached. It is accordingly agreed that the Lender shall be entitled to specific relief hereunder, including, without limitation, an injunction or injunctions to prevent and enjoin breaches of the provisions of this Agreement by any Stockholder and to enforce specifically the terms and provisions hereof, in any court of the United States or any state having jurisdiction, this being in addition to any other remedy to which the Lender may be entitled at law or in equity. Any requirements for the securing or posting of any bond with respect to any such remedy are hereby waived.

Section 3.07. Choice of Law; Consent to Jurisdiction; Waiver of Jury Trial. This Agreement and any and all matters arising directly or indirectly herefrom ("Agreement Matters") shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware applicable to agreements made and to be performed entirely in such state, without giving effect to the conflict of law principles thereof. Each of the parties hereto hereby (i) irrevocably consents and submits to the co-exclusive jurisdiction of the state and federal courts located in the Southern District of New York, New York County (and of the appropriate appellate courts from any of the foregoing) in connection with any suit, arbitration, mediation, action or other proceeding (each a "Proceeding") directly or indirectly arising out of or relating to any Agreement Matter; provided that a party to this Agreement shall be entitled to enforce an order or judgment of such a court in any United States or foreign court having jurisdiction over the other party hereto, (ii) irrevocably waives, to the fullest extent permitted by law, any objection that it may now or hereafter have to the laying of the venue of any such Proceeding in any such court or that any such Proceeding which is brought in any such court has been brought in an inconvenient forum, (iii) waives, to the fullest extent permitted by law, any immunity from jurisdiction of any such court or from any legal process therein, and (iv) agrees that service of any summons, complaint, notice or other process relating to such Proceeding may be effected in the manner provided for the giving of notice hereunder. EACH PARTY TO THIS AGREEMENT (INCLUDING ANY PERSON WHO SUBSEQUENTLY BECOME A PARTY TO THIS AGREEMENT AFTER THE DATE HEREOF) hereby KNOWINGLY, VOLUNTARILY AND INTENTIONALLY IRREVOCABLY AND UNCONDITIONALLY WAIVES ANY RIGHT SUCH PARTY MAY HAVE TO A TRIAL BY JURY IN RESPECT TO ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

Section 3.08. Counterparts. This Agreement may be executed in two or more counterparts, each of which will be deemed an original, but all of which will constitute one and the same instrument and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties.

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Section 3.09. Exculpation. No Stockholder shall have any liability or obligation whatsoever under or by reason of this Agreement because of a breach by any other Stockholder of its obligations, representations or warranties hereunder or thereunder.

Section 3.10. Notices. All notices and other communications required or permitted to be given pursuant to this Agreement shall be in writing signed by the sender, and shall be deemed duly given (i) on the date delivered if personally delivered, (ii) on the date sent by telecopier with automatic confirmation by the transmitting machine showing the date of such transmission and the proper number of pages were transmitted without error, (iii) on the Business Day after being sent by Federal Express or another recognized overnight mail service which utilizes a written form of receipt for next day or next Business Day delivery, or (iv) three (3) Business Days after mailing, if mailed by United States postage-prepaid certified or registered mail, return receipt requested, in each case addressed to the applicable party at the address set forth below; provided that a party hereto may change its address for receiving notice by the proper giving of notice hereunder:

If to Lender, to:

c/o Xmark Fund, Ltd. and Xmark Fund, L.P.
152 West 57th Street. 21st Floor
New York, New York 10019
Attn: Mitchell D. Kaye and David Cavalier
Telephone: 212.247.8200
Facsimile: 212.247.1329

with a copy to (which shall not constitute notice):

Lowenstein Sandler PC
65 Livingston Avenue
Roseland, New Jersey 07068-1791
Attention: John D. Hogoboom, Esq.
Telephone: 973.597.2500
Facsimile: 973.597.2400

If to Incara, to:

Post Office Box 14287 (if by U.S. Mail)
79 T.W. Alexander Drive
4401 Research Commons, Suite 200
Research Triangle Park, North Carolina 27709
Attn: Clayton I. Duncan
Telephone: 919.558.8688
Facsimile: 919.544.1245

with a copy to (which shall not constitute notice):

Wyrick Robbins Yates & Ponton LLP
4101 Lake Boone Trail, Suite 300
Raleigh, North Carolina 27607
Attn: Larry E. Robbins, Esq.
Telephone: 919.781.4000

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Facsimile: 919.781.4865

and if to any of the Stockholders, at the address or facsimile transmission number specified below its name on the signature pages hereto (or, in the case of Persons who become parties hereto subsequently, at their last addresses or facsimile transmission numbers shown on the record books of Incara). Any Person who becomes a Stockholder shall provide its address and facsimile number to Incara, which shall promptly provide such information to Lender and each of the other Stockholders.

(Remainder of page intentionally left blank; signature pages follow)

IN WITNESS WHEREOF, the parties have duly executed this Voting Agreement as of the date first written above.

INCARA PHARMACEUTICALS CORPORATION

By:

Name:

Title:

GOODNOW CAPITAL, L.L.C.

By:

Name:

Title:

"STOCKHOLDERS"

Clayton I. Duncan

Richard W. Reichow

James D. Crapo

Address for

Notice for each Stockholder:

c/o Incara Pharmaceuticals Corporation

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P.O. Box 14287 (if by US Mail)
 79 T.W. Alexander Drive
 4401 Research Commons, Suite 200
 Research Triangle Park, North Carolina 27709
 Facsimile: 919-544-1245

(Signature Page to Voting Agreement)

EXHIBIT A

Name of Stockholder -----	Number of Shares of Incara Common Stock Owned by Stockholder -----	Number of Shares of Incara Common Stock Issuable Upon Exercise of Options -----
Clayton I. Duncan	729,170+*	3,362,786
Richard W. Reichow	393,886	2,265,530
James D. Crapo	791,955	1,941,000

+ Includes 144,190 shares pledged to a financial institution as security for a loan.

* Excluded 48,000 shares of Incara Common Stock beneficially owned by one of Clayton I. Duncan's children.

>Ivanhoe Mines Ltd., expire 07/19/12(j) 54,000 54,000

Warrants

Kinder Morgan Inc., expire 05/25/17(e)

140,800 140,800

NET SALES

Common Stocks

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Alcoa Inc.

(5,000) 125,000

AOL Inc.

(15,000)

Ascent Capital Group Inc., Cl. A

(3,499) 1

Beam Inc.

(21,000) 109,000

Biogen Idec Inc.

(500) 31,000

Brunswick Corp.

(22,000) 8,000

Cisco Systems Inc.

(5,000) 65,000

CLARCOR Inc.

(1,000) 142,000

Comcast Corp., Cl. A, Special

(1,000) 89,000

CONSOL Energy Inc.

(13,000) 22,000

Constellation Brands Inc., Cl. A

(4,000) 54,000

Corn Products International Inc.(d)

(27,000)

Deutsche Bank AG

(3,000) 20,000

DIRECTV, Cl. A

(5,000) 480,000

El Paso Corp.(e)

(220,000)

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Expedia Inc.

(28,000) 17,000

Ferro Corp.

(5,000) 410,000

Ford Motor Co.

(4,000) 36,000

Fortune Brands Home & Security Inc.

(1,692) 138,000

GATX Corp.

(4,000) 142,000

General Motors Co.

(15,000)

Greif Inc., Cl. A

(3,000) 154,000

H.B. Fuller Co.

(12,000) 39,000

HSN Inc.

(7,000) 36,000

Huntsman Corp.

(30,000) 45,000

Il Sole 24 Ore SpA

(10,000) 170,000

ITT Corp.

(1,000) 128,000

Kaman Corp.

(5,000) 42,800

Ladbrokes plc

(50,000) 1,330,000

Las Vegas Sands Corp.

(5,000) 54,000

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Media General Inc., Cl. A

(5,000) 130,000

Midas Inc.(k)

(131,000)

Modine Manufacturing Co.

(5,000) 235,000

National Fuel Gas Co.

(4,000) 8,000

News Corp., Cl. A

(5,000) 665,000

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Portfolio Changes (Continued) Quarter Ended June 30, 2012 (Unaudited)**

	Shares	Ownership at June 30, 2012
Noble Corp.	(10,000)	
Rowan Companies Inc.(h)	(175,000)	
RPC Inc.	(10,000)	65,000
SanDisk Corp.	(3,000)	12,000
Sara Lee Corp.(a)	(680,000)	
Swedish Match AB	(7,000)	838,000
Tele Norte Leste Participacoes SA, ADR(f)	(146,000)	
Terex Corp.	(1,000)	9,000
The Boeing Co.	(11,000)	145,000
The Madison Square Garden Co., Cl. A	(21,000)	355,000
Thomas & Betts Corp.(l)	(245,000)	
Tokyo Broadcasting System Holdings Inc.	(10,000)	58,000
Transocean Ltd.	(3,000)	16,000
TripAdvisor Inc.	(73,000)	27,000
Tyco International Ltd.	(2,000)	198,000
Xerox Corp.	(30,000)	
Xylem Inc.	(3,000)	267,000
Yahoo! Inc.	(20,000)	410,000
Warrants		
Talbots Inc., expire 04/06/15	(5,000)	145,000

- (a) Spin-off - 1 share of DE Master Blenders 1753 NV and 0.2 shares of Hillshire Brands Co. for every 1 share of Sara Lee Corp. held.
- (b) Spin-off - 0.498 shares of FleetCor Technologies Inc. for every 1 share of Chestnut Hill Ventures held.
- (c) Stock Split - 2 shares for every 1 share held.
- (d) Name and identifier change from Corn Products International Inc. (219023108) to Ingredion Inc. (457187102).
- (e) Merger - \$14.65 cash and 0.4187 shares of Kinder Morgan Inc. and 0.64 shares of Kinder Morgan Inc., Warrants, expire 05/25/17 for every 1 share of El Paso Corp. held.
- (f) Merger - 0.1879 shares of Oi SA, Cl. C, ADR and 0.642 shares of Oi SA, ADR for every 1 share of Tele Norte Leste Participacoes SA, ADR held.
- (g) Spin-off - 0.5 shares of Phillips 66 for every 1 share of ConocoPhillips held.

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- (h) Exchange - 1 share of Rowan Companies plc, Cl. A for every 1 share of Rowan Companies Inc. held.
- (i) Stock Dividend - 0.026315 for every 1 share held.
- (j) Rights Issuance - 1 share of rights for every 1 share of common stock held.
- (k) Tender Offer - \$11.50 for every 1 share held.
- (l) Tender Offer - \$72.00 for every 1 share held.

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments June 30, 2012 (Unaudited)**

				Market
Shares		Cost		Value
COMMON STOCKS 99.3%				
Food and Beverage 12.8%				
109,000	Beam Inc.	\$ 3,892,696		\$ 6,811,410
35,000	Brown-Forman Corp., Cl. A	1,761,167		3,325,000
6,250	Brown-Forman Corp., Cl. B	410,925		605,313
75,000	Campbell Soup Co.	2,084,700		2,503,500
15,000	Coca-Cola Enterprises Inc.	275,289		420,600
54,000	Constellation Brands Inc., Cl. A	677,279		1,461,240
222,000	Danone	10,623,550		13,770,349
599,000	Davide Campari - Milano SpA	3,115,159		4,161,617
680,000	DE Master Blenders 1753 NV	6,450,758		7,667,426
70,000	Dean Foods Co.	1,358,268		1,192,100
199,000	Diageo plc, ADR	8,255,063		20,510,930
20,000	Diamond Foods Inc.	483,508		356,800
100,000	Dr Pepper Snapple Group Inc.	2,291,138		4,375,000
72,000	Flowers Foods Inc.	356,368		1,672,560
83,000	Fomento Economico Mexicano SAB de CV, ADR	1,109,710		7,407,750
40,000	General Mills Inc.	967,929		1,541,600
2,050,000	Grupo Bimbo SAB de CV, Cl. A	1,594,046		5,039,056
63,000	H.J. Heinz Co.	2,184,064		3,425,940
44,000	Heineken NV	2,071,793		2,291,040
136,000	Hillshire Brands Co.	3,473,485		3,942,640
27,000	Ingredion Inc.	373,194		1,337,040
110,000	ITO EN Ltd.	2,537,808		2,053,168
14,000	Kellogg Co.	502,615		690,620
64,000	Kerry Group plc, Cl. A	735,609		2,794,229
160,000	Kraft Foods Inc., Cl. A	4,773,465		6,179,200
11,500	LVMH Moet Hennessy Louis Vuitton SA	397,547		1,744,210
70,000	Morinaga Milk Industry Co. Ltd.	299,202		267,092
25,000	Nestlé SA	513,610		1,489,491
210,000	PepsiCo Inc.	11,513,352		14,838,600
46,000	Pernod-Ricard SA	3,968,283		4,905,037
32,750	Post Holdings Inc.	221,580		1,007,063
70,500	Ralcorp Holdings Inc.	1,584,061		4,705,170
40,673	Remy Cointreau SA	2,357,660		4,456,427
65,000	The Coca-Cola Co.	2,905,349		5,082,350
20,000	The Hain Celestial Group Inc.	267,663		1,100,800
2,000	The J.M. Smucker Co.	52,993		151,040
134,930	Tootsie Roll Industries Inc.	1,519,168		3,219,430
67,000	Tyson Foods Inc., Cl. A	625,344		1,261,610
100,000	Viterra Inc.	1,620,246		1,586,288
360,000	Yakult Honsha Co. Ltd.	10,182,581		14,051,417
		100,388,225		165,402,153
Cable and Satellite 7.6%				
285,000	AMC Networks Inc., Cl. A	5,129,809		10,131,750
				Market
Shares		Cost		Value

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1,170,000	Cablevision Systems Corp., Cl. A	\$ 14,025,514	\$ 15,549,300
89,000	Comcast Corp., Cl. A, Special	539,529	2,794,600
480,000	DIRECTV, Cl. A	10,823,266	23,433,600
100,000	DISH Network Corp., Cl. A	2,524,679	2,855,000
30,740	EchoStar Corp., Cl. A	923,528	812,151
84,000	Liberty Global Inc., Cl. A	1,526,720	4,168,920
84,000	Liberty Global Inc., Cl. C	1,653,621	4,011,000
481,690	Rogers Communications Inc., Cl. B, New York	3,993,639	17,441,995
19,310	Rogers Communications Inc., Cl. B, Toronto	137,424	700,061
118,000	Scripps Networks Interactive Inc., Cl. A	3,787,615	6,709,480
154,000	Shaw Communications Inc., Cl. B, New York	316,962	2,912,140
40,000	Shaw Communications Inc., Cl. B, Non-Voting, Toronto	52,983	755,918
67,000	Time Warner Cable Inc.	3,851,950	5,500,700
		49,287,239	97,776,615
	Financial Services 7.4%		
465,000	American Express Co.	21,702,254	27,067,650
15,000	Argo Group International Holdings Ltd.	558,079	439,050
38,000	Artio Global Investors Inc.	767,471	133,000
72,000	Banco Santander SA, ADR	545,542	472,320
128	Berkshire Hathaway Inc., Cl. A	375,826	15,992,960
10,000	Calamos Asset Management Inc., Cl. A	88,164	114,500
80,000	Citigroup Inc.	2,853,432	2,192,800
20,000	Deutsche Bank AG	914,496	723,400
10,000	Fortress Investment Group LLC, Cl. A	49,693	33,700
20,000	H&R Block Inc.	323,249	319,600
33,000	Interactive Brokers Group Inc., Cl. A	584,124	485,760
298,000	Janus Capital Group Inc.	3,689,224	2,330,360
49,088	JPMorgan Chase & Co.	1,540,997	1,753,914
30,000	Kinnevik Investment AB, Cl. A	450,841	637,518
121,000	Legg Mason Inc.	2,387,027	3,190,770
136,000	Leucadia National Corp.	1,804,206	2,892,720
6,000	Loews Corp.	222,631	245,460
135,000	Marsh & McLennan Companies Inc.	4,085,756	4,351,050
11,000	Moody's Corp.	427,219	402,050
22,000	Och-Ziff Capital Management Group LLC, Cl. A	214,559	166,760
120,000	State Street Corp.	4,047,374	5,356,800
20,000	SunTrust Banks Inc.	419,333	484,600
140,000	T. Rowe Price Group Inc.	4,303,432	8,814,400

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

Shares		Cost	Market Value
COMMON STOCKS (Continued)			
Financial Services (Continued)			
203,000	The Bank of New York Mellon Corp.	\$ 6,104,021	\$ 4,455,850
40,000	The Charles Schwab Corp.	584,500	517,200
14,500	The Dun & Bradstreet Corp.	323,896	1,031,965
62,000	Waddell & Reed Financial Inc., Cl. A	1,376,530	1,877,360
270,000	Wells Fargo & Co.	8,051,764	9,028,800
13,000	WR Berkley Corp.	476,775	505,960
		69,272,415	96,018,277
Energy and Utilities 6.4%			
25,000	ABB Ltd., ADR	389,250	408,000
32,000	Anadarko Petroleum Corp.	1,377,320	2,118,400
60,000	Apache Corp.	2,338,860	5,273,400
92,000	BP plc, ADR	4,996,180	3,729,680
57,000	CH Energy Group Inc.	2,350,266	3,744,330
29,000	CMS Energy Corp.	185,272	681,500
208,000	ConocoPhillips	9,630,644	11,623,040
22,000	CONSOL Energy Inc.	852,421	665,280
70,000	Duke Energy Corp.	1,267,113	1,614,200
236,000	El Paso Electric Co.	4,091,133	7,825,760
9,000	Exelon Corp.	314,898	338,580
75,000	Exxon Mobil Corp.	2,571,862	6,417,750
15,000	GenOn Energy Inc.	141,261	25,650
140,000	GenOn Energy Inc., Escrow (a)	0	0
198,000	Halliburton Co.	3,391,894	5,621,220
92,114	Kinder Morgan Inc.	1,815,042	2,967,913
12,000	Marathon Oil Corp.	291,255	306,840
6,000	Marathon Petroleum Corp.	186,212	269,520
8,000	National Fuel Gas Co.	601,401	375,840
22,000	NextEra Energy Inc.	1,153,471	1,513,820
2,000	Niko Resources Ltd., OTC	110,842	25,960
500	Niko Resources Ltd., Toronto	21,373	6,591
5,000	NiSource Inc.	107,750	123,750
65,000	Northeast Utilities	1,254,193	2,522,650
38,000	Oceaneering International Inc.	512,207	1,818,680
104,000	Phillips 66	2,876,686	3,456,960
175,000	Rowan Companies plc, Cl. A	6,557,766	5,657,750
65,000	RPC Inc.	843,860	772,850
5,000	SJW Corp.	68,704	120,050
20,000	Southwest Gas Corp.	451,132	873,000
127,000	Spectra Energy Corp.	3,195,561	3,690,620
60,000	The AES Corp.	342,618	769,800
16,000	Transocean Ltd.	926,998	715,680
205,000	Westar Energy Inc.	3,414,614	6,139,750
		58,630,059	82,214,814
Equipment and Supplies 6.0%			
315,000	AMETEK Inc.	3,393,888	15,721,650
3,500	Amphenol Corp., Cl. A	12,928	192,220

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Market

Shares		Cost	Value
94,000	CIRCOR International Inc.	\$ 974,241	\$ 3,204,460
376,000	Donaldson Co. Inc.	2,930,891	12,547,120
98,000	Flowserve Corp.	2,993,806	11,245,500
22,000	Franklin Electric Co. Inc.	242,405	1,124,860
60,000	Gerber Scientific Inc., Escrow (a)	0	600
100,000	GrafTech International Ltd.	979,573	965,000
288,000	IDEX Corp.	6,908,808	11,226,240
40,000	Ingersoll-Rand plc	778,178	1,687,200
178,000	Lufkin Industries Inc.	832,264	9,668,960
11,000	Mueller Industries Inc.	485,034	468,490
22,000	Sealed Air Corp.	337,834	339,680
68,000	Tenaris SA, ADR	2,989,903	2,377,960
20,000	The Greenbrier Companies Inc.	396,412	351,600
4,000	The Manitowoc Co. Inc.	25,450	46,800
70,000	The Weir Group plc	294,552	1,677,342
150,000	Watts Water Technologies Inc., Cl. A	2,145,439	5,001,000
		26,721,606	77,846,682
	Diversified Industrial 5.9%		
3,000	Acuity Brands Inc.	76,507	152,730
157,000	Ampco-Pittsburgh Corp.	2,050,159	2,877,810
8,000	Brunswick Corp.	150,061	177,760
203,000	Cooper Industries plc	5,960,084	13,840,540
207,000	Crane Co.	4,850,462	7,530,660
165,000	General Electric Co.	2,881,096	3,438,600
154,000	Greif Inc., Cl. A	1,648,005	6,314,000
15,000	Greif Inc., Cl. B	674,933	674,550
30,000	Griffon Corp.	264,355	257,400
389,000	Honeywell International Inc.	12,744,372	21,721,760
128,000	ITT Corp.	1,507,566	2,252,800
11,000	Jardine Strategic Holdings Ltd.	222,951	335,500
2,000	Kennametal Inc.	77,640	66,300
30,000	Material Sciences Corp.	30,306	246,000
95,000	Park-Ohio Holdings Corp.	974,355	1,807,850
1,000	Pentair Inc.	31,908	38,280
55,000	Smiths Group plc	993,765	874,301
15,400	Sulzer AG	470,222	1,817,205
9,000	Terex Corp.	147,720	160,470
15,000	Tredegar Corp.	204,650	218,400
39,000	Trinity Industries Inc.	804,553	974,220
198,000	Tyco International Ltd.	9,018,988	10,464,300
		45,784,658	76,241,436
	Entertainment 5.3%		
2,002	Chestnut Hill Ventures (a)	53,837	130,039
82,000	Discovery Communications Inc., Cl. A	1,484,440	4,428,000
82,000	Discovery Communications Inc., Cl. C	1,036,307	4,107,380

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

			Market
Shares		Cost	Value
COMMON STOCKS (Continued)			
Entertainment (Continued)			
500	DreamWorks Animation SKG Inc., Cl. A	\$ 10,535	\$ 9,530
645,000	Grupo Televisa SAB, ADR	7,487,837	13,854,600
7,000	Regal Entertainment Group, Cl. A	89,752	96,320
32,000	Societe d Edition de Canal +	34,010	172,108
355,000	The Madison Square Garden Co., Cl. A	5,988,351	13,291,200
220,000	Time Warner Inc.	8,702,917	8,470,000
58,000	Tokyo Broadcasting System Holdings Inc.	1,369,660	708,901
100,000	Universal Entertainment Corp.	2,093,892	2,070,432
290,000	Viacom Inc., Cl. A	13,397,689	14,784,200
330,666	Vivendi SA.	8,503,632	6,122,050
		50,252,859	68,244,760
Consumer Products 4.4%			
50,000	Avon Products Inc.	1,325,900	810,500
16,500	Christian Dior SA	624,386	2,260,345
24,000	Church & Dwight Co. Inc.	79,628	1,331,280
24,000	Deckers Outdoor Corp.	1,235,395	1,056,240
94,000	Energizer Holdings Inc.	4,395,004	7,073,500
2,100	Givaudan SA	608,272	2,056,524
60,000	Hanesbrands Inc.	1,376,148	1,663,800
28,000	Harley-Davidson Inc.	1,300,779	1,280,440
4,000	Jarden Corp.	91,909	168,080
7,000	Mattel Inc.	126,000	227,080
11,683	National Presto Industries Inc.	552,055	815,123
10,000	Oil-Dri Corp. of America	171,255	219,000
55,000	Reckitt Benckiser Group plc	1,688,933	2,898,545
32,400	Svenska Cellulosa AB, Cl. B	441,093	484,774
838,000	Swedish Match AB	9,271,950	33,762,528
9,000	The Clorox Co.	663,172	652,140
2,000	The Estee Lauder Companies Inc., Cl. A	72,260	108,240
		24,024,139	56,868,139
Health Care 4.2%			
10,000	Abbott Laboratories	425,367	644,700
13,000	Allergan Inc.	603,993	1,203,410
36,000	Amgen Inc.	2,104,520	2,629,440
25,000	Baxter International Inc.	1,204,317	1,328,750
15,000	Becton, Dickinson and Co.	1,213,063	1,121,250
31,000	Biogen Idec Inc.	624,029	4,475,780
320,000	Boston Scientific Corp.	2,428,573	1,814,400
85,000	Bristol-Myers Squibb Co.	2,152,363	3,055,750
49,000	Covidien plc	1,929,854	2,621,500
3,500	Gilead Sciences Inc.	142,734	179,480
28,000	Henry Schein Inc.	719,282	2,197,720
25,000	Hospira Inc.	827,597	874,500
Shares		Cost	Market

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				Value
40,000	Johnson & Johnson	\$	2,595,348	\$ 2,702,400
66,000	Life Technologies Corp.		1,769,474	2,969,340
40,000	Mead Johnson Nutrition Co.		1,797,128	3,220,400
100,000	Merck & Co. Inc.		2,237,482	4,175,000
9,600	Nobel Biocare Holding AG		275,441	99,019
97,000	Novartis AG, ADR		4,333,718	5,422,300
10,000	Teva Pharmaceutical Industries Ltd., ADR		392,264	394,400
94,000	UnitedHealth Group Inc.		4,429,213	5,499,000
4,000	Waters Corp.		285,470	317,880
12,000	Watson Pharmaceuticals Inc.		491,936	887,880
60,000	William Demant Holding A/S		2,727,517	5,377,113
7,000	Zimmer Holdings Inc.		339,145	450,520
			36,049,828	53,661,932

Telecommunications 3.7%

65,000	BCE Inc.		1,607,838	2,678,000
1,032,000	BT Group plc, Cl. A		4,267,428	3,416,779
7,040,836	Cable & Wireless Jamaica Ltd.(b)		128,658	15,188
620,000	Cincinnati Bell Inc.		3,274,665	2,306,400
130,000	Deutsche Telekom AG, ADR		2,137,750	1,421,160
36,000	Hellenic Telecommunications Organization SA		625,736	91,116
15,000	Hellenic Telecommunications Organization SA, ADR		117,820	18,750
95,000	Koninklijke KPN NV		221,092	908,403
60,000	NII Holdings Inc.		1,171,964	613,800
131,741	Oi SA, ADR		2,908,740	1,625,684
38,433	Oi SA, Cl. C, ADR		409,776	178,713
750,000	Sprint Nextel Corp.		3,751,902	2,445,000
25,000	Telecom Argentina SA, ADR		147,932	295,250
565,000	Telecom Italia SpA		2,308,990	558,064
88,253	Telefonica Brasil SA, ADR		2,232,998	2,183,379
597,315	Telefonica SA, ADR		9,146,761	7,824,827
80,000	Telefonos de Mexico SAB de CV, Cl. L		46,372	60,691
610,740	Telephone & Data Systems Inc.		26,414,733	13,002,655
15,000	TELUS Corp.		280,203	900,796
150,000	Verizon Communications Inc.		4,927,467	6,666,000
			66,128,825	47,210,655

Automotive: Parts and Accessories 3.5%

69,000	BorgWarner Inc.		1,608,717	4,525,710
142,000	CLARCOR Inc.		1,181,624	6,838,720
215,000	Dana Holding Corp.		1,440,698	2,754,150
256,000	Genuine Parts Co.		9,168,176	15,424,000
147,000	Johnson Controls Inc.		3,141,470	4,073,370
235,000	Modine Manufacturing Co.		5,054,652	1,628,550
85,000	O Reilly Automotive Inc.		2,393,129	7,120,450
152,000	Standard Motor Products Inc.		1,520,657	2,140,160

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

Shares		Cost	Market Value
COMMON STOCKS (Continued)			
Automotive: Parts and Accessories (Continued)			
58,300	Superior Industries International Inc.	\$ 1,195,058	\$ 954,371
12,000	Tenneco Inc.	380,139	321,840
		27,084,320	45,781,321
Retail 3.0%			
10,000	Abercrombie & Fitch Co., Cl. A	315,760	341,400
71,000	AutoNation Inc.	745,868	2,504,880
100	AutoZone Inc.	8,793	36,717
60,000	Burger King Worldwide Inc.	932,678	898,200
27,000	Coldwater Creek Inc.	126,973	14,742
126,000	Collective Brands Inc.	2,285,301	2,698,920
40,000	Costco Wholesale Corp.	1,843,960	3,800,000
120,000	CVS Caremark Corp.	4,075,042	5,607,600
36,000	HSN Inc.	843,049	1,452,600
377,000	Macy's Inc.	6,682,622	12,949,950
47,000	Sally Beauty Holdings Inc.	386,808	1,209,780
13,000	The Cheesecake Factory Inc.	380,728	415,480
5,000	Tiffany & Co.	285,150	264,750
74,000	Walgreen Co.	2,344,551	2,188,920
39,000	Wal-Mart Stores Inc.	1,947,671	2,719,080
21,000	Whole Foods Market Inc.	423,988	2,001,720
		23,628,942	39,104,739
Machinery 3.0%			
15,000	Caterpillar Inc.	101,378	1,273,650
12,000	CNH Global NV	300,884	466,320
376,000	Deere & Co.	10,962,073	30,407,120
267,000	Xylem Inc.	4,320,747	6,720,390
		15,685,082	38,867,480
Consumer Services 3.0%			
17,000	Expedia Inc.	501,322	817,190
71,000	IAC/InterActiveCorp.	1,814,243	3,237,600
200,000	Liberty Interactive Corp., Cl. A	4,158,599	3,558,000
1,337,000	Rollins Inc.	9,132,991	29,908,690
27,000	TripAdvisor Inc.	733,181	1,206,630
		16,340,336	38,728,110
Aerospace and Defense 2.7%			
612,015	BBA Aviation plc	1,468,801	1,955,350
240,000	Exelis Inc.	1,747,195	2,366,400
4,000	Huntington Ingalls Industries Inc.	121,831	160,960
42,800	Kaman Corp.	1,040,981	1,324,232
3,000	Lockheed Martin Corp.	175,770	261,240

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25,000	Northrop Grumman Corp.		1,282,844	1,594,750
1,200,000	Rolls-Royce Holdings plc		9,166,092	16,125,039
Shares		Cost		Market Value
145,000	The Boeing Co.	\$	9,549,914	\$ 10,773,500
			24,553,428	34,561,471
Publishing 2.5%				
170,000	Il Sole 24 Ore SpA		707,873	112,623
130,000	Media General Inc., Cl. A		1,142,790	599,300
110,000	Meredith Corp.		4,693,916	3,513,400
665,000	News Corp., Cl. A		7,480,444	14,822,850
355,000	News Corp., Cl. B		5,695,245	7,994,600
27,000	The E.W. Scripps Co., Cl. A		172,848	259,470
116,000	The McGraw-Hill Companies Inc.		4,729,254	5,220,000
			24,622,370	32,522,243
Business Services 2.5%				
1	Ascent Capital Group Inc., Cl. A		23	52
159,000	Clear Channel Outdoor Holdings Inc., Cl. A		1,236,036	957,180
33,000	Contax Participacoes SA, Preference		67,778	368,693
84,000	Diebold Inc.		3,161,225	3,100,440
5,230	Edenred		94,604	147,892
997	FleetCor Technologies Inc.		663	34,935
200,000	G4S plc		0	874,223
18,000	Jardine Matheson Holdings Ltd.		565,207	871,200
89,000	Landauer Inc.		2,479,290	5,102,370
36,500	MasterCard Inc., Cl. A		1,472,775	15,699,015
77,000	Monster Worldwide Inc.		740,095	654,500
315,000	The Interpublic Group of Companies Inc.		2,655,599	3,417,750
4,000	Visa Inc., Cl. A		176,000	494,520
			12,649,295	31,722,770
Aviation: Parts and Services 2.0%				
320,000	Curtiss-Wright Corp.		4,507,634	9,936,000
275,000	GenCorp Inc.		2,370,094	1,790,250
86,200	Precision Castparts Corp		4,434,882	14,179,038
			11,312,610	25,905,288
Hotels and Gaming 1.7%				
20,000	Accor SA		694,524	624,652
186,000	Gaylord Entertainment Co.		4,787,676	7,172,160
70,000	Genting Singapore plc		52,525	77,916
8,000	Hyatt Hotels Corp., Cl. A		263,258	297,280
32,000	Interval Leisure Group Inc.		610,959	608,320
1,330,000	Ladbrokes plc		8,850,280	3,274,435
54,000	Las Vegas Sands Corp.		751,456	2,348,460
3,600,000	Mandarin Oriental International Ltd.		6,769,756	4,644,000
90,000	MGM China Holdings Ltd.		177,759	135,964
30,000	MGM Resorts International		277,963	334,800

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

			Market
Shares		Cost	Value
	COMMON STOCKS (Continued)		
	Hotels and Gaming (Continued)		
32,000	Orient-Express Hotels Ltd., Cl. A	\$ 473,395	\$ 267,840
40,000	Pinnacle Entertainment Inc.	189,092	384,800
34,000	Starwood Hotels & Resorts Worldwide Inc.	520,597	1,803,360
200,000	The Hongkong & Shanghai Hotels Ltd.	155,450	265,534
2,000	Wynn Resorts Ltd.	74,539	207,440
		24,649,229	22,446,961
	Specialty Chemicals 1.6%		
9,000	Ashland Inc.	150,660	623,790
24,000	E. I. du Pont de Nemours and Co.	1,082,876	1,213,680
410,000	Ferro Corp.	4,426,680	1,968,000
8,000	FMC Corp.	136,430	427,840
39,000	H.B. Fuller Co.	753,034	1,197,300
45,000	Huntsman Corp.	633,827	582,300
67,000	International Flavors & Fragrances Inc.	3,160,460	3,671,600
267,000	Omnova Solutions Inc.	1,655,747	2,013,180
208,000	Sensient Technologies Corp.	3,788,404	7,639,840
1,000	SGL Carbon SE	57,689	39,053
100,000	Zep Inc.	1,293,508	1,373,000
		17,139,315	20,749,583
	Broadcasting 1.3%		
265,000	CBS Corp., Cl. A, Voting	7,659,961	8,821,850
2,000	Cogeco Inc.	39,014	90,050
22,334	Corus Entertainment Inc., Cl. B, OTC	40,694	504,078
6,666	Corus Entertainment Inc., Cl. B, Non-Voting, Toronto	12,406	150,068
30,000	Gray Television Inc.	54,872	44,100
80,000	Liberty Media Corp. - Liberty Capital, Cl. A	1,113,132	7,032,800
24,000	LIN TV Corp., Cl. A	156,403	72,480
100,000	Television Broadcasts Ltd.	396,239	692,838
		9,472,721	17,408,264
	Electronics 1.3%		
19,000	Bel Fuse Inc., Cl. A	558,116	344,090
40,000	Emerson Electric Co.	2,027,346	1,863,200
4,000	Hitachi Ltd., ADR	287,076	245,600
90,000	Intel Corp.	1,934,046	2,398,500
36,342	Koninklijke Philips Electronics NV	88,880	714,853
60,000	LSI Corp.	350,973	382,200

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2,400	Mettler-Toledo International Inc.	337,270	374,040
20,000	Molex Inc., Cl. A	363,729	404,600
			Market
Shares		Cost	Value
2,000	Rovi Corp.	\$ 33,295	\$ 39,240
55,000	TE Connectivity Ltd.	2,106,049	1,755,050
270,000	Texas Instruments Inc.	6,455,544	7,746,300
		14,542,324	16,267,673
	Metals and Mining 1.1%		
44,000	Agnico-Eagle Mines Ltd.	1,853,887	1,780,240
125,000	Alcoa Inc.	1,210,891	1,093,750
64,000	Barrick Gold Corp.	1,873,920	2,404,480
20,000	Freeport-McMoRan Copper & Gold Inc.	928,431	681,400
54,000	Ivanhoe Mines Ltd.	452,732	522,720
5,000	Materion Corp.	112,422	115,150
50,000	New Hope Corp. Ltd.	67,580	205,212
156,000	Newmont Mining Corp.	5,355,090	7,567,560
20,000	Vale SA, ADR	359,974	397,000
		12,214,927	14,767,512
	Wireless Communications 1.1%		
130,000	America Movil SAB de CV, Cl. L, ADR	843,732	3,387,800
7,000	Millicom International Cellular SA, SDR	700,202	658,769
1,500	NTT DoCoMo Inc.	2,980,751	2,490,148
54,075	Tim Participacoes SA, ADR	390,208	1,484,900
118,000	United States Cellular Corp.	5,451,900	4,557,160
65,000	Vodafone Group plc, ADR	1,725,536	1,831,700
		12,092,329	14,410,477
	Environmental Services 0.9%		
210,000	Republic Services Inc.	4,445,444	5,556,600
170,000	Waste Management Inc.	4,320,028	5,678,000
		8,765,472	11,234,600
	Computer Software and Services 0.8%		
7,000	Check Point Software Technologies Ltd.	118,774	347,130
40,000	InterXion Holding NV	582,330	724,400
65,000	NCR Corp.	813,962	1,477,450
26,000	Rockwell Automation Inc.	863,281	1,717,560
410,000	Yahoo! Inc.	7,729,756	6,490,300
		10,108,103	10,756,840
	Agriculture 0.8%		
254,000	Archer-Daniels-Midland Co.	5,831,188	7,498,080
20,000	Monsanto Co.	892,390	1,655,600
15,000	Syngenta AG, ADR	189,981	1,026,600
10,000	The Mosaic Co.	428,085	547,600
		7,341,644	10,727,880
	Communications Equipment 0.6%		
65,000	Cisco Systems Inc.	1,293,867	1,116,050
500,000	Corning Inc.	4,439,577	6,465,000
		5,733,444	7,581,050

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

Shares		Cost	Market Value
COMMON STOCKS (Continued)			
Automotive 0.6%			
36,000	Ford Motor Co.	\$ 585,030	\$ 345,240
133,000	Navistar International Corp.	4,014,571	3,773,210
81,000	PACCAR Inc	356,389	3,174,390
		4,955,990	7,292,840
Transportation 0.4%			
142,000	GATX Corp.	4,402,791	5,467,000
Real Estate 0.4%			
55,500	Griffin Land & Nurseries Inc.	529,368	1,553,445
200,000	The St. Joe Co.	4,144,271	3,162,000
		4,673,639	4,715,445
Closed-End Funds 0.3%			
30,000	Royce Value Trust Inc.	368,797	373,800
102,000	The Central Europe and Russia Fund Inc.	2,492,269	3,084,480
72,756	The New Germany Fund Inc.	794,751	982,206
		3,655,817	4,440,486
Building and Construction 0.3%			
138,000	Fortune Brands Home & Security Inc.	1,492,660	3,073,260
25,000	Layne Christensen Co.	476,143	517,250
10,000	Tutor Perini Corp.	147,800	126,700
		2,116,603	3,717,210
Real Estate Investment Trusts 0.1%			
2,000	Camden Property Trust	37,490	135,340
34,000	Rayonier Inc.	723,745	1,526,600
		761,235	1,661,940
Manufactured Housing and Recreational Vehicles 0.1%			
6,400	Martin Marietta Materials Inc.	132,795	504,448
10,000	Nobility Homes Inc.	183,582	56,900
27,000	Skyline Corp.	679,802	137,160
		996,179	698,508

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	Computer Hardware 0.0%			
12,000	SanDisk Corp.	608,341		437,760
	TOTAL COMMON STOCKS	826,646,339		1,283,460,914
	CONVERTIBLE PREFERRED STOCKS 0.1%			
	Telecommunications 0.1%			
22,500	Cincinnati Bell Inc., 6.750% Cv. Pfd., Ser. B	628,042		936,000
	RIGHTS 0.0%			
	Metals and Mining 0.0%			
54,000	Ivanhoe Mines Ltd., expire 07/19/12	0		49,788
				Market
				Value
Shares		Cost		
	WARRANTS 0.0%			
	Energy and Utilities 0.0%			
140,800	Kinder Morgan Inc., expire 05/25/17	\$ 164,570	\$	304,128
	Retail 0.0%			
145,000	Talbots Inc., expire 04/06/15	435,000		421
	TOTAL WARRANTS	599,570		304,549
Principal Amount				
	CONVERTIBLE CORPORATE BONDS 0.1%			
	Diversified Industrial 0.1%			
\$ 2,000,000	Griffon Corp., Sub. Deb. Cv., 4.000%, 01/15/17(c)	2,000,000		1,872,500
	U.S. GOVERNMENT OBLIGATIONS 0.5%			
5,937,000	U.S. Treasury Bills, 0.095% to 0.150% , 08/16/12 to 12/27/12	5,934,804		5,935,024
TOTAL INVESTMENTS 100.0%		\$ 835,808,755		1,292,558,775
	Other Assets and Liabilities (Net)			613,366
	PREFERRED STOCK			
	(8,218,262 preferred shares outstanding)			(305,356,550)
	NET ASSETS COMMON STOCK			
	(186,201,454 common shares outstanding)		\$	987,815,591
	NET ASSET VALUE PER COMMON SHARE			
	(\$987,815,591 ÷ 186,201,454 shares outstanding)		\$	5.31

- (a) Security fair valued under procedures established by the Board of Directors. The procedures may include reviewing available financial information about the company and reviewing the valuation of comparable securities and other factors on a regular basis. At June 30, 2012, the market value of fair valued securities amounted to \$130,639 or 0.01% of total investments.
- (b) At June 30, 2012, the Fund held an investment in a restricted security amounting to \$15,188 or 0.00% of total investments, which was valued under methods approved by the Board of Directors as follows:

Acquisition		Acquisition Date	Acquisition Cost	06/30/12 Carrying Value Per Unit
Shares	Issuer			

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7,040,836	Cable & Wireless Jamaica Ltd.	09/30/93	\$128,658	\$0.0022
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See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Schedule of Investments (Continued) June 30, 2012 (Unaudited)**

- (c) Security exempt from registration under Rule 144A of the Securities Act of 1933, as amended. This security may be resold in transactions exempt from registration, normally to qualified institutional buyers. At June 30, 2012, the market value of the Rule 144A security amounted to \$1,872,500 or 0.14% of total investments.

Non-income producing security.

Represents annualized yield at date of purchase.

ADR American Depositary Receipt

SDR Swedish Depositary Receipt

Geographic Diversification	% of Market Value	Market Value
North America	79.3%	\$ 1,024,816,450
Europe	15.6	201,621,809
Latin America	2.9	37,005,595
Japan	1.7	21,886,758
Asia/Pacific	0.5	7,228,163
Total Investments	100.0%	\$ 1,292,558,775

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.

Statement of Assets and Liabilities

June 30, 2012 (Unaudited)

Assets:	
Investments, at value (cost \$835,808,755)	\$ 1,292,558,775
Foreign currency, at value (cost \$74,565)	73,948
Cash	604
Receivable for investments sold	772,678
Dividends and interest receivable	4,068,355
Deferred offering expense	182,694
Prepaid expenses	14,248
Total Assets	1,297,671,302
Liabilities:	
Distributions payable	140,304
Payable for investments purchased	517,200
Payable for investment advisory fees	2,299,398
Payable for payroll expenses	76,755
Payable for accounting fees	3,750
Payable for auction agent fees	873,577
Payable for rights offering expenses	415,914
Other accrued expenses	172,263
Total Liabilities	4,499,161
Preferred Stock:	
Series C Cumulative Preferred Stock (Auction Rate, \$25,000 liquidation value, \$0.001 par value, 5,200 shares authorized with 2,880 shares issued and outstanding)	72,000,000
Series D Cumulative Preferred Stock (5.875%, \$25 liquidation value, \$0.001 par value, 3,000,000 shares authorized with 2,363,860 shares issued and outstanding)	59,096,500
Series E Cumulative Preferred Stock (Auction Rate, \$25,000 liquidation value, \$0.001 par value, 2,000 shares authorized with 1,120 shares issued and outstanding)	28,000,000
Series F Cumulative Preferred Stock (6.200%, \$25 liquidation value, \$0.001 par value, 6,000,000 shares authorized with 5,850,402 shares issued and outstanding)	146,260,050
Total Preferred Shares	305,356,550
Net Assets Attributable to Common Shareholders	\$ 987,815,591
Net Assets Attributable to Common Shareholders Consist of:	
Paid-in capital	\$ 614,080,095
Accumulated net investment income	490,195
Accumulated net realized loss on investments, futures contracts, and foreign currency transactions	(83,508,067)
Net unrealized appreciation on investments	456,750,020
Net unrealized appreciation on foreign currency translations	3,348
Net Assets	\$ 987,815,591
Net Asset Value per Common Share:	
(\$987,815,591 ÷ 186,201,454 shares outstanding at \$0.001 par value; 246,000,000 shares authorized)	<u>\$5.31</u>

Statement of Operations

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For the Six Months Ended June 30, 2012 (Unaudited)

Investment Income:	
Dividends (net of foreign withholding taxes of \$389,529)	\$ 15,998,644
Interest	44,173
Total Investment Income	16,042,817
Expenses:	
Investment advisory fees	6,555,365
Shareholder communications expenses	248,584
Custodian fees	93,219
Directors' fees	89,362
Payroll expenses	67,257
Shareholder services fees	66,689
Legal and audit fees	37,982
Accounting fees	22,500
Miscellaneous expenses	157,497
Total Expenses	7,338,455
Net Investment Income	8,704,362
Net Realized and Unrealized Gain/(Loss) on Investments, Futures Contracts, and Foreign Currency:	
Net realized gain on investments	19,014,520
Net realized loss on futures contracts	(3,051,672)
Net realized loss on foreign currency transactions	(17,438)
Net realized gain on investments, futures contracts, and foreign currency transactions	15,945,410
Net change in unrealized appreciation/depreciation:	
on investments	53,073,012
on futures contracts	179,411
on foreign currency translations	(5,666)
Net change in unrealized appreciation/depreciation on investments, futures contracts, and foreign currency translations	53,246,757
Net Realized and Unrealized Gain/(Loss) on Investments, Futures Contracts, and Foreign Currency	69,192,167
Net Increase in Net Assets Resulting from Operations	77,896,529
Total Distributions to Preferred Stock Shareholders	(6,287,445)
Net Increase in Net Assets Attributable to Common Shareholders Resulting from Operations	\$ 71,609,084

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Statement of Changes in Net Assets Attributable to Common Shareholders**

	Six Months Ended June 30, 2012 (Unaudited)	Year Ended December 31, 2011
Operations:		
Net investment income	\$ 8,704,362	\$ 13,105,587
Net realized gain on investments, futures contracts, swap contracts, and foreign currency transactions	15,945,410	2,943,344
Net change in unrealized appreciation/depreciation on investments, futures contracts, swap contracts, and foreign currency translations	53,246,757	(18,496,012)
Net Increase/(Decrease) in Net Assets Resulting from Operations	77,896,529	(2,447,081)
Distributions to Preferred Shareholders:		
Net investment income	(2,011,982)*	(10,150,930)
Net realized short-term gain		(2,538,209)
Net realized long-term gain	(4,275,463)*	
Total Distributions to Preferred Shareholders	(6,287,445)	(12,689,139)
Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations	71,609,084	(15,136,220)
Distributions to Common Shareholders:		
Net investment Income	(5,697,950)*	(3,337,003)
Net realized short-term gain		(834,407)
Net realized long-term gain	(11,913,895)*	
Return of capital	(34,187,698)*	(99,713,931)
Total Distributions to Common Shareholders	(51,799,543)	(103,885,341)
Fund Share Transactions:		
Net increase in net assets from common shares issued upon reinvestment of distributions	8,505,648	20,156,854
Offering costs for preferred shares charged to paid-in capital	(450,000)	
Net Increase in Net Assets from Fund Share Transactions	8,055,648	20,156,854
Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders	27,865,189	(98,864,707)
Net Assets Attributable to Common Shareholders:		
Beginning of period	959,950,402	1,058,815,109
End of period (including undistributed net investment income of \$490,195 and \$0, respectively)	\$987,815,591	\$ 959,950,402

* Based on year to date book income. Amounts are subject to change and recharacterization at year end.
See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Financial Highlights****Selected data for a share outstanding throughout each period:**

	Six Months Ended June 30, 2012 (Unaudited)		Year Ended December 31,				
		2011	2010	2009	2008	2007	
Operating Performance:							
Net asset value, beginning of period	\$ 5.20	\$ 5.85	\$ 5.03	\$ 4.14	\$ 9.22	\$ 9.40	
Net investment income	0.05	0.07	0.05	0.06	0.12	0.14	
Net realized and unrealized gain/(loss) on investments, futures contracts, swap contracts, and foreign currency transactions	0.37	(0.08)	1.35	1.62	(4.30)	1.12	
Total from investment operations	0.42	(0.01)	1.40	1.68	(4.18)	1.26	
Distributions to Preferred Shareholders: (a)							
Net investment income	(0.01)*	(0.06)	(0.05)	(0.07)	(0.11)	(0.02)	
Net realized gain	(0.02)*	(0.01)				(0.12)	
Return of capital			(0.02)				
Total distributions to preferred shareholders	(0.03)	(0.07)	(0.07)	(0.07)	(0.11)	(0.14)	
Net Increase/(Decrease) in Net Assets Attributable to Common Shareholders Resulting from Operations							
	0.39	(0.08)	1.33	1.61	(4.29)	1.12	
Distributions to Common Shareholders:							
Net investment income	(0.03)*	(0.02)		(0.00)(b)	0.00(b)	(0.12)	
Net realized gain	(0.06)*	(0.00)(b)				(0.57)	
Return of capital	(0.19)*	(0.55)	(0.51)	(0.72)	(0.80)	(0.61)	
Total distributions to common shareholders	(0.28)	(0.57)	(0.51)	(0.72)	(0.80)	(1.30)	
Fund Share Transactions:							
Increase/(decrease) in net asset value from common share transactions	(0.00)(b)			0.00(b)	0.01		
Increase in net asset value from repurchase of preferred shares				0.00(b)	0.00(b)		
Recapture of gain on sale of Fund shares by an affiliate			0.00(b)				
Offering costs for preferred shares charged to paid-in capital	(0.00)(b)				0.00(b)		
Total Fund share transactions	(0.00)(b)		0.00(b)	0.00(b)	0.01		
Net Asset Value Attributable to Common Shareholders, End of Period							
	\$ 5.31	\$ 5.20	\$ 5.85	\$ 5.03	\$ 4.14	\$ 9.22	
NAV Total Return	7.50%	(1.17)%	28.15%	44.10%	(49.06)%	12.14%	

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Market value, end of period	\$ 5.38	\$ 4.99	\$ 5.67	\$ 5.04	\$ 3.70	\$ 9.28
Investment total return	13.5%	(2.15)%	23.96%	61.56%	(54.77)%	12.75%

Ratios to Average Net Assets and Supplemental Data:

Net assets including liquidation value of preferred shares, end of period (in 000 s)	\$1,293,172	\$1,265,307	\$1,364,172	\$1,215,626	\$1,106,614	\$1,990,123
Net assets attributable to common shares, end of period (in 000 s)	\$ 987,816	\$ 959,950	\$1,058,815	\$ 910,269	\$ 724,076	\$1,586,381
Ratio of net investment income to average net assets attributable to common shares before preferred distributions	1.72%(c)	1.26%	0.92%	1.53%	1.73%	1.16%
Ratio of operating expenses to average net assets attributable to common shares before fee reduction	1.45%(c)	1.48%	1.50%	1.74%	1.52%	
Ratio of operating expenses to average net assets attributable to common shares net of fee reduction, if any	1.45%(c)	1.19%	1.50%	1.72%	1.19%	1.46%
Ratio of operating expenses to average net assets including liquidation value of preferred shares before fee reduction	1.12%(c)	1.15%	1.14%	1.22%	1.14%	

See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.**Financial Highlights (Continued)****Selected data for a share outstanding throughout each period:**

	Six Months Ended		Year Ended December 31,			
	June 30, 2012 (Unaudited)	2011	2010	2009	2008	2007
Ratios to Average Net Assets and Supplemental Data (continued):						
Ratio of operating expenses to average net assets including liquidation value of preferred shares net of fee reduction, if any	1.12%(c)	0.92%	1.14%	1.20%	0.89%	1.17%
Portfolio turnover rate	2.7%	6.3%	5.5%	6.7%	13.5%	17.2%
Preferred Stock:						
Auction Rate Series C Cumulative Preferred Stock						
Liquidation value, end of period (in 000 s)	\$ 72,000	\$ 72,000	\$ 72,000	\$ 72,000	\$ 117,000	\$ 130,000
Total shares outstanding (in 000 s)	3	3	3	3	5	5
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value(d)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$105,874	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230
5.875% Series D Cumulative Preferred Stock						
Liquidation value, end of period (in 000 s)	\$ 59,097	\$ 59,097	\$ 59,097	\$ 59,097	\$ 72,532	\$ 73,743
Total shares outstanding (in 000 s)	2,364	2,364	2,364	2,364	2,901	2,950
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value(e)	\$ 25.79	\$ 25.35	\$ 25.03	\$ 23.39	\$ 22.69	\$ 23.86
Asset coverage per share	\$ 105.87	\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23
Auction Rate Series E Cumulative Preferred Stock						
Liquidation value, end of period (in 000 s)	\$ 28,000	\$ 28,000	\$ 28,000	\$ 28,000	\$ 45,000	\$ 50,000
Total shares outstanding (in 000 s)	1	1	1	1	2	2
Liquidation preference per share	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Average market value(d)	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000	\$ 25,000
Asset coverage per share	\$105,874	\$ 103,593	\$ 111,687	\$ 99,525	\$ 72,320	\$ 123,230
6.200% Series F Cumulative Preferred Stock						
Liquidation value, end of period (in 000 s)	\$146,260	\$ 146,260	\$ 146,260	\$ 146,260	\$ 148,007	\$ 150,000
Total shares outstanding (in 000 s)	5,850	5,850	5,850	5,850	5,920	6,000
Liquidation preference per share	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Average market value(e)	\$ 25.74	\$ 25.57	\$ 25.71	\$ 24.08	\$ 23.48	\$ 24.69
Asset coverage per share	\$ 105.87	\$ 103.59	\$ 111.69	\$ 99.53	\$ 72.32	\$ 123.23
Asset Coverage(f)	423%	414%	447%	398%	289%	493%

Based on net asset value per share, adjusted for reinvestment of distributions at prices obtained under the Fund's dividend reinvestment plan. Total return for a period of less than one year is not annualized.

Based on market value per share, adjusted for reinvestment of distributions at prices determined under the Fund's dividend reinvestment plan. Total return for a period of less than one year is not annualized.

Effective in 2008, a change in accounting policy was adopted with regard to the calculation of the portfolio turnover rate to include cash proceeds due to mergers. Had this policy been adopted retroactively, the portfolio turnover rate for the year ended December 31, 2007 would have been 27.3%.

* Based on year to date book income. Amounts are subject to change and recharacterization at year end.

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

(b) Amount represents less than \$0.005 per share.

(c) Annualized.

(d) Liquidation value, except for 2007 when price was based on weekly auction prices. Since February 2008, the weekly auctions have failed. Holders that have submitted orders have not been able to sell any or all of their shares in the auctions.

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- (e) Based on weekly prices.
- (f) Asset coverage is calculated by combining all series of preferred shares.
See accompanying notes to financial statements.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited)

1. Organization. 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 and registered under the Investment Company Act of 1940, as amended (the 1940 Act), whose primary objective is long-term growth of capital with income as a secondary objective. Investment operations commenced on August 21, 1986.

The Fund will invest at least 80% of its assets in equity securities under normal market conditions (the 80% Policy). The 80% Policy may be changed without shareholder approval. The Fund will provide shareholders with notice at least sixty days prior to the implementation of any changes in the 80% Policy.

2. Significant Accounting Policies. The Fund's financial statements are prepared in accordance with U.S. Generally Accepted Accounting Principles (GAAP), which may require the use of management estimates and assumptions. Actual results could differ from those estimates. The following is a summary of significant accounting policies followed by the Fund in the preparation of its financial statements.

Security Valuation. Portfolio securities listed or traded on a nationally recognized securities exchange or traded in the U.S. over-the-counter market for which market quotations are readily available are valued at the last quoted sale price or a market's official closing price as of the close of business on the day the securities are being valued. If there were no sales that day, the security is valued at the average of the closing bid and asked prices or, if there were no asked prices quoted on that day, then the security is valued at the closing bid price on that day. If no bid or asked prices are quoted on such day, the security is valued at the most recently available price or, if the Board of Directors (the Board) so determines, by such other method as the Board shall determine in good faith to reflect its fair market value. Portfolio securities traded on more than one national securities exchange or market are valued according to the broadest and most representative market, as determined by Gabelli Funds, LLC (the Adviser).

Portfolio securities primarily traded on a foreign market are generally valued at the preceding closing values of such securities on the relevant market, but may be fair valued pursuant to procedures established by the Board if market conditions change significantly after the close of the foreign market, but prior to the close of business on the day the securities are being valued. Debt instruments with remaining maturities of sixty days or less that are not credit impaired are valued at amortized cost, unless the Board determines such amount does not reflect the securities' fair value, in which case these securities will be fair valued as determined by the Board. Debt instruments having a maturity greater than sixty days for which market quotations are readily available are valued at the average of the latest bid and asked prices. If there were no asked prices quoted on such day, the security is valued using the closing bid price. U.S. government obligations with maturities greater than sixty days are normally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. Futures contracts are valued at the closing settlement price of the exchange or board of trade on which the applicable contract is traded.

Securities and assets for which market quotations are not readily available are fair valued as determined by the Board. Fair valuation methodologies and procedures may include, but are not limited to: analysis and review of available financial and non-financial information about the company; comparisons with the valuation and changes in valuation of similar securities, including a comparison of foreign securities with the equivalent U.S. dollar value ADR securities at the close of the U.S. exchange; and evaluation of any other information that could be indicative of the value of the security.

The Gabelli Equity Trust Inc.**Notes to Financial Statements (Unaudited) (Continued)**

The inputs and valuation techniques used to measure fair value of the Fund's investments are summarized into three levels as described in the hierarchy below:

Level 1 – quoted prices in active markets for identical securities;

Level 2 – other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.); and

Level 3 – significant unobservable inputs (including the Fund's determinations as to the fair value of investments).

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input both individually and in the aggregate that is significant to the fair value measurement. The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The summary of the Fund's investments in securities and other financial instruments by inputs used to value the Fund's investments as of June 30, 2012 is as follows:

	Valuation Inputs			Total Market Value at 6/30/12
	Level 1 Quoted Prices	Level 2 Other Significant Observable Inputs	Level 3 Significant Unobservable Inputs	
INVESTMENTS IN SECURITIES:				
ASSETS (Market Value):				
Common Stocks:				
Energy and Utilities	\$ 82,214,814		\$ 0	\$ 82,214,814
Equipment and Supplies	77,846,082		600	77,846,682
Entertainment	68,114,721		130,039	68,244,760
Telecommunications	47,195,467	\$ 15,188		47,210,655
Other Industries(a)	1,007,944,003			1,007,944,003
Total Common Stocks	1,283,315,087	15,188	130,639	1,283,460,914
Convertible Preferred Stocks(a)	936,000			936,000
Rights(a)	49,788			49,788
Warrants(a)	304,549			304,549
Convertible Corporate Bonds(a)		1,872,500		1,872,500
U.S. Government Obligations		5,935,024		5,935,024
TOTAL INVESTMENTS IN SECURITIES ASSETS	\$ 1,284,605,424	\$ 7,822,712	\$ 130,639	\$ 1,292,558,775

(a) Please refer to the Schedule of Investments for the industry classifications of these portfolio holdings.

The Fund did not have transfers between Level 1 and Level 2 during the six months ended June 30, 2012. The Fund's policy is to recognize transfers among Levels as of the beginning of the reporting period.

Additional Information to Evaluate Quantitative Information.

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General. The Fund uses recognized industry pricing services approved by the Board and unaffiliated with the Adviser to value most of its securities, and uses broker quotes provided by market makers of securities not valued by these and other recognized pricing sources. Several different pricing feeds are received to value domestic equity securities, international equity securities, preferred equity securities, and fixed income securities. The data within these feeds is ultimately sourced from major stock exchanges and trading systems where these securities trade. The prices supplied by external sources are checked by obtaining quotations or actual transaction prices from market participants. If a price obtained from the pricing source is deemed unreliable, prices will be sought from another pricing service or from a broker/dealer that trades that security or similar securities.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

Fair Valuation. Fair valued securities may be common and preferred equities, warrants, options, rights, and fixed income obligations. Where appropriate, Level 3 securities are those for which market quotations are not available, such as securities not traded for several days, or for which current bids are not available, or which are restricted as to transfer. Among the factors to be considered to fair value a security are recent prices of comparable securities that are publicly traded, reliable prices of securities not publicly traded, the use of valuation models, current analyst reports, valuing the income or cash flow of the issuer, or cost if the preceding factors do not apply. The circumstances of Level 3 securities are frequently monitored to determine if fair valuation measures continue to apply.

The Adviser reports quarterly to the Board the results of the application of fair valuation policies and procedures. These include back testing the prices realized in subsequent trades of these fair valued securities to fair values previously recognized.

Derivative Financial Instruments. The Fund may engage in various portfolio investment strategies by investing in a number of derivative financial instruments for the purposes of increasing the income of the Fund, hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase, or hedging against a specific transaction with respect to either the currency in which the transaction is denominated or another currency. Investing in certain derivative financial instruments, including participation in the options, futures, or swap markets, entails certain execution, liquidity, hedging, tax, and securities, interest, credit, or currency market risks. Losses may arise if the Adviser's prediction of movements in the direction of the securities, foreign currency, and interest rate markets is inaccurate. Losses may also arise if the counterparty does not perform its duties under a contract, or that, in the event of default, the Fund may be delayed in or prevented from obtaining payments or other contractual remedies owed to it under derivative contracts. The creditworthiness of the counterparties is closely monitored in order to minimize these risks. Participation in derivative transactions involves investment risks, transaction costs, and potential losses to which the Fund would not be subject absent the use of these strategies. The consequences of these risks, transaction costs, and losses may have a negative impact on the Fund's ability to pay distributions.

The Fund's derivative contracts held at June 30, 2012, if any, are not accounted for as hedging instruments under GAAP and are disclosed in the Schedule of Investments together with the related counterparty.

Swap Agreements. The Fund may enter into equity contract for difference swap transactions for the purpose of increasing the income of the Fund. The use of swaps is a highly specialized activity that involves investment techniques and risks different from those associated with ordinary portfolio security transactions. In an equity contract for difference swap, a set of future cash flows is exchanged between two counterparties. One of these cash flow streams will typically be based on a reference interest rate combined with the performance of a notional value of shares of a stock. The other will be based on the performance of the shares of a stock. Depending on the general state of short-term interest rates and the returns on the Fund's portfolio securities at the time an equity contract for difference swap 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.

Unrealized gains related to swaps are reported as an asset and unrealized losses are reported as a liability in the Statement of Assets and Liabilities. The change in value of swaps, including the accrual of periodic amounts of interest to be received or paid on swaps, is reported as unrealized gain or loss in the Statement

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

of Operations. A realized gain or loss is recorded upon receipt or payment of a periodic payment or termination of swap agreements.

At June 30, 2012, the Fund held no investments in equity contract for difference swap agreements.

Futures Contracts. The Fund may engage in futures contracts for the purpose of hedging against changes in the value of its portfolio securities and in the value of securities it intends to purchase. Upon entering into a futures contract, the Fund is required to deposit with the broker an amount of cash or cash equivalents equal to a certain percentage of the contract amount. This is known as the initial margin. Subsequent payments (variation margin) are made or received by the Fund each day, depending on the daily fluctuations in the value of the contract, and are included in unrealized appreciation/depreciation on futures contracts. The Fund recognizes a realized gain or loss when the contract is closed.

There are several risks in connection with the use of futures contracts as a hedging instrument. The change in value of futures contracts primarily corresponds with the value of their underlying instruments, which may not correlate with the change in value of the hedged investments. In addition, there is the risk that the Fund may not be able to enter into a closing transaction because of an illiquid secondary market.

The Fund held an equity futures contract through May 11, with an average monthly notional amount while it was outstanding of approximately \$27,714,170. At June 30, 2012, the Fund held no investments in equity futures contracts.

For the six months ended June 30, 2012, the effect of equity futures contracts can be found in the Statement of Operations under Net Realized and Unrealized Gain/(Loss) on Investments, Futures Contracts, and Foreign Currency, Net realized loss on futures contracts and Net change in unrealized appreciation/depreciation on futures contracts.

Investments in other Investment Companies. The Fund may invest, from time to time, in shares of other investment companies (or entities that would be considered investment companies but are excluded from the definition pursuant to certain exceptions under the 1940 Act) (the Acquired Funds) in accordance with the 1940 Act and related rules. Shareholders in the Fund would bear the pro rata portion of the periodic expenses of the Acquired Funds in addition to the Fund's expenses. For the six months ended June 30, 2012, the Fund's pro rata portion of the periodic expenses charged by the Acquired Funds was less than 1 basis point.

Foreign Currency Translations. The books and records of the Fund are maintained in U.S. dollars. Foreign currencies, investments, and other assets and liabilities are translated into U.S. dollars at current exchange rates. Purchases and sales of investment securities, income, and expenses are translated at the exchange rate prevailing on the respective dates of such transactions. Unrealized gains and losses that result from changes in foreign exchange rates and/or changes in market prices of securities have been included in unrealized appreciation/depreciation on investments and foreign currency translations. Net realized foreign currency gains and losses resulting from changes in exchange rates include foreign currency gains and losses between trade date and settlement date on investment securities transactions, foreign currency transactions, and the difference between the amounts of interest and dividends recorded on the books of the Fund and the amounts actually

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

received. The portion of foreign currency gains and losses related to fluctuation in exchange rates between the initial purchase trade date and subsequent sale trade date is included in realized gain/(loss) on investments.

Foreign Securities. The Fund may directly purchase securities of foreign issuers. Investing in securities of foreign issuers involves special risks not typically associated with investing in securities of U.S. issuers. The risks include possible revaluation of currencies, the inability to repatriate funds, less complete financial information about companies, and possible future adverse political and economic developments. Moreover, securities of many foreign issuers and their markets may be less liquid and their prices more volatile than securities of comparable U.S. issuers.

Foreign Taxes. The Fund may be subject to foreign taxes on income, gains on investments, or currency repatriation, a portion of which may be recoverable. The Fund will accrue such taxes and recoveries as applicable, based upon its current interpretation of tax rules and regulations that exist in the markets in which it invests.

Restricted Securities. The Fund may invest up to 10% of its net assets in securities for which the markets are illiquid. Illiquid securities include securities the disposition of which is subject to substantial legal or contractual restrictions. The sale of illiquid securities often requires more time and results in higher brokerage charges or dealer discounts and other selling expenses than does the sale of securities eligible for trading on national securities exchanges or in the over-the-counter markets. Restricted securities may sell at a price lower than similar securities that are not subject to restrictions on resale. Securities freely saleable among qualified institutional investors under special rules adopted by the SEC may be treated as liquid if they satisfy liquidity standards established by the Board. The continued liquidity of such securities is not as well assured as that of publicly traded securities, and accordingly the Board will monitor their liquidity. For the restricted securities the Fund held as of June 30, 2012, refer to the Schedule of Investments.

Securities Transactions and Investment Income. Securities transactions are accounted for on the trade date with realized gain or loss on investments determined by using the identified cost method. Interest income (including amortization of premium and accretion of discount) is recorded on the accrual basis. Premiums and discounts on debt securities are amortized using the effective yield to maturity method. Dividend income is recorded on the ex-dividend date, except for certain dividends from foreign securities that are recorded as soon after the ex-dividend date as the Fund becomes aware of such dividends.

Custodian Fee Credits and Interest Expense. When cash balances are maintained in the custody account, the Fund receives credits which are used to offset custodian fees. The gross expenses paid under the custody arrangement are included in custodian fees in the Statement of Operations with the corresponding expense offset, if any, shown as Custodian fee credits. When cash balances are overdrawn, the Fund is charged an overdraft fee equal to 110% of the 90 day Treasury Bill rate on outstanding balances. This amount, if any, would be included in the Statement of Operations.

Distributions to Shareholders. Distributions to common shareholders are recorded on the ex-dividend date. Distributions to shareholders are based on income and capital gains as determined in accordance with federal income tax regulations, which may differ from income and capital gains as determined under GAAP. These differences are primarily due to differing treatments of income and gains on various investment securities and foreign currency transactions held by the Fund, timing differences, and differing characterizations of distributions made by the Fund. Distributions from net investment income for federal income tax purposes include net realized

The Gabelli Equity Trust Inc.**Notes to Financial Statements (Unaudited) (Continued)**

gains on foreign currency transactions. These book/tax differences are either temporary or permanent in nature. To the extent these differences are permanent, adjustments are made to the appropriate capital accounts in the period when the differences arise. These reclassifications have no impact on the NAV of the Fund.

Under the Fund's distribution policy, the Fund declares and pays quarterly distributions from net investment income, capital gains, and paid-in capital. The actual source of the distribution is determined after the end of the year. Pursuant to this policy, distributions during the year may be made in excess of required distributions. To the extent such distributions are made from current earnings and profits, they are considered ordinary income or long-term capital gains. The Fund's current distribution policy may restrict the Fund's ability to pass through to shareholders all of its net realized long-term capital gains as a Capital Gain Dividend, subject to the maximum federal income tax rate of 15%, and may cause such gains to be treated as ordinary income subject to a maximum federal income tax rate of 35%. Distributions sourced from paid-in capital should not be considered as dividend yield or the total return from an investment in the Fund. The Board will continue to monitor the Fund's distribution level, taking into consideration the Fund's NAV and the financial market environment. The Fund's distribution policy is subject to modification by the Board at any time.

Distributions to shareholders of the Fund's Series C Auction Rate Cumulative Preferred Stock, 5.875% Series D Cumulative Preferred Stock, Series E Auction Rate Cumulative Preferred Stock, and 6.20% Series F Cumulative Preferred Stock (Preferred Stock) are recorded on a daily basis and are determined as described in Note 5.

The tax character of distributions paid during the year ended December 31, 2011 was as follows:

	Common	Preferred
Distributions paid from:		
Ordinary income	\$ 4,171,410	\$ 12,689,139
Return of capital	99,713,931	
Total distributions paid	\$ 103,885,341	\$ 12,689,139

Provision for Income Taxes. The Fund intends to continue to qualify as a regulated investment company under Subchapter M of the Internal Revenue Code of 1986, as amended (the Code). It is the policy of the Fund to comply with the requirements of the Code applicable to regulated investment companies and to distribute substantially all of its net investment company taxable income and net capital gains. Therefore, no provision for federal income taxes is required.

As of December 31, 2011, the components of accumulated earnings/losses on a tax basis were as follows:

Accumulated capital loss carryforwards	\$ (68,461,264)
Net unrealized appreciation on investments, future contracts, swap contracts, and foreign currency translations.	388,203,107
Other temporary differences*	(3,586)
Total	\$ 319,738,257

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* Other temporary differences are primarily due to income adjustments from investments in hybrid securities.

At December 31, 2011, the Fund had net capital loss carryforwards for federal income tax purposes which are available to reduce future required distributions of net capital gains to shareholders. Under the Regulated Investment Company Modernization Act of 2010, the Fund will be permitted to carry forward for an unlimited period capital losses incurred in years beginning after December 22, 2010. In addition, these losses must be utilized prior to the losses incurred in pre-enactment taxable years. As a result of the rule, pre-enactment capital loss carryforwards

The Gabelli Equity Trust Inc.**Notes to Financial Statements (Unaudited) (Continued)**

may have an increased likelihood of expiring unused. Additionally, post enactment capital losses that are carried forward will retain their character as either short-term or long-term capital losses rather than being considered all short-term as under previous law.

Capital Loss Carryforward Available through 2016	\$ 1,756,451
Capital Loss Carryforward Available through 2017	53,348,591
Capital Loss Carryforward Available through 2018	13,356,222
 Total Capital Loss Carryforwards	 \$ 68,461,264

The following summarizes the tax cost of investments and the related net unrealized appreciation at June 30, 2012:

	Cost	Gross Unrealized Appreciation	Gross Unrealized Depreciation	Net Unrealized Appreciation
Investments	\$ 850,719,660	\$ 520,212,857	\$(78,373,742)	\$ 441,839,115

The Fund is required to evaluate tax positions taken or expected to be taken in the course of preparing the Fund's tax returns to determine whether the tax positions are more-likely-than-not of being sustained by the applicable tax authority. Income tax and related interest and penalties would be recognized by the Fund as tax expense in the Statement of Operations if the tax positions were deemed not to meet the more-likely-than-not threshold. For the six months ended June 30, 2012, the Fund did not incur any income tax, interest, or penalties. As of June 30, 2012, the Adviser has reviewed all open tax years and concluded that there was no impact to the Fund's net assets or results of operations. Tax years ended December 31, 2008 through December 31, 2011 remain subject to examination by the Internal Revenue Service and state taxing authorities. On an ongoing basis, the Adviser will monitor the Fund's tax positions to determine if adjustments to this conclusion are necessary.

3. Agreements and Transactions with Affiliates. The Fund has entered into an investment advisory agreement (the "Advisory Agreement") with the Adviser which provides that the Fund will pay the Adviser a fee, computed weekly and paid monthly, equal on an annual basis to 1.00% of the value of the Fund's average weekly net assets including the liquidation value of preferred stock. In accordance with the Advisory Agreement, the Adviser provides a continuous investment program for the Fund's portfolio and oversees the administration of all aspects of the Fund's business and affairs. The Adviser has agreed to reduce the management fee on the incremental assets attributable to the Preferred Stock if the total return of the NAV of the common shares of the Fund, including distributions and advisory fee subject to reduction, does not exceed the stated dividend rate or corresponding swap rate of each particular series of the Preferred Stock for the year.

The Fund's total return on the NAV of the common shares is monitored on a monthly basis to assess whether the total return on the NAV of the common shares exceeds the stated dividend rate of each particular series of Preferred Stock for the period. For the six months ended June 30, 2012, the Fund's total return on the NAV of the common shares exceeded the stated dividend rate of the outstanding Series D and Series F Preferred Stock. Thus, advisory fees were accrued on the liquidation value of the Series D and Series F Preferred Stock. For the six months ended June 30, 2012, the Fund's total return on the NAV of the common shares exceeded the stated dividend rate or corresponding swap rate for the Series C and Series E Preferred Stock. Thus, advisory fees were accrued on the liquidation value of the Series C and Series E Preferred Stock.

The Gabelli Equity Trust Inc.**Notes to Financial Statements (Unaudited) (Continued)**

During the six months ended June 30, 2012, the Fund paid brokerage commissions on security trades of \$74,735 to Gabelli & Company, Inc., an affiliate of the Adviser.

The cost of calculating the Fund's NAV per share is a Fund expense pursuant to the Advisory Agreement between the Fund and the Adviser. During the six months ended June 30, 2012, the Fund paid or accrued \$22,500 to the Adviser in connection with the cost of computing the Fund's NAV.

As per the approval of the Board, the Fund compensates officers of the Fund, who are employed by the Fund and are not employed by the Adviser (although the officers may receive incentive based variable compensation from affiliates of the Adviser). For the six months ended June 30, 2012, the Fund paid or accrued \$67,257 in payroll expenses in the Statement of Operations.

The Fund pays each Director who is not considered an affiliated person an annual retainer of \$15,000 plus \$2,000 for each Board meeting attended. Each Director is reimbursed by the Fund for any out of pocket expenses incurred in attending meetings. All Board committee members receive \$1,000 per meeting attended. The Audit Committee Chairman receives an annual fee of \$3,000, the Proxy Voting Committee Chairman receives an annual fee of \$1,500, the Nominating Committee Chairman and the Lead Director each receive an annual fee of \$2,000. A Director may receive a single meeting fee, allocated among the participating funds, for participation in certain meetings held on behalf of multiple funds. Directors who are directors or employees of the Adviser or an affiliated company receive no compensation or expense reimbursement from the Fund.

4. Portfolio Securities. Purchases and sales of securities during the six months ended June 30, 2012, other than short-term securities and U.S. Government obligations, aggregated \$35,578,886 and \$80,055,256, respectively.

5. Capital. The charter permits the Fund to issue 246,000,000 shares of common stock (par value \$0.001) and authorizes the Board to increase its authorized shares from time to time. The Board has authorized the repurchase of its shares on the open market when the shares are trading on the NYSE at a discount of 10% or more (or such other percentage as the Board may determine from time to time) from the NAV of the shares. During the six months ended June 30, 2012 and the year ended December 31, 2011, the Fund did not repurchase any shares of its common stock in the open market.

Transactions in common shares were as follows:

	Six Months Ended June 30, 2012 (Unaudited)		Year Ended December 31, 2011	
	Shares	Amount	Shares	Amount
Net increase from shares issued upon reinvestment of distributions	1,581,216	\$ 8,505,648	3,762,752	\$ 20,156,854

The Fund's Articles of Incorporation, as amended, authorizes the issuance of up to 18,000,000 shares of \$0.001 par value Preferred Stock. The Preferred Stock is senior to the common stock and results in the financial leveraging of the common stock. Such leveraging tends to magnify both the risks and opportunities to common shareholders. Dividends on shares of the Preferred Stock are cumulative. The Fund is required by the 1940 Act and by the Articles Supplementary to meet certain asset coverage tests with respect to the Preferred Stock. If the Fund fails to meet these requirements and does not correct such failure, the Fund may be required to redeem, in part or in full, the Series C, Series D, Series E, and Series F Preferred Stock at redemption prices

The Gabelli Equity Trust Inc.**Notes to Financial Statements (Unaudited) (Continued)**

of \$25,000, \$25, \$25,000, and \$25, respectively, per share plus an amount equal to the accumulated and unpaid dividends whether or not declared on such shares in order to meet these requirements. Additionally, failure to meet the foregoing asset coverage requirements could restrict the Fund's ability to pay dividends to common shareholders and could lead to sales of portfolio securities at inopportune times. The income received on the Fund's assets may vary in a manner unrelated to the fixed and variable rates, which could have either a beneficial or detrimental impact on net investment income and gains available to common shareholders.

A shelf registration authorizing the offering of an additional \$500 million of common or preferred shares was declared effective by the SEC on June 30, 2011.

For Series C and Series E Preferred Stocks, the dividend rates, as set by the auction process that is generally held every seven days is expected to vary with short-term interest rates. Since February 2008, the number of shares of Series C and Series E Preferred Stock subject to bid orders by potential holders has been less than the number of shares of Series C and Series E Preferred Stock subject to sell orders. Holders that have submitted sell orders have not been able to sell any or all of the Series C and Series E Preferred Stock for which they have submitted sell orders. Therefore the weekly auctions have failed, and the dividend rate has been the maximum rate. The current maximum rate for Series C and Series E Preferred Stock is 150% of the AA Financial Composite Commercial Paper Rate. Existing Series C and Series E shareholders may submit an order to hold, bid, or sell such shares on each auction date, or trade their shares in the secondary market. There were no redemptions of Series C and Series E Preferred Stock during the six months ended June 30, 2012 and the year ended December 31, 2011.

At June 30, 2012, the Fund may redeem in whole or in part the Series D and Series F Preferred Stocks at the redemption price at any time. The Board has authorized the repurchase of Series D and Series F Preferred Stock in the open market at prices less than the \$25 liquidation value per share. During the six months ended June 30, 2012 and the year ended December 31, 2011, the Fund did not repurchase any shares of Series D or Series F Preferred Stock.

The following table summarizes Cumulative Preferred Stock information:

Series	Issue Date	Issued/ Authorized	Number of Shares		Net Proceeds	2012 Dividend	Dividend	Accrued
			Outstanding at 6/30/2012	Rate Range		Rate at 6/30/2012	Dividend at 6/30/2012	
C Auction Rate	June 27, 2002	5,200	2,880	\$ 128,246,350	0.195% to 0.150%	0.150%	\$ 900	
D 5.875%	October 7, 2003	3,000,000	2,363,860	\$ 72,375,842	Fixed Rate	5.875%	\$ 38,577	
E Auction Rate	October 7, 2003	2,000	1,120	\$ 49,350,009	0.030% to 0.195%	0.090%	\$70	
F 6.200%	November 10, 2006	6,000,000	5,850,402	\$ 144,765,000	Fixed Rate	6.200%	\$100,757	

The holders of Preferred Stock generally are entitled to one vote per share held on each matter submitted to a vote of shareholders of the Fund and will vote together with holders of common stock as a single class. The holders of Preferred Stock voting together as a single class also have the right currently to elect two Directors and under certain circumstances are entitled to elect a majority of the Board of Directors. In addition, the affirmative vote of a majority of the votes entitled to be cast by holders of all outstanding shares of the preferred stock, voting as a single class, will be required to approve any plan of reorganization adversely affecting the preferred stock, and the approval of two-thirds of each class, voting separately, of the Fund's outstanding voting stock must approve the conversion of the Fund from a closed-end to an open-end investment company. The approval of a majority (as defined in the 1940 Act) of the outstanding preferred stock and a majority (as defined in the

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

1940 Act) of the Fund's outstanding voting securities are required to approve certain other actions, including changes in the Fund's investment objectives or fundamental investment policies.

6. Indemnifications. The Fund enters into contracts that contain a variety of indemnifications. The Fund's maximum exposure under these arrangements is unknown. However, the Fund has not had prior claims or losses pursuant to these contracts. Management has reviewed the Fund's existing contracts and expects the risk of loss to be remote.

7. Other Matters. On April 24, 2008, the Adviser entered into a settlement with the SEC to resolve an inquiry regarding prior frequent trading in shares of the GAMCO Global Growth Fund (the Global Growth Fund) by one investor who was banned from the Global Growth Fund in August 2002. Under the terms of the settlement, the Adviser, without admitting or denying the SEC's findings and allegations, paid \$16 million (which included a \$5 million civil monetary penalty). On the same day, the SEC filed a civil action in the U.S. District Court for the Southern District of New York against the Executive Vice President and Chief Operating Officer of the Adviser, alleging violations of certain federal securities laws arising from the same matter. The officer, who also is an officer of the Global Growth Fund and other funds in the Gabelli/GAMCO complex, including this Fund, denies the allegations and is continuing in his positions with the Adviser and the funds. The settlement by the Adviser did not have, and the resolution of the action against the officer is not expected to have, a material adverse impact on the Adviser or its ability to fulfill its obligations under the Advisory Agreement.

8. Subsequent Events. Management has evaluated the impact on the Fund of all subsequent events occurring through the date the financial statements were issued and has determined that there were subsequent events requiring recognition or disclosure in the financial statements.

On July 12, 2012, Moody's Investors Services changed its ratings on the Preferred Shares. This ratings change increased the maximum rate to 175% of the AA Financial Composite Commercial Paper Rate on the Series C Preferred and Series E Preferred, on subsequent auction dates.

On July 31, 2012, the Fund completed a rights offering in which the Fund issued 2,816,524 shares of Series G Cumulative Preferred Stock (the Series G Preferred) totaling \$70,413,100. In the offering, the Fund's existing Series F Preferred shareholders received one transferable right for each share of Series F Preferred held on the record date (June 22, 2012). Holders of Rights were entitled to purchase one share of Series G Preferred by submitting one Right plus \$25.00 (the Subscription Price) pursuant to the Offering. The Subscription Price was payable in cash, by surrender of Series F Preferred at the liquidation preference amount, or any combination of cash and Series F Preferred shares.

The Series G Preferred shares were issued on August 1, 2012. 702,193 Series F Preferred shares with a liquidation value of \$25.00 per share, or approximately \$17.6 million, were surrendered by subscribing shareholders to acquire Series G Preferred. The surrendered Series F Preferred shares were retired. The proceeds raised in the rights offering will be used to redeem a portion of the remaining outstanding Series F Preferred.

On August 15, 2012 the Board authorized the redemption of 2,120,000 shares of Series F Preferred. The redemption date is September 26, 2012, and the redemption price is \$25.00 per share, which is equal to the liquidation preference of the Series F Preferred.

The Gabelli Equity Trust Inc.

Notes to Financial Statements (Unaudited) (Continued)

Management has evaluated the impact on the Fund of all other subsequent events occurring through the date the financial statements were issued and has determined that there were no other subsequent events requiring recognition or disclosure in the financial statements.

Shareholder Meeting May 14, 2012 Final Results

The Fund's Annual Meeting of Shareholders was held on May 14, 2012 at the Greenwich Library in Greenwich, Connecticut. At that meeting, common and preferred shareholders, voting together as a single class, elected Anthony R. Pustorino as a Director of the Fund. A total of 144,988,320 votes were cast in favor of this Director and a total of 7,172,723 votes were withheld for this Director. In addition, preferred shareholders, voting as a separate class, elected James P. Conn as a Director of the Fund. A total of 7,262,868 votes were cast in favor of this Director and a total of 370,874 votes were withheld for this Director.

Mario J. Gabelli, CFA, Anthony J. Colavita, Frank J. Fahrenkopf, Jr., Arthur V. Ferrara, and Salvatore J. Zizza continue to serve in their capacities as Directors of the Fund.

We thank you for your participation and appreciate your continued support.

On August 15, 2012, the Board appointed William F. Heitmann as a Trustee of the Fund.

Certifications

The Fund's Chief Executive Officer has certified to the New York Stock Exchange (NYSE) that, as of June 8, 2012, he was not aware of any violation by the Fund of applicable NYSE corporate governance listing standards. The Fund reports to the SEC on Form N-CSR which contains certifications by the Fund's principal executive officer and principal financial officer that relate to the Fund's disclosure in such reports and that are required by Rule 30a-2(a) under the 1940 Act.

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited)

Section 15(c) of the Investment Company Act of 1940, as amended (the 1940 Act), contemplates that the Board of Directors (the Board) of The Gabelli Equity Trust Inc. (the Fund), including a majority of the Directors who have no direct or indirect interest in the investment advisory agreement and are not interested persons of the Fund, as defined in the 1940 Act (the Independent Board Members), are required annually to review and re-approve the terms of the Fund's existing investment advisory agreement and approve any newly proposed terms therein. In this regard, the Board reviewed and re-approved, during the most recent six month period covered by this report, the Investment Advisory Agreement (the Advisory Agreement) with Gabelli Funds, LLC (the Adviser) for the Fund. More specifically, at a meeting held on May 16, 2012, the Board, including the Independent Board Members, considered the factors and reached the conclusions described below relating to the selection of the Adviser and the re-approval of the Advisory Agreement.

Nature, Extent, and Quality of Services.

The Independent Board Members considered the nature, quality, and extent of administrative and shareholder services performed by the Adviser, including portfolio management, supervision of Fund operations and compliance and regulatory filings and disclosures to shareholders, general oversight of other service providers, review of Fund legal issues, assisting the Independent Board Members in their capacity as directors, and other services. The Independent Board Members concluded that the services are extensive in nature and that the Adviser consistently delivered a high level of service.

Investment Performance of the Fund and Adviser.

The Independent Board Members considered short-term and long-term investment performance for the Fund over various periods of time as compared with relevant equity indices and the performance of other equity closed-end funds included in the Lipper peer group. The Independent Board Members noted that the Fund's total return performance was above the peer average and peer median for the three, five, and ten year periods ended March 31, 2012, but below the peer average and peer median for the one year period ended March 31, 2012. The Independent Board Members concluded that the Adviser was delivering satisfactory performance results consistent with the investment strategies being pursued by the Fund.

Costs of Services and Profits Realized by the Adviser.

(a) **Costs of Services to Fund: Fees and Expenses.** The Independent Board Members considered the Fund's management fee rate and expense ratio relative to industry averages for the Fund's peer group category and the advisory fees charged by the Adviser and its affiliates to other fund and non-fund clients. The Independent Board Members noted that the mix of services under the Advisory Agreement is much more extensive than those under the advisory agreements for non-fund clients. The Independent Board Members noted that the other non-management expenses paid by the Fund is below the average and median for its peer group, but that the management fee, gross advisory fee and total expenses, respectively, were above the average and median for peer funds. They took note of the fact that the use of leverage impacts comparative expenses with peer funds. The Independent Board Members were aware that the Adviser waives its fee on the incremental liquidation value of the Fund's preferred stock if the total return on net asset value of the common stock does not exceed the stated dividend rate or net swap expense for the preferred stock for the year after consideration of the reinvestment of distributions and the management fees attributable to the incremental liquidation value of the preferred stock, and that the comparative total expense ratio and other expense information reflected these waivers, if applicable. The Independent Board Members concluded that the fee is acceptable based upon the qualifications, experience, reputation, and performance of the Adviser.

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited) (Continued)

(b) Profitability and Costs of Services to Adviser. The Independent Board Members considered the Adviser's overall profitability and costs, and pro forma estimates of the Adviser's profitability and costs attributable to the Fund as part of the Gabelli/GAMCO fund complex and assuming the Fund constituted the Adviser's only investment company under its management. The Independent Board Members also considered whether the amount of profit is a fair entrepreneurial profit for the management of the Fund, and noted that the Adviser has substantially increased its resources devoted to Fund matters in response to regulatory requirements and new or enhanced Fund policies and procedures. The Independent Board Members concluded that the Adviser's profitability was at an acceptable level.

Extent of Economies of Scale as Fund Grows.

The Independent Board Members considered whether there have been economies of scale with respect to the management of the Fund and whether the Fund has appropriately benefited from any economies of scale. The Independent Board Members noted that economies of scale may develop for certain funds as their assets increase and their fund level expenses decline as a percentage of assets, but that fund level economies of scale may not necessarily result in Adviser level economies of scale. The Board Members concluded that there was an appropriate sharing of economies of scale.

Whether Fee Levels Reflect Economies of Scale.

The Independent Board Members also considered whether the management fee rate is reasonable in relation to the asset size of the Fund and any economies of scale that may exist, and concluded that the Fund's current fee schedule (without breakpoints) was considered reasonable.

Other Relevant Considerations.

(a) Adviser Personnel and Methods. The Independent Board Members considered the size, education, and experience of the Adviser's staff, the Adviser's fundamental research capabilities, and the Adviser's approach to recruiting, training, and retaining portfolio managers and other research and management personnel, and concluded that, in each of these areas, the Adviser was structured in such a way to support the high level of services being provided to the Fund.

(b) Other Benefits to the Adviser. The Independent Board Members also considered the character and amount of other incidental benefits received by the Adviser and its affiliates from its association with the Fund. The Independent Board Members considered the brokerage commissions paid to an affiliate of the Adviser. The Independent Board Members concluded that potential fall-out benefits that the Adviser and its affiliates may receive, such as affiliated brokerage commissions, greater name recognition, or increased ability to obtain research services, appear to be reasonable, and may in some cases benefit the Fund.

Conclusions.

In considering the Advisory Agreement, the Independent Board Members did not identify any factor as all important or all controlling, and instead considered these factors collectively in light of the Fund's surrounding circumstances. Based on this review, it was the judgment of the Independent Board Members that shareholders had received satisfactory absolute and relative performance consistent with the investment strategies being pursued by the Fund at reasonable fees and, therefore, re-approval of the Agreement was in the best interests of the Fund and its shareholders. As a part of its decision making process, the Independent Board Members noted that the Adviser has managed the Fund since its inception, and the Independent Board Members believe that a long term relationship with a capable, conscientious adviser is in the best interests of the Fund. The Independent

The Gabelli Equity Trust Inc.

Board Consideration and Re-Approval of Investment Advisory Agreements (Unaudited) (Continued)

Board Members considered, generally, that shareholders invested in the Fund knowing that the Adviser managed the Fund and knowing its investment management fee schedule. As such, the Independent Board Members considered, in particular, whether the Adviser managed the Fund in accordance with its investment objectives and policies as disclosed to shareholders. The Independent Board Members concluded that the Fund was managed by the Adviser consistent with its investment objectives and policies.

**AUTOMATIC DIVIDEND REINVESTMENT
AND VOLUNTARY CASH PURCHASE PLANS**

Enrollment in the Plan

It is the policy of The Gabelli Equity Trust Inc. (the Fund) to automatically reinvest dividends payable to common shareholders. As a registered shareholder, you automatically become a participant in the Fund's Automatic Dividend Reinvestment Plan (the Plan). The Plan authorizes the Fund to credit shares of common stock to participants upon an income dividend or a capital gains distribution regardless of whether the shares are trading at a discount or a premium to net asset value. All distributions to shareholders whose shares are registered in their own names will be automatically reinvested pursuant to the Plan in additional shares of the Fund. Plan participants may send their stock certificates to Computershare Trust Company, N.A. (Computershare) to be held in their dividend reinvestment account. Registered shareholders wishing to receive their distribution in cash must submit this request in writing to:

The Gabelli Equity Trust Inc.

c/o Computershare

P.O. Box 43010

Providence, RI 02940-3010

Shareholders requesting this cash election must include the shareholder's name and address as they appear on the share certificate. Shareholders with additional questions regarding the Plan or requesting a copy of the terms of the Plan may contact Computershare at (800) 336-6983.

If your shares are held in the name of a broker, bank, or nominee, you should contact such institution. If such institution is not participating in the Plan, your account will be credited with a cash dividend. In order to participate in the Plan through such institution, it may be necessary for you to have your shares taken out of street name and re-registered in your own name. Once registered in your own name, your dividends will be automatically reinvested. Certain brokers participate in the Plan. Shareholders holding shares in street name at participating institutions will have dividends automatically reinvested. Shareholders wishing a cash dividend at such institution must contact their broker to make this change.

The number of shares of common stock distributed to participants in the Plan in lieu of cash dividends is determined in the following manner. Under the Plan, whenever the market price of the Fund's common stock is equal to or exceeds net asset value at the time shares are valued for purposes of determining the number of shares equivalent to the cash dividends or capital gains distribution, participants are issued shares of common stock valued at the greater of (i) the net asset value as most recently determined or (ii) 95% of the then current market price of the Fund's common stock. The valuation date is the dividend or distribution payment date or, if that date is not a New York Stock Exchange (NYSE) trading day, the next trading day. If the net asset value of the common stock at the time of valuation exceeds the market price of the common stock, participants will receive shares from the Fund valued at market price. If the Fund should declare a dividend or capital gains distribution payable only in cash, Computershare will buy common stock in the open market, or on the NYSE or elsewhere, for the participants' accounts, except that Computershare will endeavor to terminate purchases in the open market and cause the Fund to issue shares at net asset value if, following the commencement of such purchases, the market value of the common stock exceeds the then current net asset value.

The automatic reinvestment of dividends and capital gains distributions will not relieve participants of any income tax which may be payable on such distributions. A participant in the Plan will be treated for federal income tax purposes as having received, on a dividend payment date, a dividend or distribution in an amount equal to the cash the participant could have received instead of shares.

Voluntary Cash Purchase Plan

The Voluntary Cash Purchase Plan is yet another vehicle for our shareholders to increase their investment in the Fund. In order to participate in the Voluntary Cash Purchase Plan, shareholders must have their shares registered in their own name.

Participants in the Voluntary Cash Purchase Plan have the option of making additional cash payments to Computershare for investments in the Fund's shares at the then current market price. Shareholders may send an amount from \$250 to \$10,000. Computershare will use these funds to purchase shares in the open market on or about the 1st and 15th of each month. Computershare will charge each shareholder who participates \$0.75, plus a pro rata share of the brokerage commissions. Brokerage charges for such purchases are expected to be less than the usual brokerage charge for such transactions. It is suggested that any voluntary cash payments be sent to Computershare, P.O. Box 43010, Providence, RI 02940 3010 such that Computershare receives such payments approximately 10 days before the 1st and 15th of the month. Funds not received at

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least five days before the investment date shall be held for investment until the next purchase date. A payment may be withdrawn without charge if notice is received by Computershare at least 48 hours before such payment is to be invested.

Shareholders wishing to liquidate shares held at Computershare must do so in writing or by telephone. Please submit your request to the above mentioned address or telephone number. Include in your request your name, address, and account number. The cost to liquidate shares is \$2.50 per transaction as well as the brokerage commission incurred. Brokerage charges are expected to be less than the usual brokerage charge for such transactions.

For more information regarding the Dividend Reinvestment Plan and Voluntary Cash Purchase Plan, brochures are available by calling (914) 921-5070 or by writing directly to the Fund.

The Fund reserves the right to amend or terminate the Plan as applied to any voluntary cash payments made and any dividend or distribution paid subsequent to written notice of the change sent to the members of the Plan at least 90 days before the record date for such dividend or distribution. The Plan also may be amended or terminated by Computershare on at least 90 days written notice to participants in the Plan.

DIRECTORS AND OFFICERS

THE GABELLI EQUITY TRUST INC.

One Corporate Center, Rye, NY 10580-1422

Directors

Mario J. Gabelli, CFA

Chairman & Chief Executive Officer,

GAMCO Investors, Inc.

Anthony J. Colavita

President, Anthony J. Colavita, P.C.

James P. Conn

Former Managing Director &

Chief Investment Officer,

Financial Security Assurance Holdings Ltd.

Frank J. Fahrenkopf, Jr.

President & Chief Executive Officer,

American Gaming Association

Arthur V. Ferrara

Former Chairman & Chief Executive Officer,

Guardian Life Insurance Company of America

William F. Heitmann

Former Senior Vice President of Finance,

Verizon Communications, Inc.

Anthony R. Pustorino

Certified Public Accountant,

Professor Emeritus, Pace University

Salvatore J. Zizza

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Chairman, Zizza & Associates Corp.

Officers

Bruce N. Alpert

President & Acting Chief Compliance Officer

Agnes Mullady

Treasurer & Secretary

Carter W. Austin

Vice President

Molly A.F. Marion

Vice President & Ombudsman

Investment Adviser

Gabelli Funds, LLC

One Corporate Center

Rye, New York 10580-1422

Custodian

The Bank of New York Mellon

Counsel

Willkie Farr & Gallagher LLP

Transfer Agent and Registrar

Computershare Trust Company, N.A.

Stock Exchange Listing

	Common	5.875% Preferred	6.20% Preferred
NYSE Symbol:	GAB	GAB PrD	GAB PrF
Shares Outstanding:	186,201,454	2,363,860	5,850,402

The Net Asset Value per share appears in the Publicly Traded Funds column, under the heading General Equity Funds, in Monday's The Wall Street Journal. It is also listed in Barron's Mutual Funds/Closed End Funds section under the heading General Equity Funds.

The Net Asset Value per share may be obtained each day by calling (914) 921-5070 or visiting www.gabelli.com.

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The NASDAQ symbol for the Net Asset Value is XGABX.

For general information about the Gabelli Funds, call **800-GABELLI** (800-422-3554), fax us at 914-921-5118, visit Gabelli Funds Internet homepage at: **www.gabelli.com**, or e-mail us at: closedend@gabelli.com

Notice is hereby given in accordance with Section 23(c) of the Investment Company Act of 1940, as amended, that the Fund may, from time to time, purchase its common shares in the open market when the Fund's shares are trading at a discount of 10% or more from the net asset value of the shares. The Fund may also, from time to time, purchase its preferred shares in the open market when the preferred shares are trading at a discount to the liquidation value.

Item 2. Code of Ethics.

Not applicable.

Item 3. Audit Committee Financial Expert.

Not applicable.

Item 4. Principal Accountant Fees and Services.

Not applicable.

Item 5. Audit Committee of Listed registrants.

Not applicable.

Item 6. Investments.

(a) Schedule of Investments in securities of unaffiliated issuers as of the close of the reporting period is included as part of the report to shareholders filed under Item 1 of this form.

(b) Not applicable.

Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.

Not applicable.

Item 8. Portfolio Managers of Closed-End Management Investment Companies.

There has been no change, as of the date of this filing, in any of the portfolio managers identified in response to paragraph (a)(1) of this Item in the registrant's most recently filed annual report on Form N-CSR.

Item 9. Purchases of Equity Securities by Closed-End Management Investment Company and Affiliated Purchasers.

REGISTRANT PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares (or Units) Purchased		(b) Average Price Paid per Share (or Unit)		(c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs		(d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs	
Month #1 01/01/12 through 01/31/12	Common	N/A	Common	N/A	Common	N/A	Common	184,620,238
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402
Month #2 02/01/12 through 02/29/12	Common	N/A	Common	N/A	Common	N/A	Common	184,620,238
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402
Month #3 03/01/12 through 03/31/12	Common	N/A	Common	N/A	Common	N/A	Common	185,376,493
	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402

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Month #4	Common	N/A	Common	N/A	Common	N/A	Common	185,376,493
04/01/12								
through	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
04/30/12								
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402
Month #5	Common	N/A	Common	N/A	Common	N/A	Common	185,376,493
05/01/12								
through	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
05/31/12								
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402
Month	Common	N/A	Common	N/A	Common	N/A	Common	186,201,454
06/01/12								
through	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	N/A	Preferred Series D	2,363,860
06/30/12								
	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	N/A	Preferred Series F	5,850,402
Total	Common	N/A	Common	N/A	Common	N/A	N/A	

Preferred Series D N/A Preferred Series D N/A Preferred Series D N/A

Preferred Series F N/A Preferred Series F N/A Preferred Series F N/A

Footnote columns (c) and (d) of the table, by disclosing the following information in the aggregate for all plans or programs publicly announced:

- a. The date each plan or program was announced The notice of the potential repurchase of common and preferred shares occurs quarterly in the Fund s quarterly report in accordance with Section 23(c) of the Investment Company Act of 1940, as amended.
- b. The dollar amount (or share or unit amount) approved Any or all common shares outstanding may be repurchased when the Fund s common shares are trading at a discount of 10% or more from the net asset value of the shares.

Any or all preferred shares outstanding may be repurchased when the Fund s preferred shares are trading at a discount to the liquidation value of \$25.00.

- c. The expiration date (if any) of each plan or program The Fund s repurchase plans are ongoing.
- d. Each plan or program that has expired during the period covered by the table The Fund s repurchase plans are ongoing.
- e. Each plan or program the registrant has determined to terminate prior to expiration, or under which the registrant does not intend to make further purchases. The Fund s repurchase plans are ongoing.

Item 10. Submission of Matters to a Vote of Security Holders.

There have been no material changes to the procedures by which the shareholders may recommend nominees to the registrant s Board of Directors, where those changes were implemented after the registrant last provided disclosure in response to the requirements of Item 407(c)(2)(iv) of Regulation S-K (17 CFR 229.407) (as required by Item 22(b)(15) of Schedule 14A (17 CFR 240.14a-101)), or this Item.

Item 11. Controls and Procedures.

- (a) The registrant s principal executive and principal financial officers, or persons performing similar functions, have concluded that the registrant s disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended (the 1940 Act) (17 CFR 270.30a-3(c))) are effective, as of a date within 90 days of the filing date of the report that includes the disclosure required by this paragraph, based on their evaluation of these controls and procedures required by Rule 30a-3(b) under the 1940 Act (17 CFR 270.30a-3(b)) and Rules 13a-15(b) or 15d-15(b) under the Securities Exchange Act of 1934, as amended (17 CFR 240.13a-15(b) or 240.15d-15(b)).

- (b) There were no changes in the registrant s internal control over financial reporting (as defined in Rule 30a-3(d) under the 1940 Act (17 CFR 270.30a-3(d))) that occurred during the registrant s

second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

Item 12. Exhibits.

- (a)(1) Not applicable.
- (a)(2) Certifications pursuant to Rule 30a-2(a) under the 1940 Act and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto.
- (a)(3) Not applicable.
- (b) Certifications pursuant to Rule 30a-2(b) under the 1940 Act and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

(registrant) The Gabelli Equity Trust Inc.

By (Signature and Title)* /s/ Bruce N. Alpert
Bruce N. Alpert, Principal Executive Officer

Date 9/7/12

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By (Signature and Title)* /s/ Bruce N. Alpert
Bruce N. Alpert, Principal Executive Officer

Date 9/7/12

By (Signature and Title)* /s/ Agnes Mullady
Agnes Mullady, Principal Financial Officer and Treasurer

Date 9/7/12

* Print the name and title of each signing officer under his or her signature.