

LIBERTY ALL STAR EQUITY FUND

Form N-Q

November 21, 2008

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

**FORM N-Q**

**QUARTERLY SCHEDULE OF PORTFOLIO HOLDINGS OF REGISTERED  
MANAGEMENT INVESTMENT COMPANY**

Investment Company Act file number

811-04809

**LIBERTY ALL-STAR EQUITY FUND**  
(Exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado  
(Address of principal executive offices)

80203  
(Zip code)

Tané T. Tyler

Liberty All-Star Equity Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203  
(Name and address of agent for service)

Registrant's telephone number, including area code:

(303) 623-2577

Date of fiscal year end: December 31

Date of reporting period: September 30, 2008

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**Item 1 Schedule of Investments.**

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**LIBERTY ALL-STAR USA EQUITY FUND****SCHEDULE OF INVESTMENTS**as of September 30, 2008 (*Unaudited*)

|  | SHARES    | MARKET VALUE |
|--|-----------|--------------|
| <b>COMMON STOCKS (98.26%)</b>                    |           |              |
| <b>CONSUMER DISCRETIONARY (12.80%)</b>           |           |              |
| <b>Auto Components (0.78%)</b>                   |           |              |
| Magna International, Inc., Class A               | 143,500   | \$ 7,345,765 |
| Visteon Corp.(a)                                 | 249,550   | 578,956      |
|  |           | 7,924,721    |
| <b>Hotels, Restaurants &amp; Leisure (2.79%)</b> |           |              |
| Carnival Corp.                                   | 295,925   | 10,460,949   |
| McDonald's Corp.                                 | 187,400   | 11,562,579   |
| Yum! Brands, Inc.                                | 189,700   | 6,186,117    |
|  |           | 28,209,645   |
| <b>Household Durables (1.90%)</b>                |           |              |
| Centex Corp.                                     | 340,425   | 5,514,885    |
| DR Horton, Inc.                                  | 131,075   | 1,706,597    |
| NVR, Inc.(a)                                     | 11,275    | 6,449,299    |
| Whirlpool Corp.                                  | 69,450    | 5,506,691    |
|  |           | 19,177,472   |
| <b>Internet &amp; Catalog Retail (1.09%)</b>     |           |              |
| Amazon.com, Inc.(a)                              | 151,680   | 11,036,237   |
| <b>Leisure Equipment &amp; Products (0.35%)</b>  |           |              |
| Mattel, Inc.                                     | 196,675   | 3,548,017    |
| <b>Media (2.69%)</b>                             |           |              |
| Comcast Corp., Class A                           | 393,000   | 7,749,960    |
| Liberty Media Corp., Capital Group, Series A(a)  | 65,729    | 879,454      |
| The McGraw-Hill Cos., Inc.                       | 206,000   | 6,511,660    |
| Omnicom Group, Inc.                              | 70,000    | 2,699,200    |
| Sirius XM Radio, Inc.(a)                         | 2,071,380 | 1,180,687    |
| Time Warner, Inc.                                | 625,000   | 8,193,750    |
|  |           | 27,214,711   |
| <b>Multi-Line Retail (1.34%)</b>                 |           |              |
| J.C. Penney Co., Inc.                            | 324,475   | 10,817,997   |
| Kohl's Corp.(a)                                  | 60,600    | 2,792,448    |
|  |           | 13,610,445   |

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**Specialty Retail (1.86%)**

|                      |         |            |
|----------------------|---------|------------|
| Chico's FAS, Inc.(a) | 353,950 | 1,936,107  |
| Home Depot, Inc.     | 242,150 | 6,269,264  |
| Staples, Inc.        | 472,200 | 10,624,499 |
|                      |         | 18,829,870 |

**CONSUMER STAPLES (7.72%)**

**Beverages (0.74%)**

|               |         |           |
|---------------|---------|-----------|
| PepsiCo, Inc. | 105,700 | 7,533,239 |
|---------------|---------|-----------|

**Food & Staples Retailing (3.88%)**

|                        |         |            |
|------------------------|---------|------------|
| Costco Wholesale Corp. | 100,400 | 6,518,972  |
| SYSCO Corp.            | 248,600 | 7,664,338  |
| Walgreen Co.           | 182,000 | 5,634,720  |
| Wal-Mart Stores, Inc.  | 325,000 | 19,464,250 |
|                        |         | 39,282,280 |

**Food Products (1.02%)**

|                            |         |            |
|----------------------------|---------|------------|
| Kraft Foods, Inc.          | 120,450 | 3,944,737  |
| Sara Lee Corp.             | 240,146 | 3,033,044  |
| Tyson Foods, Inc., Class A | 282,125 | 3,368,573  |
|                            |         | 10,346,354 |

**Household Products (2.08%)**

|                          |         |            |
|--------------------------|---------|------------|
| Kimberly-Clark Corp.     | 36,100  | 2,340,724  |
| The Procter & Gamble Co. | 267,800 | 18,662,982 |
|                          |         | 21,003,706 |

**ENERGY (7.85%)**

**Energy Equipment & Services (2.65%)**

|                                    |         |            |
|------------------------------------|---------|------------|
| Oceaneering International, Inc.(a) | 71,200  | 3,796,384  |
| Schlumberger Ltd.                  | 230,930 | 18,033,324 |
| Transocean, Inc.(a)                | 45,499  | 4,997,610  |
|                                    |         | 26,827,318 |

**Oil, Gas & Consumable Fuels (5.20%)**

|                         |         |            |
|-------------------------|---------|------------|
| Arch Coal, Inc.         | 265,800 | 8,742,162  |
| BP PLC(b)               | 85,979  | 4,313,567  |
| Cameco Corp.            | 16,525  | 368,673    |
| Chesapeake Energy Corp. | 45,650  | 1,637,009  |
| Chevron Corp.           | 106,800 | 8,808,864  |
| ConocoPhillips          | 124,000 | 9,083,000  |
| Consol Energy, Inc.     | 106,100 | 4,868,929  |
| Devon Energy Corp.      | 101,000 | 9,211,200  |
| Valero Energy Corp.     | 185,000 | 5,605,500  |
|                         |         | 52,638,904 |

**FINANCIALS (18.73%)**
**Capital Markets (1.38%)**

|                               |         |            |
|-------------------------------|---------|------------|
| Bank of New York Mellon Corp. | 54,000  | 1,759,320  |
| Merrill Lynch & Co., Inc.     | 182,000 | 4,604,600  |
| Morgan Stanley                | 300,425 | 6,909,775  |
| UBS AG(a)                     | 39,650  | 695,461    |
|                               |         | 13,969,156 |

**Commercial Banks (1.98%)**

|                             |         |            |
|-----------------------------|---------|------------|
| Comerica, Inc.              | 128,675 | 4,219,253  |
| Huntington Bancshares, Inc. | 856,500 | 6,843,435  |
| National City Corp.         | 819,287 | 1,433,752  |
| Wachovia Corp.              | 532,275 | 1,862,963  |
| Wells Fargo & Co.           | 150,600 | 5,652,018  |
|                             |         | 20,011,421 |

**Consumer Finance (2.25%)**

|                             |         |            |
|-----------------------------|---------|------------|
| American Express Co.        | 86,500  | 3,064,695  |
| Capital One Financial Corp. | 386,800 | 19,726,800 |
|                             |         | 22,791,495 |

**Diversified Financial Services (6.46%)**

|                                   |           |            |
|-----------------------------------|-----------|------------|
| Bank of America Corp.             | 463,925   | 16,237,375 |
| Citigroup, Inc.                   | 1,360,950 | 27,913,084 |
| IntercontinentalExchange, Inc.(a) | 72,600    | 5,857,368  |
| JPMorgan Chase & Co.              | 329,075   | 15,367,803 |
|                                   |           | 65,375,630 |

**Insurance (4.83%)**

|                                      |         |            |
|--------------------------------------|---------|------------|
| The Allstate Corp.                   | 193,125 | 8,906,925  |
| Berkshire Hathaway, Inc., Class A(a) | 75      | 9,794,999  |
| Fidelity National Financial, Inc.    | 481,350 | 7,075,845  |
| Genworth Financial, Inc., Class A    | 319,650 | 2,752,187  |
| The Progressive Corp.                | 136,720 | 2,378,928  |
| RenaissanceRe Holdings Ltd.          | 71,325  | 3,708,900  |
| Torchmark Corp.                      | 121,125 | 7,243,275  |
| Unum Group                           | 49,325  | 1,238,058  |
| Willis Group Holdings Ltd.           | 170,275 | 5,493,072  |
| XL Capital Ltd., Class A             | 14,599  | 261,906    |
|                                      |         | 48,854,095 |

**Real Estate Investment Trusts (1.71%)**

|                                 |           |            |
|---------------------------------|-----------|------------|
| Annaly Capital Management, Inc. | 1,073,224 | 14,434,863 |
| Redwood Trust, Inc.             | 132,525   | 2,879,769  |
|                                 |           | 17,314,632 |

**Thriffs & Mortgage Finance (0.12%)**

|             |         |           |
|-------------|---------|-----------|
| Fannie Mae  | 272,050 | 416,237   |
| Freddie Mac | 472,750 | 808,402   |
|             |         | 1,224,639 |

**HEALTH CARE (17.10%)**
**Biotechnology (4.90%)**

|                          |         |            |
|--------------------------|---------|------------|
| Amgen, Inc.(a)           | 143,200 | 8,487,464  |
| Cephalon, Inc.(a)        | 80,200  | 6,214,698  |
| Genentech, Inc.(a)       | 110,200 | 9,772,536  |
| Genzyme Corp.(a)         | 215,300 | 17,415,617 |
| Gilead Sciences, Inc.(a) | 169,000 | 7,703,020  |
|                          |         | 49,593,335 |

**Health Care Equipment & Supplies (4.03%)**

|                                 |         |            |
|---------------------------------|---------|------------|
| Baxter International, Inc.      | 142,800 | 9,371,964  |
| Becton, Dickinson and Co.       | 27,900  | 2,239,254  |
| Boston Scientific Corp.(a)      | 143,625 | 1,762,279  |
| Covidien Ltd.                   | 123,000 | 6,612,480  |
| Intuitive Surgical, Inc.(a)     | 19,100  | 4,602,718  |
| Medtronic, Inc.                 | 116,600 | 5,841,660  |
| St. Jude Medical, Inc.(a)       | 53,700  | 2,335,413  |
| Varian Medical Systems, Inc.(a) | 139,700 | 7,981,061  |
|                                 |         | 40,746,829 |

**Health Care Providers & Services (2.16%)**

|                               |         |            |
|-------------------------------|---------|------------|
| AmerisourceBergen Corp.       | 167,713 | 6,314,395  |
| Brookdale Senior Living, Inc. | 106,000 | 2,330,940  |
| Express Scripts, Inc.(a)      | 88,900  | 6,562,598  |
| Omnicare, Inc.                | 232,625 | 6,692,622  |
|                               |         | 21,900,555 |

**Health Care Technology (0.68%)**

|                 |         |           |
|-----------------|---------|-----------|
| Cerner Corp.(a) | 152,932 | 6,826,885 |
|-----------------|---------|-----------|

**Pharmaceuticals (5.33%)**

|  |         |            |
|--|---------|------------|
| Abbott Laboratories                    | 86,100  | 4,957,638  |
| Bristol-Myers Squibb Co.               | 416,900 | 8,692,365  |
| Johnson & Johnson                      | 223,775 | 15,503,132 |
| Merck & Co., Inc.                      | 120,775 | 3,811,659  |
| Pfizer, Inc.                           | 125,200 | 2,308,688  |
| Schering-Plough Corp.                  | 123,475 | 2,280,583  |
| Teva Pharmaceutical Industries Ltd.(b) | 211,700 | 9,693,743  |
| Wyeth                                  | 180,700 | 6,675,058  |
|  |         | 53,922,866 |

**INDUSTRIALS (10.05%)**
**Aerospace & Defense (2.91%)**

|                                   |         |            |
|-----------------------------------|---------|------------|
| The Boeing Co.                    | 55,925  | 3,207,299  |
| General Dynamics Corp.            | 100,200 | 7,376,724  |
| L-3 Communications Holdings, Inc. | 25,300  | 2,487,496  |
| Lockheed Martin Corp.             | 86,300  | 9,464,520  |
| Northrop Grumman Corp.            | 113,525 | 6,872,804  |
|                                   |         | 29,408,843 |

**Air Freight & Logistics (1.17%)**

|  |         |            |
|--|---------|------------|
| C.H. Robinson Worldwide, Inc.                | 152,545 | 7,773,693  |
| Expeditors International of Washington, Inc. | 117,890 | 4,107,288  |
|  |         | 11,880,981 |

**Commercial Services & Supplies (1.05%)**

|                            |         |            |
|----------------------------|---------|------------|
| Monster Worldwide, Inc.(a) | 415,000 | 6,187,650  |
| Waste Management, Inc.     | 139,700 | 4,399,153  |
|                            |         | 10,586,803 |

**Industrial Conglomerates (2.17%)**

|                         |         |            |
|-------------------------|---------|------------|
| 3M Co.                  | 111,000 | 7,582,410  |
| General Electric Co.    | 280,000 | 7,140,000  |
| Tyco International Ltd. | 206,500 | 7,231,630  |
|                         |         | 21,954,040 |

**Machinery (0.99%)**

|                                 |         |            |
|---------------------------------|---------|------------|
| Danaher Corp.                   | 29,500  | 2,047,300  |
| ITT Corp.                       | 24,300  | 1,351,323  |
| Navistar International Corp.(a) | 122,933 | 6,660,510  |
|                                 |         | 10,059,133 |

**Road & Rail (1.76%)**

|                                    |         |            |
|------------------------------------|---------|------------|
| Burlington Northern Santa Fe Corp. | 66,800  | 6,174,324  |
| J.B. Hunt Transport Services, Inc. | 86,300  | 2,879,831  |
| Union Pacific Corp.                | 122,800 | 8,738,448  |
|                                    |         | 17,792,603 |

**INFORMATION TECHNOLOGY (20.77%)**
**Communications Equipment (3.55%)**

|                            |           |            |
|----------------------------|-----------|------------|
| Alcatel-Lucent(a)(b)       | 1,798,833 | 6,907,519  |
| Cisco Systems, Inc.(a)     | 366,000   | 8,256,960  |
| Motorola, Inc.             | 819,675   | 5,852,480  |
| QUALCOMM, Inc.             | 253,600   | 10,897,191 |
| Research In Motion Ltd.(a) | 58,600    | 4,002,380  |
|                            |           | 35,916,530 |

**Computers & Peripherals (3.13%)**

|                                       |         |            |
|---------------------------------------|---------|------------|
| Apple, Inc.(a)                        | 40,500  | 4,603,230  |
| Dell, Inc.(a)                         | 868,175 | 14,307,524 |
| International Business Machines Corp. | 92,400  | 10,807,104 |
| NetApp, Inc.(a)                       | 109,115 | 1,989,167  |
|                                       |         | 31,707,025 |

**Electronic Equipment & Instruments (0.71%)**

|                       |         |           |
|-----------------------|---------|-----------|
| Avnet, Inc.(a)        | 171,925 | 4,234,513 |
| Tyco Electronics Ltd. | 107,750 | 2,980,365 |
|                       |         | 7,214,878 |

**Internet Software & Services (2.39%)**

|                              |         |            |
|------------------------------|---------|------------|
| Akamai Technologies, Inc.(a) | 168,895 | 2,945,529  |
| eBay, Inc.(a)                | 170,000 | 3,804,600  |
| Google, Inc., Class A(a)     | 26,700  | 10,693,883 |
| VeriSign, Inc.(a)            | 189,595 | 4,944,638  |
| Yahoo!, Inc.(a)              | 103,000 | 1,781,900  |
|                              |         | 24,170,550 |

**IT Services (2.97%)**

|  |         |            |
|--|---------|------------|
| Accenture Ltd., Class A                        | 235,900 | 8,964,199  |
| Affiliated Computer Services, Inc., Class A(a) | 92,225  | 4,669,352  |
| BearingPoint, Inc.(a)                          | 635,305 | 330,359    |
| Cognizant Technology Solutions Corp.(a)        | 167,700 | 3,828,591  |
| Visa, Inc.                                     | 108,400 | 6,654,676  |
| The Western Union Co.                          | 227,400 | 5,609,958  |
|  |         | 30,057,135 |

**Semiconductors & Semiconductor Equipment (3.53%)**

|                                  |         |            |
|----------------------------------|---------|------------|
| Analog Devices, Inc.             | 268,000 | 7,061,800  |
| ASML Holding N.V.                | 300,100 | 5,284,761  |
| Intel Corp.                      | 310,000 | 5,806,300  |
| International Rectifier Corp.(a) | 355,553 | 6,762,618  |
| Marvell Technology Group Ltd.(a) | 343,200 | 3,191,760  |
| Novellus Systems, Inc.(a)        | 373,000 | 7,325,720  |
| Qimonda AG(a)(b)                 | 246,525 | 251,456    |
|                                  |         | 35,684,415 |

**Software (4.49%)**

|                         |         |            |
|-------------------------|---------|------------|
| Adobe Systems, Inc.(a)  | 199,000 | 7,854,530  |
| CA, Inc.                | 352,600 | 7,037,896  |
| Microsoft Corp.         | 633,975 | 16,920,793 |
| Salesforce.com, Inc.(a) | 157,200 | 7,608,480  |
| Symantec Corp.(a)       | 304,900 | 5,969,942  |
|                         |         | 45,391,641 |

**MATERIALS (1.76%)**
**Chemicals (1.25%)**

|                        |        |            |
|------------------------|--------|------------|
| Cytec Industries, Inc. | 20,375 | 792,792    |
| Monsanto Co.           | 66,000 | 6,532,680  |
| Praxair, Inc.          | 74,400 | 5,337,456  |
|                        |        | 12,662,928 |

**Metals & Mining (0.51%)**

|             |         |           |
|-------------|---------|-----------|
| Alcoa, Inc. | 230,000 | 5,193,400 |
|-------------|---------|-----------|

**UTILITIES (1.48%)**
**Electric Utilities (0.19%)**

|                        |        |           |
|------------------------|--------|-----------|
| Allegheny Energy, Inc. | 51,300 | 1,886,301 |
|------------------------|--------|-----------|

**Independent Power Producers & Energy Traders (0.46%)**

|                         |         |           |
|-------------------------|---------|-----------|
| Reliant Energy, Inc.(a) | 632,200 | 4,646,670 |
|-------------------------|---------|-----------|

**Multi-Utilities (0.83%)**

|                                  |        |           |
|----------------------------------|--------|-----------|
| Sempra Energy                    | 81,250 | 4,100,688 |
| Wisconsin Energy Corp., Series C | 95,525 | 4,289,072 |
|                                  |        | 8,389,760 |

|  |  |                    |
|--|--|--------------------|
| <b>TOTAL COMMON STOCKS (COST OF \$1,186,107,327)</b> |  | <b>994,318,093</b> |
|--|--|--------------------|

|                                | <b>SHARES</b> | <b>MARKET VALUE</b> |
|--------------------------------|---------------|---------------------|
| <b>PREFERRED STOCK (0.27%)</b> |               |                     |

**CONSUMER DISCRETIONARY (0.27%)**
**Automobiles (0.27%)**

|   |         |           |
|---|---------|-----------|
| General Motors Corp., 6.250%<br>(COST OF \$5,579,548) | 343,800 | 2,750,400 |
|---|---------|-----------|

|                               | <b>PAR VALUE</b> |
|-------------------------------|------------------|
| <b>CORPORATE BOND (0.07%)</b> |                  |

**INFORMATION TECHNOLOGY (0.07%)**
**Semiconductors & Semiconductor Equipment (0.07%)**

|  |              |         |
|--|--------------|---------|
| Qimonda Finance LLC, Convertible, Series ADS,<br>6.750%, 03/22/13<br>(COST OF \$1,383,000) | \$ 1,383,000 | 741,634 |
|--|--------------|---------|

**SHORT TERM INVESTMENT (1.80%)**
**REPURCHASE AGREEMENT (1.80%)**

|  |            |            |
|--|------------|------------|
| Repurchase agreement with State Street Bank & Trust Co., dated 09/30/08, due 10/01/08 at<br>0.150%, collateralized by several U.S. Treasury Bonds with various maturity dates, market<br>value of \$18,543,183 (Repurchase proceeds of \$18,169,076)<br>(COST OF \$18,169,000) | 18,169,000 | 18,169,000 |
|--|------------|------------|

|   |                         |
|---|-------------------------|
| <b>TOTAL INVESTMENTS (100.40%) (COST OF \$1,211,238,875)(c)</b>   | 1,015,979,127           |
| <b>LIABILITIES IN EXCESS OF OTHER ASSETS (-0.40%)</b>             | (4,049,393)             |
| <b>NET ASSETS (100.00%)</b>                                       | <b>\$ 1,011,929,734</b> |
| <b>NET ASSET VALUE PER SHARE (178,677,459 SHARES OUTSTANDING)</b> | <b>\$ 5.66</b>          |

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(a) Non-income producing security.

(b) American Depositary Receipt.

(c) Cost of investments for federal income tax purposes is \$1,231,005,845.

Gross unrealized appreciation and depreciation at September 30, 2008 based on cost of investments for federal income tax purposes is as follows:

|                               |                         |
|-------------------------------|-------------------------|
| Gross unrealized appreciation | \$ 36,388,193           |
| Gross unrealized depreciation | (251,414,911)           |
| Net unrealized depreciation   | <b>\$ (215,026,718)</b> |

*See Notes to Schedule of Investments.*

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**NOTES TO QUARTERLY SCHEDULE OF INVESTMENTS (UNAUDITED)**

**NOTE 1. ORGANIZATION**

Liberty All-Star Equity Fund (the Fund) is a Massachusetts business trust registered under the Investment Company Act of 1940 (the Act), as amended, as a diversified, closed-end management investment company.

**Investment Goal**

The Fund seeks total investment return comprised of long-term capital appreciation and current income through investing primarily in a diversified portfolio of equity securities.

**Fund Shares**

The Fund may issue an unlimited number of shares of beneficial interest.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The following is a summary of significant accounting policies consistently followed by the Fund in the preparation of its financial statements.

**Security Valuation**

Equity securities are valued at the last sale price at the close of the principal exchange on which they trade, except for securities listed on the NASDAQ, which are valued at the NASDAQ official closing price. Unlisted securities or listed securities for which there were no sales during the day are valued at the closing bid price on such exchanges or over-the-counter markets.

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Debt securities generally are valued by pricing services approved by the Fund's Board of Trustees (the Board), based upon market transactions for normal, institutional-size trading units of similar securities. The services may use various pricing techniques which take into account appropriate factors such as yield, quality, coupon rate, maturity, type of issue, trading characteristics and other data, as well as broker quotes. Debt securities for which quotations are readily available are valued at an over-the-counter or exchange bid quotation.

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Short-term debt obligations maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term debt obligations maturing within 60 days are valued at amortized cost, which approximates market value.

Investments for which market quotations are not readily available are valued at fair value as determined in good faith under consistently applied procedures approved by and under the general supervision of the Board.

### **Foreign Securities**

The Fund invests in foreign securities which may involve a number of risk factors and special considerations not present with investments in securities of U.S. corporations.

### **Security Transactions**

Security transactions are accounted for on the trade date. Cost is determined and gains (losses) are based upon the specific identification method for both financial statement and federal income tax purposes.

### **Repurchase Agreements**

The Fund may engage in repurchase agreement transactions with institutions that the Fund's investment adviser has determined are creditworthy. The Fund, through its custodian, receives delivery of underlying securities collateralizing a repurchase agreement. Collateral is at least equal, at all times, to the value of the repurchase obligation including interest. A repurchase agreement transaction involves certain risks in the event of default or insolvency of the counterparty. These risks include possible delays or restrictions upon a Fund's ability to dispose of the underlying securities and a possible decline in the value of the underlying securities during the period while the Fund seeks to assert its rights.

### **Income Recognition**

Interest income is recorded on the accrual basis. Premium and discount are amortized and accreted, respectively, on all debt securities. Corporate actions and dividend income are recorded on the ex-date.

The Fund estimates components of distributions from real estate investment trusts (REITs). Distributions received in excess of income are recorded as a reduction of the cost of the related investments. If the Fund no longer owns the applicable securities, any distributions received in excess of income are recorded as realized gains.

#### **Fair Value Measurements**

The Fund adopted the provisions of Financial Accounting Standards Board Statement of Financial Accounting Standards No. 157 (FAS 157), Fair Value Measurements, on January 1, 2008. FAS 157 established a three-tier hierarchy to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund's investments as of the end of the reporting period. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

**Level 1** Quoted prices in active markets for identical investments

**Level 2** Other significant observable inputs (including quoted prices for similar investments, interest rates, prepayment speeds, credit risk, etc.)

**Level 3** Significant unobservable inputs (including the Fund's own assumptions in determining the fair value of investments)

The following is a summary of the inputs used to value the Fund's investments as of September 30, 2008.

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# Edgar Filing: LIBERTY ALL STAR EQUITY FUND - Form N-Q

| Valuation Inputs                             | Investments in Securities | Other Financial Instruments* |
|--|---------------------------|------------------------------|
| Level 1- Quoted Prices                       | \$ 997,810,127            |                              |
| Level 2- Other Significant Observable Inputs | \$ 18,169,000             |                              |
| Level 3- Significant Unobservable Inputs     | \$ 0                      |                              |
| <b>Total</b>                                 | <b>\$ 1,015,979,127</b>   |                              |

\* Other financial instruments are derivative investments not reflected in the Schedule of Investments such as futures, forwards and swap contracts, which are valued at the unrealized appreciation/depreciation on the investment.

For the nine months ended September 30, 2008, the Fund did not have significant unobservable inputs (Level 3) used in determining fair value. Therefore, a reconciliation of assets in which significant unobservable inputs (Level 3) were used in determining fair value is not applicable.

## Federal Income Tax Status

Consistent with the Fund's policy to qualify as a regulated investment company and to distribute all of its taxable income to shareholders, no federal income tax has been accrued.

## Distributions to Shareholders

The Fund currently has a policy of paying distributions on its shares of beneficial interest totaling approximately 10% of its net asset value per year. The distributions are payable in four quarterly distributions of 2.5% of the Fund's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. Distributions to shareholders are recorded on ex-date.

## Indemnification

In the normal course of business, the Fund enters into contracts that contain a variety of representations and warranties and which provide general indemnities. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims against the Fund. Also, under the Fund's organizational documents and by contract, the Trustees and Officers of the Fund are indemnified against certain liabilities that may arise out of their duties to the Fund. However, based on experience, the Fund expects the risk of loss due to these warranties and indemnities to be minimal.

### **Recent Accounting Pronouncements**

Effective January 1, 2007, the Fund adopted FASB Interpretation No. 48 ( FIN 48 ) Accounting for Uncertainty in Income Taxes, which requires that the financial statement effects of a tax position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not, based on the technical merits, that the position will be sustained upon examination. Management has concluded that the Fund has taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of FIN 48. The Fund files income tax returns in the U.S. federal jurisdiction and the State of Colorado. The statute of limitations on the Fund's federal tax return filings remains open for the years ended December 31, 2004 through December 31, 2007. The Fund's Colorado tax return filings remain open for the years ended December 31, 2006 through December 31, 2007. To our knowledge there are no federal or Colorado income tax returns currently under examination.

In March 2008, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards No. 161 ( FAS 161 ), Disclosures about Derivative Instruments and Hedging Activities . FAS 161 is intended to improve financial reporting about derivative instruments and hedging activities. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. Management believes the adoption of FAS 161 will have no material impact on financial statement disclosures.

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**Item 2 - Controls and Procedures.**

- (a) The registrant's Principal Executive Officer and Principal Financial Officer have evaluated the registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940) within 90 days of this filing and have concluded that the registrant's disclosure controls and procedures were effective, as of that date.
- (b) There was no change in the registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940) during registrant's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.

**Item 3 Exhibits.**

Separate certifications for the registrant's Principal Executive Officer and Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002 and Rule 30a-2(a) under the Investment Company Act of 1940, are attached as Ex99.CERT.

**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.

LIBERTY ALL-STAR EQUITY FUND

By: /s/ William Parmentier  
**William Parmentier**  
**President (principal executive officer)**

Date: November 21, 2008

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: /s/ William Parmentier  
**William Parmentier**  
**President (principal executive officer)**

Date: November 21, 2008

By: /s/ Jeremy O. May  
**Jeremy O. May**  
**Treasurer (principal financial officer)**

Date: November 21, 2008