EQUUS TOTAL RETURN, INC.
Form N-2/A
December 16, 2010

As filed with the Securities and Exchange Commission on December 16, 2010

Securities Act File No. 333-170258

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

FORM N-2

x REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

x Pre-effective Amendment No. 1

¨ Post-effective Amendment No.

EQUUS TOTAL RETURN, INC.
(Exact Name of Registrant as Specified in Charter)

Eight Greenway Plaza, Suite 930
Houston, Texas 77046
(Address of Principal Executive Offices)

(713) 529-0900
(Registrant's Telephone Number, Including Area Code)

Mr. John Hardy, Executive Chairman
Equus Total Return, Inc.
Eight Greenway Plaza, Suite 930
Houston, Texas 77046
(Name and Address of Agent for Service)

Copies to:

Martin C. Glass, Esq.
Goodwin Procter LLP
The New York Times Building
620 Eighth Avenue
New York, NY 10018
Telephone: (212) 813-8800
Facsimile: (212) 355-3333

Approximate Date of Proposed Public Offering: As soon as practicable after the effective date of this Registration Statement.

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

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

¨ when declared effective pursuant to section 8(c).

CALCULATION OF REGISTRATION FEE UNDER THE SECURITIES ACT OF 1933

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee(3)
Common Stock ($0.001 par value)	2,953,882	$6,498,540	$463.35

(1) Evidencing the exercise of non-transferable rights to subscribe for shares of common stock of the Registrant being registered herewith. Pursuant to Rule 457(g)(3) of the Securities Act of 1933, no separate registration fee is required for the rights because the rights are being registered in the same registration statement as the common stock of the Registrant underlying the rights.

(2) Calculated pursuant to Rule 457(c) based on the average of the high and low sales prices of our common stock as reported on the New York Stock Exchange on December 10 , 2010.

(3) Of this amount, $296.96 has been previously paid.

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

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PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, DECEMBER 16, 2010

Up to 2,953,882 Shares of Common Stock
Issuable Upon Exercise of Non-Transferable Rights to
Subscribe for Such Shares

EQUUS TOTAL RETURN, INC.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not a rights offering to sell these securities and it is not soliciting a rights offering to buy these securities in any state where the rights offering or sale is not permitted.

Equus is a closed-end, non-diversified management investment company that has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940 (the "1940 Act"). We seek to generate investment income and long-term capital gains by investing in the debt and equity securities of small and middle-market capitalization that are typically privately owned. We employ a total return investment strategy that combines both growth and income investment.

We are issuing non-transferable rights to our stockholders of record as of the close of business on __________, 2011 entitling holders of these rights to subscribe for an aggregate of up to 2,953,882 shares of our common stock. Stockholders will receive one right for each outstanding share owned by them on the record date. The rights entitle the holders to purchase one new share of common stock for each three rights held. We will not issue fractional shares upon the exercise of less than three rights. Stockholders of record who fully exercise their rights will be entitled to subscribe, subject to certain limitations and subject to allotment, for additional shares represented by any unexercised rights.

Our common stock is traded on the New York Stock Exchange, or the NYSE, under the symbol "EQS". While the shares of common stock issuable from the exercise of rights will be transferable and listed on the NYSE, the rights themselves are not transferable and will not be listed on the NYSE or any other exchange. Any rights which remain unsubscribed at the end of the offering period may be acquired by other stockholders who have exercised their over-subscription privileges, subject to certain conditions. See "The Rights Offering" for a complete discussion of the terms of this rights offering. The subscription price will be 90% of the average of the last reported sale prices of a share of our common stock on the NYSE on the eighth (8th) day prior to the date on which the rights offering expires (the "Pricing Date") and the eight preceding trading days.

Because the subscription price of the rights offered hereby is significantly less than our net asset value per share, shareholders who do not fully exercise their rights will experience substantial dilution to the net asset value of their shares. In addition, if all shares of common stock offered hereby are purchased, the proportionate interest held by non-exercising shareholders will decrease by one-third upon completion of the rights offering.

There are two deadlines in connection with the offering:

(1) The rights offering will expire at 5:00 p.m., Eastern Standard Time, on __________, 2011 , unless terminated or extended as described in this prospectus; and

(2) any stockholder wishing to exercise over-subscription privileges must provide our subscription agent with a completed subscription certificate by 5:00 p.m., Eastern Standard Time, on _________, 2011 , the day after the Pricing Date ("Notice Date"), unless terminated or extended as described in this prospectus.

The rights offering will expire at 5:00 p.m., Eastern Standard Time, on __________, 2011 , unless terminated or extended as described in this prospectus. Any stockholder wishing to exercise over-subscription privileges must provide our subscription agent with a completed subscription certificate by 5:00 p.m., Eastern Standard Time, on the Notice Date.

The net asset value per share of our common stock at September 30 , 2010 (the last date prior to the date of this prospectus on which we determined net asset value) was $3.55 . On December 10 , 2010, the last reported sale price of a share of our common stock on the NYSE was $2.20 .

Shares of closed-end investment companies, including BDCs, frequently trade at a discount from net asset value. Upon exercise of the rights, shares of our common stock will be issued at a price below the current net asset

value per share of such stock. We believe that having the ability to issue our common stock below net asset value in this rights offering will benefit all of our stockholders and may lead to a long-term increase in our net asset value.

An investment in our common stock is subject to risks. This rights offering will dilute the ownership interest and voting power of stockholders. In addition, the companies in which we invest are subject to special risks. See "Risk Factors" on page 12 to read about factors you should consider before exercising any rights to subscribe for shares of our common stock.

	Per Share	Total(4)
Estimated subscription price(1)	$ ___	$ ___
Estimated sales load (underwriting discounts and commissions)(1)(2)	$ None	$ None
Proceeds to us(1)(3)(4)	$ ___	$ ___

(1) Estimated on the basis of 90% of the average of the market price per share at the close of trading on the Pricing Date (_________, 2011) and the eight preceding trading days. See "The Rights Offering — The Subscription Price."

(2) This is not an underwritten offering and there will be no underwriting discounts or commissions. The rights are being offered directly by us without the services of an underwriter or dealer.

(3) Before the deduction of rights offering expenses incurred by us, estimated to be $428,000 . Proceeds to us on a per share and an aggregate basis are estimated to be $____ and $_______, respectively .

(4) Assumes all rights are exercised at the estimated subscription price.

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

As a result of the terms of this rights offering, since the subscription price per share will be less than the net asset value per share, this rights offering will result in an immediate decrease in our net asset value per share for all of our stockholders, irrespective of whether stockholders exercise all or any portion of their rights. See "Risk Factors—Risks Related to this Offering—All shareholders will experience an immediate decrease in the net asset value of their shares upon the closing of this rights offering" in this prospectus. The dilutive effect of this decrease will disproportionately affect nonexercising stockholders. If the subscription price per share is substantially less than the current net asset value per share, this decrease could be substantial.

If you have any questions or need further information about this rights offering, please call The Altman Group, Inc., our information agent for the rights offering, at 1-800-330-8705. Banks and brokers should call (212) 400-2612.

This prospectus contains information you should know before investing, including information about risks. Please read it before you invest and keep it for future reference. You may obtain a copy of our annual, quarterly and current periodic reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934, as amended, or the Exchange Act, without charge, by writing us at our principal office, which is located at Eight Greenway Plaza, Suite 930, Houston, Texas 77046 or by calling 1-888-358-7575. In addition, you may obtain copies of such information on the SEC's web site (http://www.sec.gov). You may inspect these reports, proxy statements, and other information, as well as the registration statement and the related exhibits and schedules at the public reference facilities of the SEC at room 1580, 100 F. Street, N.E., Washington, D.C. 20549.

EQUUS TOTAL RETURN, INC.

The date of this prospectus is , 2010

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making a rights offering to sell these securities in any jurisdiction where the rights offering or sale is not permitted. You should assume that the information appearing in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

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FORWARD-LOOKING STATEMENTS AND PROJECTIONS

All statements contained in this prospectus that are not historical facts, including statements regarding anticipated activity, are “forward-looking statements” within the meaning of the federal securities laws, involve a number of risks and uncertainties and are based on our beliefs and assumptions and information currently available to us. In some cases, you can identify forward-looking statements by words such as “may,” “will,” “should,” “expect,” “objective,” “plan,” “i “anticipate,” “believe,” “management believes,” “estimate,” “predict,” “project,” “potential,” “forecast,” “continue,” “strategy, or the negative of such terms or other variations of them or by comparable terminology. In particular, statements, express or implied, concerning future actions, conditions or events, future operating results or the ability to generate sales, income or cash flow are forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control and difficult to predict and could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements, including:

- Investors will incur immediate dilution upon the closing of this rights offering;
- Our common stock has continually traded, and is expected to continue to trade after this rights offering, at a discount from net asset value;
- Our common stock price may be volatile;
- There is uncertainty regarding the value of our privately held investments since we value them on a good faith estimate of their fair value;
- We are dependent on management;
- Our investment opportunities may be limited in order to maintain our status as a BDC;
- Failure to maintain status as a BDC could reduce our operating flexibility;
- We may fail to continue to qualify for our pass-through treatment as a regulated investment company, which could have an adverse affect on stockholder return; and
- The risks, uncertainties and other factors we identify in “Risk Factors” and elsewhere in this prospectus and in our filings with the SEC.

We caution readers not to place undue reliance on any such forward-looking statements, which statements are made pursuant to the Private Securities Litigation Reform Act of 1995 and, as such, speak only as of the date made. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, after the date of this prospectus. You should understand that, under Section 27A(b)(2)(B) of the Securities Act of 1933 and Section 21E(b)(2)(B) of the Securities Exchange Act of 1934 ("Exchange Act"), the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 do not apply to statements made in connection with any offering of securities pursuant to this prospectus or in periodic reports we file under the Exchange Act.

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PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. It is not complete and may not contain all of the information that you may want to consider. You should read carefully the more detailed information set forth under "Risk Factors" and the other information included in this prospectus. Except where the context suggests otherwise, the terms "we," "us," "our," "Equus" the "Company" and the "Fund" refer to Equus Total Return, Inc. We refer in this prospectus our executive officers and other members of our management team, collectively, as "Management."

Equus Total Return, Inc.

Equus is a BDC that provides financing solutions for middle market and small capitalization companies that are typically privately held. We began operations in 1983 and have been a publicly traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income.

We attempt to maximize the return to our stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between $15.0 million and $75.0 million. We seek to invest primarily in companies seeking growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses. Our income-producing investments consist principally of debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued generally by privately-owned companies in transactions negotiated directly with such companies.

Equus is a closed-end management investment company that has elected to be treated as a BDC under the 1940 Act. In order to remain a BDC, we must meet certain specified requirements for the Fund under the 1940 Act, including investing at least 70% of the Fund's assets in eligible portfolio companies and limiting the amount of leverage we incur. The Fund is also a regulated investment company, ("RIC,") under Subchapter M of the U.S. Internal Revenue Code of 1986, or the Code. As such, we are not required to pay corporate-level income tax on the Fund's investment income. We intend to maintain the Fund's RIC status, which requires that the Fund qualify annually as a RIC by meeting certain specified requirements.

Our principal office is located at Eight Greenway Plaza, Suite 930, Houston, Texas, 77046, and our telephone number is 1-888-358-7575. Our corporate website is located at www.equuscap.com. Our website, however, does not constitute a part of this prospectus. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished to the Securities and Exchange Commission ("SEC"). Our shares are traded on The New York Stock Exchange under the ticker symbol "EQS".

Our Investment Objective

Our investment objective is to maximize the total return to our stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of small and middle market capitalization companies that are generally not publicly traded at the time of our investment. As we grow and develop the Fund, we intend to include investments in progressively larger enterprises.

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Investment Strategy

Beginning in 2006, we implemented a revised investment strategy to attempt to strike a balance between the potential for gain and the risk of loss. With respect to capital appreciation, Equus is a "growth-at-reasonable-price" investor that seeks to identify and acquire securities that meet our criteria for selling at reasonable prices. We give priority to cash producing investments wherein we invest principally in debt or preferred equity financing with the objective of generating regular interest and dividend income back to the Fund. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing. Given market conditions over the past several years and the performance of our portfolio, our Management and board of directors believe it prudent to continue to review alternatives to refine and further clarify the current strategies.

Investment Criteria

Consistent with our investment objective and strategy, Management evaluates prospective investments based upon the criteria set forth below. We may modify some or all of these criteria from time to time.

- Management Competency and Ownership. We seek to invest in companies with experienced management teams who have demonstrated a track record of successful performance. Further, we desire to invest in companies with significant management ownership. We believe that significant management ownership in small capitalization and middle market companies provides appropriate incentives and an alignment of interests for management to maximize shareholder value. In addition, we will seek to design compensation and incentive arrangements that align the interests of the portfolio company's management with those of the Fund to enhance potential returns.

- Substantial Target Market. We desire to focus on companies whose products or services have favorable growth potential and strong competitive positions in their respective markets. These positions may be as leadership positions within a given industry or market niche positions in which the product or service has a demonstrated competitive advantage. The market in which a potential portfolio company operates should either be sizeable or have significant growth potential.

- History of Profitability and Favorable Growth Potential. We target companies that have demonstrated a history of profitability or a reasonable expectation of a return to profitability in the near future.

- Ability to Provide Regular Cash Interest and Distributions. We look for companies with strong cash flow models sufficient to provide regular and consistent interest and/or preferred dividend payments.

- Management Assistance and Substantial Equity. Given the requirements of a BDC under the 1940 Act, we seek to invest in companies that will permit substantial managerial assistance including representation on the board of directors of the company. With regard to equity investments, we desire to obtain a substantial investment position in portfolio companies. This position may be as a minority shareholder with certain contractual rights and powers, or as a majority shareholder, and should otherwise allow us to have substantive input on the direction and strategies of the portfolio company.

- Plausible Exit and Potential for Appreciation. Prior to investing in a portfolio company, we will seek to analyze potential exit strategies and pursue those investments with such strategies as may be achievable.

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Opportunities

We believe that the market for investing in, and financing the growth of, small and middle-market capitalization companies is underserved relative to other financial markets. We believe that companies in our target size range, having enterprise values of between $15 million and $75 million, have access to fewer sources of capital and increasing difficulty in financing their growth through traditional means. We believe that present market conditions and increasing concentration in the banking industry has led many of the surviving lenders and financiers to focus on large capital markets transactions and lending facilities, with some banks and funds discontinuing lending to smaller and even medium-sized companies. This generally has reduced the financing options available to these companies in recent years. As a result, we believe that an investment strategy focused on providing financing for such companies will, over time, provide above-average returns to our investors.

We believe that many participants in the private equity market do not provide adequate financing solutions for companies in our target market. Private equity firms and other BDCs have invested and, notwithstanding present economic conditions, we expect will continue to invest, in middle-market companies and, to a lesser extent, smaller companies. We note that some private equity firms do not provide complete financing solutions to their investee clients, focusing exclusively or primarily on equity investments. When such firms do offer financing options across the balance sheet of an investee company, they often seek to outsource the provision of senior and subordinated debt to other entities, including BDCs such as Equus. This provides us with an opportunity to participate in private equity transactions in association with more established market participants. Similarly, while many venture capital and turn-around firms provide speculative equity capital for small and medium-sized companies, few market participants appear to offer a full array of equity, preferred stock, senior and subordinated debt securities to these companies. With increased liquidity as a result of this rights offering, we believe that the Fund, either alone or in partnership with institutions and established private equity firms, will supplement our equity investments with income-oriented debt and hybrid securities specifically tailored to finance companies we target for investment.

Based on these factors, we believe that there is considerable opportunity for profitable investments in our target market of small and middle-market capitalization companies and that, as a result of this rights offering, we will be better positioned to serve this market.

Competitive Advantages

We believe that we have the following competitive advantages over other capital providers in small and middle-market capitalization companies:

Broad, Varied Deal Sourcing

We target investments in a variety of industries and geographic locations. Our Management and board of directors have access to long-term relationships in the United States and internationally that have been developed with industry participants, management teams and consultants. Management will seek to identify potential investments through its interaction with the general financial community, potential investment partners and industry participants with whom they and certain of our board members have established relationships. We also expect that our Management and board of directors will generate investment leads from accountants, consultants, lawyers and management teams with whom they have worked in the past.

Total Return Strategy

We believe that a balanced portfolio of equity and debt instruments will generate returns for investors that exceed those attainable by a purely fixed income portfolio while eliminating much of the volatility and risk associated with a fund invested only in debt or equity securities. We believe that our total return investment strategy offers advantages over other BDCs that focus their investments more completely in debt or equity securities.

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Established Infrastructure

We benefit from the resources and expertise developed by our Management and board of directors from many years of experience and across several business cycles. Contrary to many recently formed investment funds, our Management and board of directors have considerable experience and expertise in fund management and private equity development, which we believe are essential to managing and governing a BDC. We have developed and refined processes for investigating and culling prospective investments, including a regimented due diligence process, and for executing attractive investments. We have also have developed techniques we believe to be effective by which to monitor investments and, when appropriate, exit investments. We believe that this established infrastructure affords us a competitive advantage in our target market.

Experienced Management Team and Board of Directors

Our Management team is led by John A. Hardy, our Executive Chairman, who directs the implementation of our investment strategy in conjunction with a committee of Management personnel who review, analyze and monitor existing and potential investments by the Fund. Mr. Hardy has extensive international experience dealing with corporate finance, banking, mergers and acquisitions and multinational corporations.

Our board of directors consists of individuals with strong backgrounds in finance and investment management, law and governance, execution capacity, and management expertise. For example, Mr. Alessandro Benedetti, a recently elected member of our board, is currently the CEO of SAE Capital Ltd., based in London, UK, which he founded in January 2007. Prior to that, he was the CEO of SAE Capital SPA, based in Rome, Italy. Over the last 20 years Mr. Benedetti has been involved in the structuring and financing of complex transactions, acting on behalf of companies and governments in North America, Europe, Central Asia and the Middle East. In 2005, he structured and led the acquisition of Wind Telecomunicazioni SpA, based in Italy, which had 16 million wireless subscribers, 1.6 million fixed line customers and 28 million registered internet users. At that time the transaction was the largest leveraged buyout in European history, in a deal valued at over 12 billion Euros. Another of our recently elected directors is Bertrand des Pallieres, who is the CEO of SPQR Capital, a London-based hedge fund. He previously served as Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsche Bank from 2005 to 2007. From 1992 to 2005, he held various positions at JP Morgan including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing and Co-head of sales for Europe Middle East and Africa.

Our principal office is located at Eight Greenway Plaza, Suite 930, Houston, Texas 77046, and our telephone number is 1-888-358-7575. Our corporate website is located at www.equuscap.com. Information on our website, however, is not incorporated into, or a part of, this prospectus.

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FEES AND EXPENSES

The following table is intended to assist prospective investors in understanding the costs and expenses that an investor in a rights offering will bear directly or indirectly. We caution you that some of the percentages indicated in the table below are estimates and may vary. We have no plans and do not anticipate leveraging the Fund through the offering of preferred stock during the next 12 months.

Stockholder Transaction Expenses	
Sales load (as a percentage of rights offering price)(1)	None
Offering expenses(2)	1.36%
Dividend reinvestment and cash purchase plan fees(3)	None
Annual Expenses (as a percentage of net assets attributable to common stock)	
Operating expenses(4)	8.30%
Interest payments on borrowed funds(5)	0.13%
Other expenses	None
Total Annual Expenses	9.79%

(1) We are not engaging the services of an underwriter, dealer, or manager. Therefore neither we nor our shareholders will be paying any underwriting discounts or sales commissions.

(2) The percentage shown is based on the net assets of the Fund at September 30, 2010 and after giving effect to this offer. Amount reflects estimated rights offering expenses of approximately 1.36% of our net asset value, or $428,000.

(3) We have no such plans.

(4) “Operating expenses” represent our estimated operating expenses for the year ending December 31, 2010 including income tax expense (benefit) including excise tax, excluding interests and fees on indebtedness. We calculated the estimate of such future annual expenses by annualizing our actual operating expenses, net of interest expense and expenses related to our annual shareholder meeting and proxy contest, for the first nine months of 2010. This percentage for the year ended December 31, 2009 was 5.3%, wherein we paid an investment adviser and administrator for services provided during the first six months of 2009. See “Management’s Discussion and Analysis and Results of Operations,” “Management,” and “Compensation of Executive Officers and Directors.” As of July 1, 2009, we have not had an investment adviser or an administrator and are internally managed by our executive officers under the supervision of our Board of Directors. As a result, we do not pay investment advisory or administration fees, but instead we directly pay the operating costs associated with employing investment management professionals.

(5) We estimated our annual interest expense by annualizing our actual interest expense for the first nine months of 2010.

EXAMPLE

The following example demonstrates the projected dollar amount of total cumulative expenses that would be incurred over various periods with respect to a hypothetical investment in our common stock. In calculating the following expense amounts, we have assumed we would have no leverage and that our annual operating expenses would remain at the levels set forth in the table above.

	1 year	3 years	5 years	10 years
You would pay the following cumulative expenses on a $1,000 investment, assuming a 5% annual return	$ 102.84	$ 292.51	$ 462.66	$ 815.34

While the example assumes, as required by the SEC, a 5% annual return, our performance will vary and may result in a return greater or less than 5%. This illustration assumes that we will not realize any capital gains computed net of all realized capital losses and unrealized capital depreciation in any of the indicated time periods. In addition, while the example assumes reinvestment of all dividends and distributions, if any, at net asset value, participants in any future dividend reinvestment plan will receive a number of shares of our common stock,

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determined by dividing the total dollar amount of the dividend payable to a participant by the market price per share of our common stock at the close of trading on the valuation date for the dividend.

This example and the expenses in the table above should not be considered a representation of our future expenses, and actual expenses (including the cost of debt, if any, and other expenses) may be greater or less than those shown.

SELECTED FINANCIAL DATA

The selected financial data below should be read in conjunction with our "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements and notes thereto. We derived the following summary financial data as of and for the nine months ended September 30, 2010 from our unaudited financial statements and as of and for the years ended December 31, 2009, 2008, 2007, 2006 and 2005 from our financial statements that have been audited by UHY LLP, an independent registered public accounting firm.

	Nine Months Ended September 30, (unaudited)	Year Ended December 31,				
	2010	2009 (1)	2008	2007	2006	2005
Income Statement and Balance Sheet Data:	(in thousands, except for per share data)					
Total investment income	$ 2,286	$ 3,771	$ 3,181	$ 4,857	$ 6,016	$ 2,530
Net investment (loss) income	(600)	195	(713)	(523)	(102)	(3,134)
Net realized gain (loss) of portfolio securities	(6)	(15,555)	924	5,264	19,012	1,237
Net change in unrealized appreciation (depreciation) of portfolio securities	(18,821)	(12,172)	(19,873)	7,526	(4,751)	18,617
Net increase (decrease) in net assets resulting from operations	(19,427)	(27,532)	(19,662)	12,267	14,159	16,720
Distribution from net investment income	-	(195)				-
Return of capital distribution	-	(726)	(3,267)	-	(10,200)	-
Distributions of realized gains	-		(2,065)	(4,123)	(9,254)	
Total assets	47,753	81,007	124,063	134,730	125,866	143,984
Total net assets	31,474	50,901	78,435	103,216	93,236	92,602
Net cash (used in) provided by operating activities	15,359	12,361	(32,138)	(18,264)	59,930	(24,026)
Shares outstanding at end of year	8,862	8,862	8,565	8,401	8,164	7,377

Weighted average shares outstanding, basic	8,862	8,790	8,429	8,251	7,949	6,948
Per Share Data:						
Net investment (loss) income	$ (0.07)	$ 0.02	$ (0.08)	$ (0.06)	$ (0.01)	$ (0.45)
Net realized gain (loss) of portfolio securities	0.00	(1.77)	0.11	0.64	2.39	0.18
Net change in unrealized appreciation (depreciation) of portfolio securities	(2.12)	(1.38)	(2.36)	0.91	(0.60)	2.68
Net increase (decrease) in net amounts resulting from operations per share, basic and diluted	(2.19)	(3.13)	(2.33)	1.49	1.78	2.41
Distribution from net investment income	-	(0.02)	-	-	-	-
Return of capital distribution	-	(0.09)	(0.39)	-	(1.38)	-
Distribution of realized gains	-		(0.24)	(0.50)	(1.25)	-
Net asset value (including unrealized appreciation)	3.55	5.74	9.16	12.29	11.42	12.55

(1) On June 30, 2009, our investment advisory agreement with Moore Clayton Capital Advisors, Inc., was terminated and we have since internalized the management of the Fund from that date.

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SUMMARY OF THE OFFERING

Rights Being Offered by the Fund

We are issuing to stockholders of record on , 2011 , the record date, one non-transferable right for each share of common stock outstanding. Each three (3) rights will entitle the holder to acquire, at the subscription price, one (1) share of our common stock as further described in this prospectus. We will not issue fractional shares upon the exercise of less than three rights.

Shares to be Issued

We currently have 8,861,646 shares of common stock outstanding. If all the rights offered herein are exercised, we will issue 2,953,882 new shares, representing a 33.33% increase in the number of shares of common stock of the Fund outstanding.

Dilution

The following example indicates how a rights offering to increase the size of the Fund by issuing rights to subscribe for one-third of the number of shares outstanding would affect the net asset value of the common stock. We have assumed a subscription price of $1.87 per share, which is a 10% discount from the market price per share of the Fund's stock on November 30, 2010. The actual subscription price could vary significantly from this assumed price. This example does not include any effects or influence on the share price due to investment performance, dividend policy, greater trading volume or the other qualitative aspects of the Fund's shares. These are intended to be indicative calculations and are not projections of future results of the Fund.

Current shares outstanding	8,861,646
Net asset value at September 30, 2010*	$31.47 million
Net asset value per share	$3.55
Market price at November 30, 2010	$2.08
Prevailing discount to net asset value	41.4%
Number of new shares issued	2,953,882
Net proceeds after estimated issuance costs	$5.21 million
Net asset value after issuance	$36.69 million
Shares outstanding after issuance	11,815,528
Net asset value per share after issuance	$3.11
Decrease in net asset value per share	12.53%

* the most recently reported net asset value of the Fund.

Subscription Price

The subscription price per share will be 90% of the average of the last reported sale prices of a share of our common stock on the NYSE on the eighth (8th) day prior to the expiration date of the rights offering (the "Pricing Date") and the eight preceding trading days. Since the subscription price will be determined on the Pricing Date, rights holders who decide to acquire shares pursuant to the over-subscription privilege prior to the Pricing Date will not know the purchase price of those shares when they make their investment decision.

Subscription Period	The rights will be evidenced by a subscription certificate, but we will not mail such certificates to stockholders whose record addresses are outside the United States as described below. There are two deadlines in connection with the offering: (1) Subject to certain exceptions, rights may be exercised at any time during the subscription period, which commences on , 2011 , the record date, and ends at 5:00 p.m., Eastern Standard Time, on , 2011 , the expiration date, unless the rights offering is terminated or the expiration date is extended by us; and

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(2) any stockholder wishing to exercise over-subscription privileges must provide our subscription agent with a completed subscription certificate by 5:00 p.m., Eastern Standard Time, on the day after the Pricing Date ("Notice Date") (___________, 2011), unless the rights offering is terminated or the expiration date is extended by us.

Over-Subscription Privilege	Record date stockholders who fully exercise all rights issued to them are entitled to subscribe for additional shares of our common stock that are not subscribed for by other stockholders by providing, on or prior to the Notice Date, payment for any additional shares or, in the case of registered shareholders, an irrevocable guarantee of payment. If sufficient shares of our common stock are available, all record date stockholders' over-subscription requests that are timely received will be honored in full. If these requests exceed the shares of our common stock available in this rights offering, the available shares will be allocated pro rata among the record date stockholders who over-subscribe based on the number of rights originally issued to them by the Fund.
Restrictions on Foreign Stockholders	We will not mail subscription certificates to stockholders whose record addresses are outside the United States. Our subscription agent, American Stock Transfer & Trust Co., LLC, will hold the rights to which subscription certificates relate for foreign stockholders accounts until instructions are received to exercise the rights. If no instructions are received prior to the expiration date, which is , 2011 , the rights will expire. Foreign stockholders holding shares through a U.S. broker-dealer should contact the broker-dealer regarding this offer. See "The Offer — Restrictions on Foreign Stockholders."
Non-Transferability	Although the shares underlying the rights will, when the rights are exercised, trade on the NYSE, the rights themselves will not be listed on the NYSE or any other exchange, and you may not purchase or sell the rights. If you do not exercise your rights before the conclusion of this offering, your rights will expire without value and may be taken up by other shareholders exercising over-subscription privileges as described above.
NYSE Symbol for the Common Stock	EQS.
Use of Proceeds	If all of the rights are exercised and shares of our common stock are sold at the subscription price of $, the net proceeds of the rights offering are estimated to be approximately $, after deducting expenses related to this rights offering payable by us, estimated at approximately $428,000 . We plan to use the net proceeds of this rights offering for general corporate purposes, which include investing in portfolio companies in accordance with our investment objective and strategies and, pending such investments, investing in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the

date of investment.

We estimate that it will take approximately six months for us to invest substantially all of the net proceeds of this rights offering. The actual timing of our investments will depend upon the availability of attractive opportunities and market conditions; however, we can offer no assurance that we will be able to achieve this goal. See “Regulation as a Business Development Company—Temporary Investments” for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective.

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How to Subscribe	If you are exercising only your primary subscription rights and not participating in the exercise of any over-subscription privileges, you must deliver a completed subscription certificate to the subscription agent by the expiration date of the rights offering. If your shares are registered in street name and held in your account at your broker-dealer or other nominee and you are participating in the exercise of over-subscription privileges, you (or your broker) must deliver a completed subscription certificate and full payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges) to the subscription agent on or prior to the Notice Date. If you hold your shares in registered form and are participating in the exercise of over-subscription privileges, you must deliver one of the following to the subscription agent on or prior to the Notice Date: (i) a completed subscription certificate and full payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges); or (ii) a completed subscription certificate together with an irrevocable undertaking to make payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges) by the expiration date. The undertaking is included on the right-hand side of the back of the subscription certificate and must be separately executed. Registered shareholders who elect to provide an irrevocable undertaking as described above will be liable for the full subscription payment indicated on the subscription certificate.
Payment for Shares	See “The Rights Offering – Payment for Shares.”
Subscription Agent	The subscription agent for this rights offering is American Stock Transfer & Trust Co., LLC, 6201 15th Avenue, Reorg. Department, 3rd Floor, Brooklyn, New York 11219. The telephone number for American Stock Transfer & Trust Co., LLC is 1-877-248-6417.
Information Agent	The information agent for this rights offering is The Altman Group, Inc. You may contact The Altman Group toll-free with questions at 1-(800)-330-8705. Broker-dealers and nominees may call (212) 400-2612.
Distribution Arrangements	We are managing this offering internally and will not use an underwriter, dealer or manager for this rights offering. Further, we will not solicit the exercise of rights and participation in the over-subscription privilege by our stockholders. The rights offering is not contingent upon any number of rights being exercised.

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Risk Factors

An investment in our common stock is subject to significant risks. The following is a summary of certain risks that you should carefully consider before investing in our common stock. For a further discussion of these risk factors, please see "Risk Factors" beginning on page 12 .

Risks Related to Our Investments

- Investments in small capitalization companies present certain risks that may not exist to the same degree as investments in larger, more established companies and will cause such investments to be volatile and speculative.
- There is uncertainty regarding the value of our privately held securities.
- We depend upon our Management for our future investment success.
- Management may not be able to implement our investment objective successfully.
- We may not realize gains from our equity investments.
- We may not be able to make additional investments in our portfolio companies from time to time, which may dilute our interests in such companies.
- We have invested in a limited number of portfolio companies.
- The lack of liquidity of our privately held securities may adversely affect our business.
- We have limited public information regarding the companies in which we invest.
- Our portfolio companies may be highly leveraged.
- The use of leverage may adversely affect our performance.
- Our business depends on external financing.
- Our net assets have declined substantially since 2007 and we have had net investment losses in four out of the past five years.
- We may not be able to recommence our managed distribution policy and you might not receive dividends on your shares.
- We operate in a highly competitive market for investment opportunities.
- Failure to deploy new capital may reduce our return on equity.
- Our investments in foreign securities, if any, may involve significant risks in addition to the risks inherent in U.S. investments.
- An economic downturn could affect our operating results.

- We may experience fluctuations in our quarterly results.

- The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.

Risks Relating to This Offering

- Our shares of common stock have traded at a discount to net asset value since they were listed on the NYSE, and we expect they will trade at a discount from net asset value immediately after this rights offering.

- All shareholders will experience an immediate decrease in net asset value per share upon the closing of the rights offering.

- The market price of our common stock may fluctuate significantly.

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- We may allocate the net proceeds from this rights offering in ways with which you may not agree.

- Our largest stockholders could increase their percentage ownership in our shares as a result of this rights offering, which could further limit your ability to influence the outcome of key transactions, including a change of control. In addition, insiders affiliated with one or both of our largest stockholders could gain control of the Fund.

Risks Relating to Our Business and Structure

- Our ability to invest in private companies may be limited in certain circumstances.

- Any failure on our part to maintain the Fund's status as a BDC could reduce our operating flexibility.

- We may not continue to qualify as a RIC under the Code.

- Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, we will need additional capital to finance our growth.

- Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

Risks Related to Our Operation as a BDC

- Our management team has limited experience managing a BDC.

- Our ability to enter into transactions with our affiliates is restricted.

- Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

- Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

Important Dates To Remember	
Record Date	_________, 2011
Expiration Date for Over-Subscription Privilege (Notice Date)	_________, 2011 *
Expiration Date for Rights Offering	_________, 2011 *
Deadline for Subscription Certificates and Payment for Shares (Over-Subscription)**	_________, 2011 *
Deadline for Subscription Certificates and Payment for Shares (Basic Subscription)***	_________, 2011 *
Final Payment of Shares	_________, 2011 *

* Unless the rights offering is extended.

** A person exercising over-subscription rights must deliver a subscription certificate for shares on or prior to the Notice Date (unless the rights offering is extended).

*** A person exercising basic subscription rights must deliver a subscription certificate for shares prior to the expiration date of the rights offering (unless the rights offering is extended).

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RISK FACTORS

An investment in our securities involves certain risks relating to our structure and investment objectives. The risks and uncertainties described below are not the only ones facing Equus. You should carefully consider these risks, together with all of the other information included in this prospectus, before you decide whether to exercise your rights or otherwise make an investment in our common stock. Additional risks and uncertainties not presently known to us, or not presently deemed material by us, may also impair our operations and performance. If any of the following risks actually occur, our business, financial condition or results of operations could be materially adversely affected. If that happens, the trading price of our common stock could decline and you may lose all or part of your investment.

Risks Related to Our Investments

Investments in small capitalization companies present certain risks that may not exist to the same degree as investments in larger, more established companies and will cause such investments to be volatile and speculative.

We have invested and may continue to invest, in private, small and/or new companies that may be in their early stages of development. Investments in these types of companies involve a number of significant risks, including the following:

- They typically have shorter operating histories, narrower product lines and smaller market shares than public companies, which tend to render them more vulnerable to competitors' actions and market conditions as well as general economic downturns;

- They may have no earnings or experienced losses or may have limited financial resources and may be unable to meet their obligations under their securities, which may be accompanied by a deterioration in the value of their equity securities or any collateral or guarantees provided with respect to their debt;

- They are more likely to depend on the management talents and efforts of a small group of persons and, as a result, the death, disability, resignation or termination of one or more of those persons could have a material adverse effect on their business and prospects and, in turn, on our investment;

- They may have difficulty accessing the capital markets to meet future capital needs;

- They generally have less predictable operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses with products subject to a substantial risk of obsolescence and may require substantial additional capital to support their operations, finance expansion or maintain their competitive position; and

- Generally little public information exists regarding these companies, and investors in these companies generally must rely on the ability of the equity sponsor to obtain adequate information for the purposes of evaluating potential returns and making a fully informed investment decision.

There is uncertainty regarding the value of our privately held securities.

Our net asset value is based on the value we assign to our portfolio investments. We determine the value of our investments in securities for which market quotations are not available as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Because of the inherent uncertainty of the valuation of portfolio securities that do not have readily ascertainable market values, our fair value determination may

differ materially from the value that would have been used had a ready market existed for the securities. We determine the fair value of investments for which no market quotations are available based upon a methodology that we believe reaches a reasonable estimation of fair value. However, we do not necessarily apply multiple valuation metrics in reaching this determination and, in some cases, we do not obtain any third party valuations before reaching this determination. Our determinations of the fair value of our investments have a material impact on our net earnings through the recording of unrealized appreciation or depreciation of investments

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as well as our assessment of interest income recognition. Our net asset value could be affected materially if our determinations of the fair value of our investments differ significantly from values based on a ready market for these securities.

At September 30, 2010, none of the securities in which we have invested is publicly traded or has readily available market quotations. If, in the future, we make investments in companies whose securities are publicly traded and valued at their quoted market price (less a discount to reflect the estimated effects of restrictions on the sale of such securities), we will adjust our net asset value for changes in the value of any publicly held securities on a daily basis.

We depend upon Management for our future investment success.

We depend upon the diligence and skill of Management to select, structure, close and monitor our investments. Management is responsible for indentifying, structuring, evaluating, monitoring, and disposing of our investments, and the services they collectively provide significantly impact our results of operations. Our future success will depend to a significant extent on the continued service and coordination of Management. Our success will depend on our ability to retain our existing Management and to recruit additional other highly qualified individuals. If we are unable to integrate new investment and management personnel, we may be unable to achieve our desired investment results.

Management may not be able to implement our investment objective successfully.

Our current portfolio represents a shift from a regional focus and a record of investing in basic manufacturing and service companies to an investment strategy focused in sectors that are driven by significant social and demographic trends, such as an aging population, increased leisure time, the globalization of business and widespread concern about the environment and increasingly scarce energy resources. Given recent economic events and changes in our board of directors and Management, we have revised our strategy to be more opportunistic, emphasizing investments which generate regular cash income and distributions, with less regard for a particular industry sector. In order to implement our investment strategy, Management must analyze, conduct due diligence, invest in, monitor and sell companies in industries in which many of them have not previously been involved. Also, we expect that our investment strategy will continue to require Management to investigate and monitor investments that are much more broadly dispersed geographically. In addition, Management is required to provide valuations for investments in a broader range of securities, including debt securities, which may require expertise beyond that previously required. We cannot assure investors that the overall risk of their investment in the Fund will be reduced as a result of our investment strategy. In addition, following this rights offering, we may make additional investments in our existing portfolio companies and, therefore, the level of risk with respect to certain investments may be higher than it was prior to this rights offering. If Management cannot achieve our investment objective successfully, the value of your investment in our common stock could decline substantially.

We may not realize gains from our equity investments.

We frequently invest in the equity securities of our portfolio companies. Also, when we make a loan, we generally receive warrants to acquire stock issued by the borrower. Ultimately, our goal is to sell these equity interests and realize gains. These equity interests may not appreciate and, in fact, may depreciate in value. Several of our portfolio companies have experienced net losses in recent years or have negative net worth as of their most recent available balance sheet date, At September 30, 2010, several of our portfolio investments had estimated fair values, based upon our valuation methodologies, significantly below the initial cost of such investments. At September 30, 2010, the cost basis of our portfolio investments was $55.4 million and our estimated fair value was $21.4 million. Also, the market value of our equity investments may fall below our estimate of the fair value of such investments before we sell them. Given these factors, there is a risk that we will not realize gains upon the sale of those or other equity

interests that we hold.

We may not be able to make additional investments in our portfolio companies from time to time, which may dilute our interests in such companies.

After our initial investment in a portfolio company, we may be called upon from time to time to provide additional funds to such company, or may have the opportunity to increase our investment in that company through the exercise of a warrant to purchase common stock or through follow-on investments in the debt or equity of that company. We cannot assure you that we will make, or have sufficient funds to make, any such follow-on investments. Any decision by us not to make a follow-on investment or any inability on our part to make such an investment may have a negative impact on a portfolio company in need of investment and may result in a missed opportunity for us to increase our participation in a successful operation. A decision not to make a follow-on investment may also dilute our equity interest in, or reduce the expected yield on, our investment.

We have invested in a limited number of portfolio companies.

The Fund is classified as a "non-diversified" investment company under the 1940 Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. As a matter of policy, we generally have not initially invested more than 15% of the value of our net assets in a single portfolio company. In view of the net asset value of the Fund as at September 30, 2010, however, we would expect that any new investments may exceed this percentage for the intermediate future. Moreover, follow-on investments, disproportionate increases or decreases in the fair value of certain portfolio companies or sales of investments may result in more than 15% of our net assets being invested in a single portfolio company at a particular time.

At September 30, 2010, we had investments in 13 companies. Following the completion of this rights offering, we intend to increase the number of investments and, possibly, the size of our average investment. Even if the rights offering is successful, however, we expect that we still will have relatively few investments.

A consequence of a limited number of investments is that changes in business or industry trends or in the financial condition, results of operations or the market's assessment of any single portfolio company will affect our net asset value and the market price of our common stock to a greater extent than would be the case if we were a "diversified" company holding a greater number of investments.

The lack of liquidity of our privately held securities may adversely affect our business.

Our portfolio investments consist principally of securities that are subject to restrictions on sale because they are not listed or publicly traded securities. If any of these securities were to become publicly traded, our ability to sell them may still be restricted because we acquired them from the issuer in "private placement" transactions or because we may be deemed to be an affiliate of the issuer. We will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act and applicable state securities laws, unless an exemption from such registration requirements is available. In addition, contractual or practical limitations may restrict our ability to liquidate our securities in portfolio companies because those securities are privately held and we may own a relatively large percentage of the issuer's outstanding securities. Sales also may be limited by market conditions, which may be unfavorable for sales of securities of particular issuers or generally. The illiquidity of our investments may preclude or delay any disposition of such securities, which may make it difficult for us to obtain cash equal to the value at which we record our investments if the need arises.

We have limited public information regarding the companies in which we invest.

Our portfolio consists entirely of securities issued by privately held companies. There is generally little or no publicly available information about such companies, and we must rely on the diligence of Management to obtain the information necessary for our decision to invest in them and in order to monitor them effectively. We cannot assure you that such diligence efforts will uncover all material information about such privately held businesses necessary to make fully informed investment decisions.

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Our portfolio companies may be highly leveraged.

Investments in leveraged buyouts and in highly leveraged companies involve a high degree of business and financial risk and can result in substantial losses. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money were not used. The use of leverage by portfolio companies also magnifies the increase or decrease in the value of our investment as compared to the overall change in the enterprise value of a portfolio company.

Many of our portfolio companies have incurred substantial debt in relation to their equity capital. Such indebtedness generally has a term that will require that the balance of the loan be refinanced when it matures. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing the debt upon its maturity, our investment could be reduced or eliminated through foreclosure on the portfolio company's assets or by the portfolio company's reorganization or bankruptcy.

A substantial portion of the debt incurred by portfolio companies may bear interest at rates that fluctuate in accordance with a stated interest rate index or the prime lending rate. The cash flow of a portfolio company may not be sufficient to meet increases in interest payments on its debt. Accordingly, the profitability of our portfolio companies, as well as the value of our investments in such companies, will depend significantly upon prevailing interest rates. In recent months the level of interest rates have increased, which will have an adverse effect on the ability of our portfolio companies to service their floating rate debt and on their profits.

Leverage may impair the ability of our portfolio companies to finance their future operations and capital needs. As a result, the ability of our portfolio companies to respond to changing business and economic conditions and to business opportunities may be limited.

The use of leverage may adversely affect our performance.

Although we have no intention of doing so at any time in the next 12 months, we may utilize leverage for the Fund by borrowing or issuing preferred stock or short-term debt securities. Borrowings and other capital generated from leverage will result in lenders and other creditors with fixed dollar claims on our assets that are superior to the claims of our common shareholders. If the value of our assets increases, then leveraging would cause the net asset value attributable to our common stock to increase more sharply than it would have had we not leveraged. Conversely, if the value of our assets decreases, leveraging would cause net asset value to decline more sharply than it otherwise would have had we not leveraged. Similarly, any increase in our income in excess of interest payable on the borrowed funds would cause our net income to increase more than it would without the leverage, while any decrease in our income would cause net income to decline more sharply than it would have had we not borrowed. Leverage is generally considered a speculative investment technique.

Our business depends on external financing.

Our business requires a substantial amount of cash to operate. We may borrow funds to pay contingencies or expenses or to make investments, to maintain our pass-through tax status as a RIC under Subchapter M of the Code. We are permitted under the 1940 Act to borrow if, immediately after the borrowing, we have an asset coverage ratio of at least 200%. That is, we may borrow an amount equal to as much as 50% of the fair value of our total assets (including investments made with borrowed funds). The amount and nature of any such borrowings depend upon a number of factors over which we have no control, including general economic conditions, conditions in the financial markets and the impact of the financing on the tax treatment of our stockholders. The use of leverage, even on a short-term basis, could have the effect of magnifying increases or decreases in our net asset value. While the "spread" between the current yield on our investments and the cost of any loan would augment the return to our stockholders, if

the spread narrows (because of an increase in the cost of debt or insufficient income on our investments), distributions to our stockholders could be adversely affected. This may render us unable to meet our obligations to our lenders, which might then require us to liquidate some or all of our investments. There can be no assurance that we would realize full value for our investments or recoup all of our capital if we needed to liquidate our portfolio investments.

Many financial institutions are unwilling to lend against a portfolio of illiquid, private securities. The make-up of our portfolio has made it more difficult for us to borrow at the level and on the terms that we desire. Our borrowings have historically consisted of a revolving line of credit, the proceeds of which we may use to provide liquidity for expenses and contingencies and to make new or follow-on investments, and a line of credit, promissory note or margin account used quarterly to enable us to achieve adequate diversification to maintain our pass-through tax status as a RIC. Although we believe the Fund's liquidity is sufficient for our operating expenses for the next twelve months, we could be wrong. If we are wrong, we would have to obtain capital from other sources to pay Fund expenses, which could involve selling one or more of our portfolio holdings at an inopportune time and at a price that may be less than would be received if such holding were sold in a more competitive and orderly manner.

The costs of borrowing money may exceed the income from the portfolio securities we purchase with the borrowed money. We will suffer a decline in net asset value if the investment performance of the additional securities purchased with borrowed money fails to cover their cost to the Fund (including any interest paid on the money borrowed). A decline in net asset value could affect our ability to make distributions on our common stock. Our failure to distribute a sufficient portion of our net investment income and net realized capital gains could result in a loss of pass-through tax status or subject us to a 4% excise tax. If the asset coverage for debt securities issued by the Fund declines to less than 200% (as a result of market fluctuations or otherwise), we may be required to sell a portion of our investments when it is disadvantageous to do so. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Our net assets have declined substantially since 2007 and we have had net investment losses in four out of the past five years.

Our net assets have declined from $103.2 million at the end of 2007 to $31.5 million as of September 30, 2010. Moreover, we have had net investment losses in four out of the past five years, with a net investment loss of $0.6 million for the nine months ended September 30, 2010. We cannot assure you that we will be able to increase our net assets or generate net investment income. If we fail to increase the Fund's net assets or generate net investment income, such failure will likely have a material adverse effect upon the Fund, its results of operation, and its financial condition. You could lose all or a substantial amount of your investment in the Fund as a result.

We may not be able to recommence our managed distribution policy and you might not receive dividends on your shares.

On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period, following the distribution of the first quarter 2009 dividend paid on March 30, 2009. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. In the first six months of 2010, we have undergone certain changes in our board of directors and Management. These changes and the rights offering have been pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more recurrent cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. The implementation of these revisions to our investment strategy and the recurrent generation of cash income from our investments, however, cannot be guaranteed. If we were unable to resume our managed distribution policy and were further unable to profitably sell or otherwise dispose of our portfolio company investments, you might not receive dividends on your shares.

We operate in a highly competitive market for investment opportunities.

We compete with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity based investment funds, investment entities, foreign investors and individuals and other sources of financing, including traditional financial services companies such as commercial banks. In recent years, the number of investment vehicles seeking small capitalization investments has increased dramatically. Many of our competitors are substantially larger and have considerably greater financial resources than we do, and some may be subject to different and frequently less stringent regulation. As our portfolio size increases, we expect that some of our investments will be larger. We believe that we will face increased competition to participate in these larger

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transactions. These competitors may have a lower cost of funds and many have access to funding sources that are not available to us. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. As a result of this competition, we may not be able to take advantage of attractive investment opportunities from time to time. We cannot assure you that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations.

Failure to deploy new capital may reduce our return on equity.

If all of the rights are exercised after the completion of this rights offering, we will increase the amount of our available cash on hand for investments. If we then fail to invest our new capital in a timely and effective manner, our return on equity will be negatively impacted, which could reduce the price of the shares of our common stock that you own. We believe we can identify and invest the net proceeds of this rights offering in approximately six months; however, our ability to do so will depend, in part, on conditions outside of our control. If we cannot find investment opportunities consistent with our investment objective and market conditions, we will invest the proceeds of this rights offering in temporary investments such as cash equivalents, U.S. Government securities or high-quality debt securities maturing in one year or less from the time of investment. This would result in income to the Fund that is lower than we currently expect, which would depress our overall returns and dividends paid to stockholders. See "Regulation as a Business Development Company – Temporary Investments."

Our investments in foreign securities, if any, may involve significant risks in addition to the risks inherent in U.S. investments.

Our investment strategy contemplates that a portion of our investments may be made in securities of foreign companies. Investing in foreign companies may expose us to additional risks not typically associated with investing in U.S. companies. These risks may include fluctuations in foreign currency values, changes in exchange control regulations, political and social instability, expropriation, imposition of foreign taxes, less liquid markets and less available information than is generally the case in the United States, higher transaction costs, less government supervision of exchanges, brokers and issuers, less developed bankruptcy laws, difficulty in enforcing contractual obligations, lack of uniform accounting and auditing standards and greater price volatility.

Although most of our investments are denominated in U.S. dollars, any investments that are denominated in a foreign currency are subject to the risk that the value of a particular currency may change in relation to one or more other currencies. Among the factors that may affect currency values are trade balances, the level of short-term interest rates, differences in relative values of similar assets in different currencies, long-term opportunities for investment and capital appreciation and political developments. We may employ hedging techniques to minimize these risks, but we can offer no assurance that we will, in fact, hedge currency risk or that, if we do, such strategies will be effective.

An economic downturn could affect our operating results.

An economic downturn may adversely affect companies having an enterprise value varying from $15 to $75 million, which are our primary market for investments. During periods of adverse economic conditions such as presently exists generally in the United States, these companies often experience decreased revenues, financial losses, difficulty in obtaining access to financing and increased funding costs. During such periods, these companies also may have difficulty expanding their businesses and operations and may be unable to meet their debt service obligations or other expenses as they become due. Any of the foregoing developments could cause the value of our investments in these companies to decline. In addition, during periods of adverse economic conditions, we may have difficulty accessing financial markets, which could make it more difficult or impossible for us to obtain funding for additional investments. Any of these events could have a material adverse effect on our business, financial condition and results

of operations.

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We may experience fluctuations in our quarterly results.

We may experience fluctuations in our quarterly operating results due to a number of factors, including variations in, and the timing of, the recognition of realized and unrealized gains or losses, the degree to which we encounter competition in our markets, the ability to find and close suitable investments and general economic conditions. The volatility of our results is exacerbated by our relatively small number of investments. As a result of these factors, you should not rely on our results for any period as being indicative of performance in future periods.

The due diligence process that we undertake in connection with our investments may not reveal all facts that may be relevant in connection with an investment.

Before making our investments, we conduct due diligence that we deem reasonable and appropriate based on the facts and circumstances applicable to each investment. The objective of the due diligence process is to identify attractive investment opportunities based on the facts and circumstances surrounding an investment and to prepare a framework that may be used from the date of an acquisition to drive operational achievement and value creation. When conducting due diligence, we evaluate a number of important business, financial, tax, accounting, environmental and legal issues in determining whether or not to proceed with an investment. Our due diligence review with respect to a potential portfolio company typically includes, but is not limited to, a review of historical and prospective financial information including audits and budgets, on-site visits and interviews with management, employees, customers and vendors, a review of business plans and an analysis of the consistency of operations with those plans, and other research relating to the company, management, industry, markets, products and services, and competitors. Outside consultants, legal advisers, accountants and investment banks are expected to be involved in the due diligence process in varying degrees depending on the type of investment. Nevertheless, when conducting due diligence and making an assessment regarding an investment, we are required to rely on resources available to us, including information provided by the portfolio company and, in some circumstances, third party investigations. The due diligence process may at times be subjective, including with respect to newly organized companies for which only limited information is available. Accordingly, we cannot assure you that the due diligence investigation that we will carry out with respect to any investment opportunity will reveal or highlight all relevant facts that may be necessary or helpful in evaluating such investment opportunity. We also cannot assure you that such an investigation will result in an investment being successful.

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Risks Relating To This Offering

All shareholders will experience an immediate decrease in the net asset value of their shares upon the closing of the rights offering.

We expect the subscription price for the rights to be less than our net asset value per share, so our stockholders will experience an immediate decrease in the aggregate net asset value of their shares as a result of the rights offering, irrespective of whether stockholders exercise all or any portion of their rights. We cannot determine the amount of any decrease in net asset value because we do not know at this time what the net asset value per share will be on the expiration date of the rights offering or what proportion of the shares will be purchased as a result of the rights offering; however, the decrease in net asset value per share could be significant.

The following example indicates how a rights offering to increase the size of the Fund by issuing rights to subscribe for one- third of the number of shares outstanding would affect the net asset value of the common stock. This example does not include any effects or influence on the share price due to investment performance, dividend policy, greater trading volume or the other qualitative aspects of the Fund's shares. These are intended to be indicative calculations and are not projections of future results of the Fund.

Current shares outstanding	8,861,646
Net asset value at 9/30/10 *	$ 31.5 million
Net asset value per share	$ 3.55
Market price at 11/30/10	$ 2.08
Prevailing discount to net asset value	41.4%
Number of new shares issued	2,953,882
Net proceeds after issuance costs	$_________ million
Net asset value after issuance	$_________ million
Shares outstanding after issuance	11,815,528
Net asset value per share after issuance	$______
Decrease in net asset value per share	_____%

* the most recently reported net asset value of the Fund.

Registered shareholders who provide an irrevocable undertaking to exercise over-subscription privileges will be liable to the Fund if payment is not made by the expiration of the rights offering.

Registered shareholders who elect to exercise over-subscription privileges must provide to the subscription agent, on or before the Notice Date (____________, 2011) , either (i) a completed subscription certificate and full payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges); or (ii) a completed subscription certificate together with an irrevocable undertaking to make payment for all shares subscribed (including shares subscribed pursuant to over-subscription privileges) by the expiration of the rights offering.

Regardless of the method elected above, full payment for all shares so subscribed must be received by the subscription agent by the expiration date. The irrevocable undertaking is a legally binding commitment and the failure by a shareholder to make the full subscription payment by the expiration date following the submission of an irrevocable undertaking will result in liability to the Fund for such payment, which could include costs of collection and reasonable attorney's fees.

Our shares of common stock have traded at a discount to net asset value since they were listed on the NYSE, and we expect they will trade at a discount from net asset value immediately after this rights offering.

Shares of closed-end investment companies frequently trade at a discount from net asset value, and our shares of common stock have traded at a discount to net asset value since they were listed on the NYSE. If our common stock continues to trade below its net asset value, with limited exceptions such as this rights offering, we

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generally will not be able to issue additional shares of our common stock at the market price without first obtaining the approval for such issuance from our stockholders and our independent directors. This characteristic of shares of a closed-end fund, such as a BDC, is a risk separate and distinct from the risk that our net asset value will decrease.

The market price of our common stock may fluctuate significantly.

The market price and marketability of shares of our common stock may be affected significantly by numerous factors, including many over which we have no control and which may not be directly related to us. These factors include the following:

- Our relatively small number of outstanding shares and the lack of liquidity that follows from this small float;
- Price and volume fluctuations in the stock market from time to time, which often are unrelated to the operating performance of particular companies;
- Significant volatility in the market price and trading volume of securities of BDCs, which is not necessarily related to operating performance;
- Changes in regulatory policies or tax guidelines, particularly with respect to BDCs;
- Changes in earnings or variations in operating results;
- Any shortfall in revenue or net income or any increase in losses from expected levels;
- Announcements of new or follow-on investments in portfolio companies;
- The sale or proposed sale of a portfolio investment; and
- General economic trends and other external factors.

If the trading price of our common stock falls significantly following completion of this rights offering, this may cause some of our shareholders to sell our shares, which would further adversely affect the trading market for, and liquidity of, our common stock. If we seek to raise capital through future equity financings, this volatility may adversely affect our ability to raise such equity capital.

We may allocate the net proceeds from this rights offering in ways with which you may not agree.

We have significant flexibility in investing the net proceeds of this rights offering and may use the net proceeds from this rights offering in ways with which you may not agree or for purposes other than those contemplated at the time of the rights offering.

Our largest stockholders could increase their percentage ownership in our shares as a result of this rights offering, which could further limit your ability to influence the outcome of key transactions, including a change of control. In addition, insiders affiliated with one or both of our largest stockholders could gain control of the Fund.

As of the date of this prospectus, our two largest stockholders collectively beneficially own 17.94% of the outstanding shares of our common stock and may choose to exercise their subscription rights from this offering and may further choose to exercise over-subscription privileges in the event that some of our shareholders determine not to exercise their rights hereunder. If, in the unlikely event that no other shareholders exercised their rights and all such rights

were acquired by our two largest stockholders pursuant to the exercise of over-subscription privileges, they could collectively increase their beneficial ownership percentage in our common stock to over 38%. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of the Fund, deprive our stockholders of an opportunity to receive a premium for their common stock as part of a sale of the Fund

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or may ultimately affect the market price of our common stock. Moreover, insiders affiliated with one or both of our largest stockholders could, in such an event, gain control of the Fund.

Risks Related to Our Business and Structure

Our ability to invest in private companies may be limited in certain circumstances.

If we are to maintain our status as a BDC, we must not acquire any assets other than “qualifying assets” unless, at the time of and after giving effect to such acquisition, at least 70% of our total assets are qualifying assets. A principal category of qualifying assets relevant to our business is securities purchased in transactions not involving any public offer from issuers that are eligible portfolio companies under the 1940 Act. Investments in companies organized outside of the United States or having a principal place of business outside of the United States are not eligible portfolio companies.

Any failure on our part to maintain the Fund’s status as a BDC could reduce our operating flexibility.

If we do not maintain the Fund’s status as a BDC, we might be regulated as a closed-end investment company under the 1940 Act, which would subject us to substantially more regulatory restrictions under the 1940 Act. This could impose tighter limitations on Equus in terms of the use of leverage and transactions with affiliated entities. Such developments could correspondingly decrease our operating flexibility.

We may not continue to qualify as a RIC under the Code.

To remain entitled to the tax benefits accorded to RICs under the Code, we must meet certain income source, asset diversification and annual distribution requirements. To qualify as a RIC, we must derive each taxable year at least 90% of our gross income from dividends, interest, payments with respect to certain securities loans, gains from the sale of stock or other securities or foreign currencies, or other income derived with respect to our business of investing in such stock or securities or currencies and net income from interests in certain “qualified” publicly traded partnerships. The annual distribution requirement for a RIC is satisfied if we distribute at least 90% of our ordinary net taxable income and realized net short-term capital gains in excess of realized net long-term capital losses, if any, to our stockholders on an annual basis. As discussed above in “Our business is dependent on external financing,” we historically have borrowed funds necessary to make qualifying investments to satisfy the Subchapter M diversification requirements. If we fail to satisfy such diversification requirements and cease to qualify for conduit tax treatment, we will be subject to income tax on our income and gains and will not be permitted to deduct distributions paid to stockholders. In addition, our distributions will be taxable as dividends to the extent paid from earnings and profits. We may also cease to qualify as a RIC, or be subject to income tax and/or a 4% excise tax, if we fail to distribute a sufficient portion of our net investment income and net realized capital gains. The loss of our RIC qualification would have a material adverse effect on the total return, if any, obtainable from an investment in our common stock.

Because we intend to distribute substantially all of our income and net realized capital gains to our stockholders, we will need additional capital to finance our growth.

In order to qualify as a RIC, to avoid payment of excise taxes and to minimize or avoid payment of income taxes, we intend to distribute to our stockholders substantially all of our net ordinary income and realized net capital gains except for certain net long-term capital gains (which we may retain, pay applicable income taxes with respect thereto, and elect to treat as deemed distributions to our stockholders). As a BDC, we are generally required to meet a coverage ratio of total assets to total senior securities, which includes all of our borrowings and any preferred stock we may issue in the future, of at least 200%. This requirement limits the amount that we may borrow. Because we will continue to need capital to grow our loan and investment portfolio, this limitation may prevent us from incurring debt

and require us to issue additional equity at a time when it may be disadvantageous to do so. We cannot assure you that debt and equity financing will be available to us on favorable terms, or at all, and debt financings may be restricted by the terms of any of our outstanding borrowings. In addition, as a BDC, except for limited situations such as this offering, we are generally not permitted to issue equity securities priced below net asset value without stockholder approval. If additional funds are not available to us, we could be forced to curtail or cease new lending and investment activities, and our net asset value could decline.

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Our Board of Directors may change our investment objective, operating policies and strategies without prior notice or stockholder approval.

Our Board of Directors has the authority to modify or waive certain of our operating policies and strategies without prior notice (except as required by the 1940 Act) and without stockholder approval. However, absent stockholder approval, we may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC. We cannot predict the effect any changes to our current operating policies and strategies would have on our business, operating results and value of our stock. Nevertheless, any such effects may adversely affect our business and impact our ability to make distributions.

Risks Related to Our Operation as a BDC

Our management team has limited experience managing a BDC.

The 1940 Act imposes numerous constraints on the operations of BDCs. For example, BDCs are required to invest at least 70% of their total assets in specified types of securities, primarily in private companies or thinly traded U.S. public companies, cash, cash equivalents, U.S. government securities and other high quality debt investments that mature in one year or less. See “Regulation as a Business Development Company.” Our management team’s limited experience in managing a portfolio of assets under such constraints may hinder our ability to take advantage of attractive investment opportunities and, as a result, achieve our investment objective. Furthermore, any failure to comply with the requirements imposed on BDCs by the 1940 Act could cause the SEC to bring an enforcement action against us and/or expose us to claims of private litigants. If we do not remain a BDC, we might be regulated as a closed-end investment management company under the 1940 Act, which would further decrease our operating flexibility and may prevent us from operating our business as described in this prospectus. See “Regulation as a Business Development Company.”

Furthermore, our management team’s limited experience in managing a BDC that qualifies as a RIC, which is subject to operating limitations under the Code, may hinder our ability to invest in certain assets that might otherwise be part of our investment strategy, thus reducing the return on your investment. For a description of the requirements to maintain RIC pass-through tax treatment, please see “Certain U.S. Federal Income Tax Considerations.”

Our ability to enter into transactions with our affiliates is restricted.

We are prohibited under the 1940 Act from participating in certain transactions with certain of our affiliates without the prior approval of our independent directors and, in some cases, the SEC. Any person that owns, directly or indirectly, 5% or more of our outstanding voting securities is our affiliate for purposes of the 1940 Act, and we generally are prohibited from buying or selling any security from or to such affiliate, absent the prior approval of our independent directors. The 1940 Act also prohibits certain “joint” transactions with certain of our affiliates, which could include investments in the same portfolio company (whether at the same or different times), without prior approval of our independent directors and, in some cases, the SEC. If a person acquires more than 25% of our voting securities, we are prohibited from buying or selling any security from or to such person or certain of that person’s affiliates, or entering into prohibited joint transactions with such persons, absent the prior approval of the SEC. Similar restrictions limit our ability to transact business with our officers or directors or their affiliates.

Regulations governing our operation as a BDC affect our ability to, and the way in which we, raise additional capital.

Our business requires a substantial amount of additional capital. We may acquire additional capital from the issuance of senior securities or other indebtedness, the issuance of additional shares of our common stock or from securitization transactions. However, we may not be able to raise additional capital in the future on favorable terms or at all. We

may issue debt securities or preferred securities, which we refer to collectively as "senior securities," and we may borrow money from banks or other financial institutions, up to the maximum amount permitted by the 1940 Act. The 1940 Act permits us to issue senior securities or incur indebtedness only in amounts

such that our asset coverage, as defined in the 1940 Act, equals at least 200% after such issuance or incurrence. Our ability to pay dividends or issue additional senior securities would be restricted if our asset coverage ratio were not at least 200%. If the value of our assets declines, we may be unable to satisfy this test. If that happens, we may be required to liquidate a portion of our investments and repay a portion of our indebtedness at a time when such sales may be disadvantageous.

- Senior Securities. As a result of issuing senior securities, we would also be exposed to typical risks associated with leverage, including an increased risk of loss. If we issue preferred securities they would rank "senior" to common stock in our capital structure. Preferred stockholders would have separate voting rights and may have rights, preferences or privileges more favorable than that of our common stockholders. Furthermore, the issuance of preferred securities could have the effect of delaying, deferring or preventing a transaction or a change of control that might involve a premium price for our common stockholders or otherwise be in your best interest.

- Additional Common Stock. Our board of directors may decide to issue common stock to finance our operations rather than issuing debt or other senior securities. As a BDC, we are generally not able to issue our common stock at a price below net asset value without first obtaining required approvals from our stockholders and our independent directors. In any such case, the price at which our securities are to be issued and sold may not be less than a price, that in the determination of our board of directors, closely approximates the market value of such securities (less any commission or discount). We may also make rights offerings to our stockholders at prices per share less than the net asset value per share, subject to the 1940 Act. If we raise additional funds by issuing more common stock or senior securities convertible into, or exchangeable for, our common stock, the percentage ownership of our stockholders at that time would decrease, and you may experience dilution.

Changes in the laws or regulations governing our business, or changes in the interpretations thereof, and any failure by us to comply with these laws or regulations, could negatively affect the profitability of our operations.

Changes in the laws or regulations or the interpretations of the laws and regulations that govern BDCs, RICs or non-depository commercial lenders, could significantly affect our operations and our cost of doing business. We are subject to federal, state and local laws and regulations and are subject to judicial and administrative decisions that affect our operations, including our loan originations, maximum interest rates, fees and other charges, disclosures to portfolio companies, the terms of secured transactions, collection and foreclosure procedures and other trade practices. If these laws, regulations or decisions change, or if we expand our business into jurisdictions that have adopted more stringent requirements than those in which we currently conduct business, we may have to incur significant expenses in order to comply or we might have to restrict our operations. In addition, if we do not comply with applicable laws, regulations and decisions, we may lose licenses needed for the conduct of our business and be subject to civil fines and criminal penalties, any of which could have a material adverse effect upon our business, results of operations or financial condition.

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THE RIGHTS OFFERING

Purpose Of The Offer

Our board of directors has determined that this rights offering is in the best interest of the Fund and our stockholders. The rights offering gives our existing stockholders the right to purchase additional shares at a price below the then current market price of our shares. The rights offering will increase the amount of equity capital available to us for making additional investments.

In determining that this rights offering was in the best interests of our shareholders, the board considered, among other things, the following factors:

- The subscription price relative to the market price and to our net asset value per share;
- The increased equity capital to be available to us upon completion of the rights offering for making additional investments consistent with our investment objective;
- The dilution to non-exercising stockholders;
- The terms and expenses of a self-directed rights offering relative to a dealer managed rights offering or other alternatives for raising capital;
- The size of the rights offering in relation to the number of shares outstanding;
- The market price of our common stock, both before and after the announcement of this rights offering;
- The general condition of the securities markets; and
- Any impact on operating expenses associated with an increase in capital.

We cannot give any assurance as to the amount of dilution that a stockholder will experience or that this rights offering will be successful.

The purpose of setting the determination of the subscription price on the Pricing Date, which is eight days prior to the expiration of this rights offering, is to provide certainty as to the subscription price and attract the maximum participation of stockholders in the rights offering, with minimum dilution to nonparticipating stockholders.

In addition to the factors described above, the board considered using a fixed pricing versus variable pricing mechanism, the benefits and drawbacks of conducting a non-transferable versus a transferable rights offering, the effect on the Fund if this rights offering is not fully subscribed and the costs and expenses that will be avoided by managing the rights offering internally versus retaining a dealer or manager.

Possible Benefits to Our Stockholders

We believe that this rights offering is in the best interests of the Fund and our stockholders. Among the reasons for our belief is the following:

Greater Investment Opportunities

With more assets, we believe that we may have better access to the capital markets to take advantage of attractive investment opportunities. An increase in the capital not only will give us more capital to invest, but also may improve qualitatively the range of investments available to us, which would be beneficial to our stockholders. For example, more investment capital should afford us an opportunity to invest in a broader range of securities and

opportunities to invest in larger and more mature portfolio companies. A larger pool of capital may also allow us to participate in investments at a higher and more meaningful level. Some investment firms limit the opportunity to co-invest with them based on a minimum investment size. In order to avail ourselves of the full range of private investment opportunities with such investors, we would like to increase the scale of our initial investments, and we believe the proposed increase in our capitalization will facilitate such an increase without imprudently concentrating our investments.

We believe that greater deal flow, which may be achieved with more capital, will enable us to be a more significant participant in the private equity market and to compete more effectively for the attractive, co-investment opportunities, including co-investment opportunities with other funds and private equity investment vehicles having greater resources.

Resumption of Managed Distribution Policy

On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period, following the distribution of the first quarter 2009 dividend paid on March 30, 2009. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund’s market value per share as at the end of the preceding calendar year. In the first six months of 2010, we have undergone certain changes in our board of directors and Management. These changes and the rights offering have been pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. A consistent stream of earnings derived from a larger and more diversified portfolio, together with an increase in the proportion of our investments in debt securities paying cash interests, could provide us with a larger, more predictable cash flow, which in time could support a sustainable dividend.

Reduced Discount

We believe that a larger and more diverse investment portfolio and a regular quarterly dividend, if any, could result in a share price for the Fund that is closer to its net asset value.

Reduced Expenses Per Share

A rights offering that increases our total assets also may reduce our expenses per share due to the spreading of fixed expenses over a larger asset base. We must bear certain fixed expenses, such as governance and certain compliance costs, that do not generally vary based on the size of the Fund. On a per share basis, however, these fixed expenses should be reduced on a relative basis when supported by a larger asset base.

Liquidity

If we issue additional shares, our market capitalization and the number of our publicly traded shares of common stock will increase, which may afford all holders of our common stock greater liquidity. With approximately 8.9 million shares currently outstanding, there is limited daily trading volume in our shares. We believe that this low trading volume subjects our shares to significant price volatility. A larger number of shares outstanding also may help absorb the effect of purchases or sales of common stock with less volatility in price.

Discounted Subscription Price

The rights offering provides an opportunity for our existing stockholders to purchase additional shares potentially at a price below the current market price without incurring significant transaction costs.

We have no current plans to make additional rights offerings. However, we may, in the future, choose to make additional rights offerings if our board of directors determines that a rights offering would be in the best interests of the Fund and our stockholders. Any such future rights offerings, if effected, will be made in accordance with the then-applicable requirements of the Investment Company Act of 1940 and the Securities Act of 1933.

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We cannot give any assurance that the Fund or our stockholders will achieve any of the foregoing objectives or benefits through this offer.

Terms of the Offer

We are issuing to our stockholders, as of the record date, non-transferable rights to subscribe for an aggregate of up to 2,953,882 shares. Each stockholder is being issued one right for every share of common stock held by them on the record date. Each three (3) rights entitles the stockholder to acquire one (1) share at the subscription price. We will not issue fractional shares upon the exercise of less than three rights. The exercise of rights, exclusive of over-subscription privileges as described below, is referred to herein as the "primary subscription." For primary subscriptions, the rights will be evidenced by subscription certificates which will be mailed to stockholders, except as discussed below under " — Foreign Stockholders."

The rights are not transferable. You may not purchase or sell them. The rights will not trade on the NYSE or any other exchange. The shares to be issued upon the exercise of the rights, however, will trade on the NYSE under the symbol "EQS." If you do not exercise your rights before the conclusion of this offer, your rights will expire without value and shall thereafter be subject to over-subscription privileges of other stockholders as described below.

For purposes of determining the number of shares a stockholder may acquire pursuant to the rights offering, broker-dealers, trust companies, banks or others whose shares are held "of record" by Cede & Co. ("Cede") or by any other depository or nominee will be deemed to be the holders of the rights that are issued to Cede or the other depository or nominee on their behalf.

There is no minimum number of rights that must be exercised in order for the rights offering to close.

Over-Subscription Privilege

Shares not subscribed for by rights holders will be offered, by means of the over-subscription privilege, to record date stockholders who have fully exercised the rights issued to them and who wish to acquire more than the number of shares they are entitled to purchase pursuant to the primary subscription. Stockholders should indicate, on the subscription certificate that they submit with respect to the exercise of the rights issued to them, how many additional shares they are willing to acquire pursuant to the over-subscription privilege. Stockholders who wish to subscribe for additional shares should note the following:

- Street Name Stockholders. Stockholders whose shares are registered in street name and are held in their account at their broker-dealer or other nominee and who are participating in the exercise of over-subscription privileges must deliver a completed subscription certificate and full payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges) to the subscription agent on or before the Notice Date.

- Registered Stockholders. Stockholders who hold their shares in registered form and are participating in the exercise of over-subscription privileges must deliver one of the following to the subscription agent on or before the Notice Date:

(i) a completed subscription certificate together with an irrevocable undertaking to make payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges); or

(ii) a completed subscription certificate together with an irrevocable undertaking to make payment for all shares subscribed (including shares subscribed pursuant to the exercise of over-subscription privileges) by the expiration date. The undertaking is included on the right-hand side of the back of the subscription certificate and must be

separately executed.

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Registered shareholders who elect to provide an irrevocable undertaking as described above will be liable for the full subscription payment as indicated on the subscription certificate.

If sufficient additional shares remain, all stockholders' over-subscription requests which have been timely received will be honored in full. If stockholder requests for shares pursuant to the over-subscription privilege exceed the additional shares available, the available additional shares will be allocated pro rata among stockholders who oversubscribe based on the number of rights originally issued to such stockholders. The percentage of remaining shares each over-subscribing stockholder may acquire will be rounded down to result in the delivery of whole shares. The allocation process may involve a series of allocations to ensure that the total number of shares available for over-subscriptions is distributed on a pro-rata basis.

Banks, brokers, trustees and other nominee holders of rights will be required to certify to the subscription agent, before any over-subscription privilege may be exercised with respect to any particular beneficial owner, as to the aggregate number of rights exercised pursuant to the primary subscription and the number of shares subscribed for pursuant to the over-subscription privilege by such beneficial owner and that such beneficial owner's primary subscription was exercised in full. Nominee holder over-subscription certificates and beneficial owner listing certification forms will be distributed to banks, brokers, trustees and other nominee holders with the subscription certificates.

We will not offer or sell in connection with the rights offering any shares that are not subscribed for pursuant to the primary subscription or the over-subscription privilege.

The Subscription Price

The subscription price for the shares to be issued pursuant to the rights offering will be 90% of the average of the last reported sale prices of a share on the NYSE on the Pricing Date and the preceding eight trading days. For example, if the average of the last reported sale prices of a share on the NYSE on the Pricing Date and the preceding eight trading days were $2.08 , the subscription price would be $1.87 per share (90% of market price). Since the expiration date will be , 2011 (unless we extend the subscription period), rights holders exercising their over-subscription privileges prior to the Pricing Date will not know the subscription price at the time of exercise and will be required initially to pay for both the shares subscribed for pursuant to the primary subscription and, if eligible, any additional shares subscribed for pursuant to the over-subscription privilege at the estimated subscription price of $1.87 per share. See "— Payment for Shares" below. Rights holders who exercise their rights will have no right to rescind a purchase after receipt of their completed subscription certificates together with payment for shares by the subscription agent. Notwithstanding the foregoing, we may cancel this rights offering prior to the expiration date, even after the rights have been distributed and subscriptions have been received.

Expiration Of The Offering

The rights offering will expire at 5:00 p.m., Eastern Standard Time, on , 2011, unless extended by us. The rights will expire on the expiration date of the rights offering and thereafter may not be exercised. Any extension of the rights offering will be followed as promptly as practicable by announcement thereof, and in no event later than 9:00 a.m., Eastern Standard Time, on the next business day following the previously scheduled expiration date. Without limiting the manner in which we may choose to make such announcement, we will not, unless otherwise required by law, have any obligation to publish, advertise or otherwise communicate any such announcement other than by issuing a press release or such other means of announcement as we deem appropriate.

Any stockholder wishing to exercise over-subscription privileges must provide our subscription agent with a completed subscription certificate by 5:00 p.m., Eastern Standard Time, on the Notice Date (_________, 2011),

unless extended by us.

Termination Of The Offering

We may terminate the rights offering at any time and for any reason prior to the expiration date. If we terminate the rights offering, we will issue a press release announcing such termination and will direct the

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subscription agent to return, without interest, all subscription proceeds received to such shareholders who had elected to purchase shares.

Information Agent

The Altman Group, Inc. serves as our information agent in connection with this rights offering. Any questions or requests for assistance concerning the method of subscribing for shares or for additional copies of this prospectus or subscription certificates or notices may be directed to the information agent at its telephone number, street address, and email address listed below:

THE ALTMAN GROUP, INC.
1200 Wall Street West, 3rd Floor
Lyndhurst, NJ 07071
Toll Free: (800) 330-8705
Banks and Brokers call: (212) 400-2610
info@altmangroup.com

Stockholders may also contact their brokers or nominees for information with respect to the rights offering. The information agent will receive a fee estimated to be $7,500, plus reimbursement for its out-of-pocket expenses related to the rights offering.

Subscription Agent

The subscription agent is American Stock Transfer & Trust Co., LLC. The subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately $25,000 , plus reimbursement for all out-of-pocket expenses related to the rights offering.

Completed subscription certificates must be sent together with proper payment of the subscription price for all shares subscribed for in the primary subscription and the over-subscription privilege to the subscription agent within the prescribed time period by one of the methods described below. See "— Payment for Shares" below.

Subscription certificate delivery method	Address/number
By First Class Mail, Express Mail or Overnight Courier	American Stock Transfer & Trust Co., LLC Operations Center Attn: Reorganization Department 6201 15th Avenue 3rd Floor Brooklyn, NY 11219
By Hand to New York Delivery Window	American Stock Transfer & Trust Co., LLC Operations Center Attn: Reorganization Department 6201 15th Avenue 3rd Floor Brooklyn, NY 11219

Delivery to an address other than one of the addresses listed above will not constitute valid delivery.

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Methods For Exercising Rights

Rights are evidenced by subscription certificates that, except as described below under "– Foreign Stockholders," will be mailed to record date stockholders or, if a record date stockholder's shares are held by Cede or any other depository or nominee on their behalf, to Cede or such depository or nominee. Rights may be exercised by completing and signing the subscription certificate that accompanies this prospectus and mailing it in the envelope provided, or otherwise delivering the completed and signed subscription certificate to the subscription agent, together with payment in full for the shares at the subscription price by the expiration date of the rights offering.

For those stockholders exercising their basic subscription rights only, completed subscription certificates and related payments must be received by the subscription agent prior to 5:00 p.m., Eastern Standard Time, on or before the expiration date, at the offices of the subscription agent at the address set forth above. Fractional shares will not be issued upon the exercise of rights.

For those stockholders exercising over-subscription privileges, completed subscription certificates must be received by the subscription agent prior to 5:00 p.m., Eastern Standard Time, on or before the Notice Date, at the offices of the subscription agent at the address set forth above. Full payment for all shares subscribed must be received by the subscription agent prior to 5:00 p.m., Eastern Standard Time, on or before the expiration date, at the offices of the subscription agent at the address set forth above.

Record Date Stockholders Whose Shares Are Held By A Nominee

Record date stockholders whose shares are held by a nominee, such as a bank, broker or trustee, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription certificate on behalf of the record date stockholder and arrange for proper payment by one of the methods set forth under "— Payment for Shares" below.

Nominees

Nominees, such as brokers, trustees or depositories for securities, who hold shares for the account of others should notify the respective beneficial owners of the shares as soon as possible to ascertain the beneficial owners' intentions and to obtain instructions with respect to the rights. If the beneficial owner so instructs, the nominee should complete the subscription certificate and submit it to the subscription agent with the proper payment as described under "– Payment for Shares" below.

All questions as to the validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the subscription price will be determined by us, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted. We reserve the right to reject any or all subscriptions not properly submitted or the acceptance of which would, in the opinion of our counsel, be unlawful.

Foreign Stockholders

Subscription certificates will not be mailed to foreign stockholders. Foreign stockholders will receive written notice of this rights offering. The subscription agent will hold the rights to which those subscription certificates relate for these stockholders' accounts until instructions are received to exercise the rights, subject to applicable law. If no instructions have been received by 5:00 p.m., Eastern Standard Time, on _______________, 2011 , three business days prior to the expiration date (or, if the subscription period is extended, on or before three business days prior to the

extended expiration date), we will consider such rights as having not been exercised and shall be subject to other stockholders who have elected to exercise oversubscription privileges as described herein.

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Payment For Shares

Subscribers for Primary Subscription Rights Only. Exercising rights holders must send the subscription certificate together with payment for the shares acquired in the primary subscription to the subscription agent based on the estimated subscription price of $1.87 per share (90% of $2.08 , the last reported sale price of a share on the NYSE on November 30 , 2010). To be accepted, the payment, together with a properly completed and executed subscription certificate, must be received by the subscription agent at one of the subscription agent's offices set forth above, prior to 5:00 p.m., Eastern Standard Time, on the expiration date.

Subscribers for Over-Subscription Rights. Stockholders who wish to subscribe for shares in addition to the primary subscription must comply with the requirements described under "Over-Subscription Privilege" above.

All payments by an exercising rights holder must be in U.S. dollars by money order or check drawn on a bank or branch located in the United States and payable to "Equus Total Return – Rights Offering". The subscription agent will deposit all funds received by it prior to the final payment date into a segregated interest-bearing account (which interest will accrue to the benefit of the Fund) pending pro-ration and distribution of the shares. The subscription agent will not accept wire transfers.

THE METHOD OF DELIVERY OF SUBSCRIPTION CERTIFICATES AND PAYMENT OF THE SUBSCRIPTION PRICE TO US WILL BE AT THE ELECTION AND RISK OF THE EXERCISING RIGHTS HOLDERS, BUT IF SENT BY MAIL IT IS RECOMMENDED THAT SUCH CERTIFICATES AND PAYMENTS BE SENT BY REGISTERED MAIL, PROPERLY INSURED, WITH RETURN RECEIPT REQUESTED, AND THAT A SUFFICIENT NUMBER OF DAYS BE ALLOWED TO ENSURE DELIVERY TO THE SUBSCRIPTION AGENT AND CLEARANCE OF PAYMENT PRIOR TO 5:00 P.M., EASTERN STANDARD TIME, ON THE RELEVANT DATE(S). BECAUSE UNCERTIFIED PERSONAL CHECKS MAY TAKE AT LEAST FIVE BUSINESS DAYS TO CLEAR, YOU ARE STRONGLY URGED TO PAY, OR ARRANGE FOR PAYMENT, BY MEANS OF CERTIFIED OR CASHIER'S CHECK OR MONEY ORDER. WIRE TRANSFERS WILL NOT BE ACCEPTED.

On a date within eight business days following the expiration date, the subscription agent will send to each exercising rights holder (or, if shares are held by Cede or any other depository or nominee, to Cede or such other depository or nominee) a confirmation showing (1) the number of shares purchased pursuant to the primary subscription; (2) the number of shares, if any, acquired pursuant to the over-subscription privilege; (3) the per share and total purchase price for the shares; and (4) any additional amount payable to us by the exercising rights holder or any excess to be refunded by us to the exercising rights holder, in each case based on the subscription price as determined on the expiration date. If any exercising rights holder, if eligible, exercises his right to acquire shares pursuant to the over-subscription privilege within the time periods specified under "Over-Subscription Privilege" above, any excess payment which would otherwise be refunded to him will be applied by us toward payment for shares acquired pursuant to the exercise of the over-subscription privilege. Any additional payment required from an exercising rights holder must be received by the subscription agent within ten business days after the confirmation date. Any excess payment to be refunded by us to an exercising rights holder will be mailed by the subscription agent to the rights holder as promptly as practicable.

Issuance of the shares purchased is subject to collection of checks and actual payment. If an exercising rights holder who subscribes for shares pursuant to the primary subscription or over-subscription privilege does not make payment of any amounts due by the relevant date, the subscription agent reserves the right to take any or all of the following actions: (1) consider any rights not fully paid for as unsubscribed and therefore subject to other stockholders who have elected to exercise over-subscription privileges; (2) apply any payment actually received by it from the exercising rights holder toward the purchase of the greatest whole number of shares which could be acquired by such exercising

rights holder upon exercise of the primary subscription and/or the over-subscription privilege, and/or (3) exercise any and all other rights or remedies to which it may be entitled, including the right to set off against payments actually received by it with respect to such subscribed for shares, or the commencement of an action to collect the subscription payment, which may include all costs of collection and reasonable attorney's fees.

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All questions concerning the timeliness, validity, form and eligibility of any exercise of rights will be determined by us, whose determinations will be final and binding. We, in our sole discretion, may waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right.

Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. The subscription agent will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription certificates or incur any liability for failure to give such notification.

EXERCISING RIGHTS HOLDERS WILL HAVE NO RIGHT TO RESCIND THEIR SUBSCRIPTION AFTER RECEIPT OF THEIR PAYMENT FOR SHARES BY THE SUBSCRIPTION AGENT, EXCEPT AS PROVIDED BELOW UNDER "– NOTICE OF NAV DECLINE."

Notice of NAV Decline

As required by the SEC's registration form, we will suspend the rights offering until we amend this prospectus if, subsequent to the effective date of this prospectus, our net asset value declines more than 10% from our net asset value as of that date. Accordingly, the expiration date would be extended and we would notify record date stockholders of the decline and permit exercising rights holders to cancel their exercise of rights.

Delivery of Stock Certificates

Stockholders whose shares are held of record by Cede or by any other depository or nominee on their behalf or their broker-dealers' behalf will have any shares that they acquire credited to the account of Cede or the other depository or nominee. With respect to all other stockholders, stock certificates for all shares acquired will be mailed after payment for all the shares subscribed for has cleared, which may take up to 15 days from the date of receipt of the payment.

Federal Income Tax Consequences of the Offering

For federal income tax purposes, neither the receipt nor the exercise of the rights by record date stockholders will result in taxable income to such stockholders, and no loss will be realized if the rights expire without exercise.

A record date stockholder's basis in a right will be zero unless either (1) the fair market value of the right on the date of distribution is 15% or more of the fair market value of the shares with respect to which the right was distributed or (2) the record date stockholder elects, in his or her federal income tax return for the taxable year in which the right is received, to allocate part of the basis of the shares to the right. If either of clauses (1) and (2) is applicable, then if the right is exercised, the record date stockholder will allocate his or her basis in the shares with respect to which the right was distributed between the shares and the right in proportion to the fair market values of each on the date of distribution. We will not, however, make any determination regarding the fair market value of the rights issued in this offering.

The holding period of a right received by a record date stockholder includes the holding period of the shares with regard to which the right is issued. If the right is exercised, the holding period of the shares acquired begins on the date the right is exercised.

A record date stockholder's tax basis for purposes of determining gain or loss upon the sale of a share acquired upon the exercise of the rights will be equal to the sum of the record date stockholder's basis in the rights, if any, and the subscription price per share. A record date stockholder's gain or loss recognized upon a sale of a share acquired upon

the exercise of a right will be capital gain or loss (assuming the share was held as a capital asset at the time of sale) and will be long-term capital gain or loss if the share is held for more than one year.

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This is a general summary of the material federal income tax consequences of the rights offering under the provisions of the Code and Treasury regulations in effect as of the date of the prospectus that are generally applicable to record date stockholders who are U.S. persons within the meaning of the Code, and does not address any foreign, state or local tax consequences. The Code and Treasury regulations are subject to change or differing interpretations by legislative or administrative action, which may be retroactive. Exercising rights holders should consult their tax advisors regarding specific questions as to foreign, federal, state or local taxes.

Retirement Plan Considerations

In the case of any stockholder which is a tax-qualified retirement plan or an individual retirement account, or IRA, the employer or IRA owner should be aware that additional contributions of cash to the plan or IRA (other than a rollover contribution or trustee-to-trustee transfer from another plan or IRA), which is made to provide the plan or IRA with sufficient funds to exercise rights, could result in a nondeductible or excess contribution and lead to the imposition of an excise tax. Further, in the case of a tax-qualified defined contribution plan, the additional contribution could cause the contribution and allocation limits of Section 415 of the Code to be exceeded, adversely affecting the tax-qualified status of the plan.

Employers and IRA owners should also be aware that, if a tax-qualified retirement plan or IRA borrows in order to finance the exercise of rights received as a stockholder, the plan or IRA may become subject to the tax on unrelated business taxable income under Section 511 of the Code. Further, if any portion of an IRA is pledged or used as security for a loan, such portion may be treated as distributed and taxable to the IRA owner.

ERISA contains fiduciary responsibility requirements, and ERISA and the Code contain prohibited transaction rules, which may impact the exercise or sale of rights received by a retirement plan or IRA as a stockholder. Due to the complexity of these rules and the penalties for noncompliance, employers and IRA owners should consult with their counsel and other advisers regarding the consequences of the exercise or sale of rights by retirement plans and IRAs under ERISA and the Code.

Certain Effects Of This Offering

Our largest shareholders may, either individually or collectively, increase their beneficial ownership percentage in the Fund from this rights offering because some of our shareholders may not exercise their rights and such rights will be subject to over-subscription privileges elected by other shareholders, which may include one or more of our largest shareholders. If, in the unlikely event that no other shareholders exercised their rights and all such rights were acquired by one or both of our two largest shareholders pursuant to the exercise of over-subscription privileges, their collective ownership could exceed 38% of our common stock.

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PLAN OF DISTRIBUTION

On or about , 2011 , we will distribute the rights, subscription forms, and copies of this prospectus to individuals who owned shares of common stock on , 2011 , the record date without the services of an underwriter or selling agent. These rights are not transferable and will not be traded on the NYSE or any other exchange. The shares to be issued upon the exercise of the rights, however, will trade on the NYSE under the symbol "EQS." If you wish to exercise your rights and purchase shares of Equus common stock, you should complete the subscription form and return it with payment for the shares, to American Stock Transfer & Trust Co., LLC the subscription agent, at the applicable address set forth on page 28 .

Please see the discussion in the section of this prospectus entitled "The Rights Offering" for additional information about the rights offering. If you have any questions, you should contact the information agent, The Altman Group, Inc. toll free, at (800) 330-8705 for calls within the U.S., Canada, and Puerto Rico or collect at (201) 806-7300 for calls outside the U.S., Canada or Puerto Rico. Banks and brokers should call (212) 400-2612.

We are not aware of any existing agreements between any shareholder, broker, dealer, underwriter, finder or agent relating to the sale or distribution of the common stock underlying the rights.

USE OF PROCEEDS

If shares of our common stock are sold at the subscription price of $_________, the net proceeds of the rights offering are estimated to be approximately $__________, after deducting expenses related to this rights offering payable by us estimated at approximately $428,000 . We plan to use the net proceeds of this rights offering for general corporate purposes, which include investing in portfolio companies in accordance with our investment objective and strategies, and, pending such investments, we will invest the net proceeds in cash equivalents, U.S. government securities and other high-quality debt investments that mature in one year or less from the date of investment.

We estimate that it will take six months for us to invest substantially all of the net proceeds of this rights offering, depending on the availability of attractive opportunities and market conditions. However, we can offer no assurance that we will be able to achieve this goal. See "Regulation as a Business Development Company – Temporary Investments" for additional information about temporary investments we may make while waiting to make longer-term investments in pursuit of our investment objective. See "Risk Factors – Risks Related to Our Investments – Failure to deploy new capital may reduce our return on equity."

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PRICE RANGE OF COMMON STOCK AND DISTRIBUTIONS

Our common stock is listed on the NYSE under the symbol "EQS". We had approximately 4,309 stockholders at September 30, 2010, 859 of whom were registered holders. Registered holders do not include those stockholders whose stock has been issued in street name. At September 30, 2010, our net asset value was $3.55 per share of our common stock.

The following table reflects the high and low closing sales prices per share of our common stock as reported on the NYSE, the net asset value and the discount to net asset value and the dividends declared by us during the first three quarters of 2010 and for each fiscal quarter for the three years ending December 31, 2009, 2008 and 2007:

		Price Range		Ratio of High Sales Price to NAV (%)	Ratio of Low Sales Price to NAV (%)	Cash Distributions Per Share (2)
	NAV(1)	High	Low			
Fiscal 2010						
Third quarter	$3.55	$2.58	$2.11	72.68%	59.44%	–
Second quarter	$4.28	$3.23	$2.57	75.47%	60.75%	–
First quarter	$5.66	$3.50	$2.66	61.84%	47.00%	–
Fiscal 2009						
Fourth quarter	$5.74	$3.81	$3.04	66.38%	52.96%	–
Third quarter	$7.41	$3.40	$2.79	45.88%	37.65%	–
Second quarter	$8.24	$3.44	$2.10	41.75%	25.49%	–
First quarter	$8.96	$4.90	$2.85	54.69%	31.81%	$0.108
Fiscal 2008						
Fourth quarter	$9.16	$6.30	$3.90	68.78%	42.58%	$0.158
Third quarter	$11.41	$7.34	$6.02	64.33%	52.76%	$0.158
Second quarter	$12.00	$7.32	$6.75	61.00%	56.25%	$0.158
First quarter	$12.20	$7.13	$5.71	58.44%	46.80%	$0.158
Fiscal 2007						
Fourth quarter	$12.29	$7.72	$5.93	62.82%	48.25%	$0.125
Third quarter	$10.54	$8.85	$7.00	83.97%	66.41%	$0.125
Second quarter	$11.15	$9.30	$8.49	83.41%	76.14%	$0.125
First quarter	$11.21	$8.81	$8.29	78.59%	73.95%	$0.125

(1) Net asset value per share is determined as of the last day in the relevant quarter and therefore may not reflect the net asset value per share on the date of the high and low sales prices. The net asset values shown are based on outstanding shares at the end of each period.

(2) Represents the cash distribution declared in the specified quarter.

(3) As of the date of this prospectus, we had not yet determined our net asset value as of the end of the third quarter of 2010.

The last reported price for our common stock on December 10, 2010 was $2.20 per share.

Shares of BDCs may trade at a market price that is less than the value of the net assets attributable to those shares. The possibility that our shares of common stock will trade at a discount from net asset value or at unsustainable premiums over the long term are separate and distinct from the risk that our net asset value will decrease. Our shares have traded at a discount to net asset value since they began trading on the NYSE.

Distributions

On March 24, 2009, we announced a suspension of our managed distribution policy and payment of quarterly dividends for an indefinite period, following the distribution of the first quarter 2009 dividend paid on March 30, 2009. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. In the first six months of 2010, we have undergone certain changes in our board of directors and Management. These changes and the rights offering have been pursued, in part, with the objective of increasing the number of attractive investment opportunities to us and revising our investment strategy to include more cash income producing investments, all of which could ultimately result in the resumption of our managed distribution policy at some time in the future. A consistent stream of earnings derived from a larger and more diversified portfolio, together with an increase in the proportion of our investments in debt securities paying cash interests, could provide us with a larger, more predictable cash flow, which in time could support a sustainable dividend. We will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

Our future quarterly dividends, if any, will be determined by our board of directors. As a result of our revised investment strategy, we expect to increase the proportion of our investments in participating preferred equity and debt securities and to generate more ordinary income in the form of interest on loans and preferred dividends. We believe this investment strategy may enable us, over time, to resume regular dividend payments to our shareholders. See "Certain U.S. Federal Income Tax Considerations."

In order to maintain our qualification as a RIC under the Code, we must distribute at least 90% of (1) our ordinary taxable income plus (2) the excess of our realized net short-term capital gains over our realized net long-term losses. We will be subject to federal income tax at regular corporate rates on any such amounts that are not distributed. We currently intend to distribute amounts necessary to maintain our RIC qualification to our stockholders. To avoid certain excise taxes imposed on RICs, we are generally required to distribute during each calendar year an amount at least equal to the sum of (1) 98% of our ordinary taxable income for the calendar year, (2) 98% of our net capital gains for the one-year period ending on December 31 of the calendar year and (3) any ordinary income and net capital gains for preceding years that were not distributed during such years. If this requirement is not met, we will be required to pay a nondeductible excise tax equal to 4% of the amount by which 98% of the current year's taxable income exceeds the distribution for the year. The taxable income on which an excise tax is paid is generally carried forward and distributed to stockholders in the next tax year. Depending on the level of taxable income earned in a tax year, we may choose to carry forward taxable income in excess of current year distributions into the next tax year and pay a 4% excess tax on such income, as required. As of June 30, 2010, our excise tax liability was $0.

We cannot assure you that we will achieve results that will permit the payment of any cash distributions and, if we incur indebtedness or issue senior securities, we will be prohibited from making distributions if doing so causes us to fail to maintain the asset coverage ratios stipulated by the 1940 Act or if distributions are limited by the terms of any of our borrowings.

Notwithstanding the current suspension of our managed distribution policy and payment of quarterly distributions, we intend to distribute at least 90% of our ordinary taxable income and net short-term capital gains, if any, to our stockholders annually in order to maintain our qualification as a RIC.

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The following table reflects the cash and in-kind distributions, including dividends and returns of capital, if any, per share that we have declared on our common stock since January 1, 2007. As noted in the table below, we have made no such distributions since the suspension of our managed distribution policy in March 2009:

Date Declared	Record Date	Payment Date		Amount per Share
February 16, 2007	February 26, 2007	March 30, 2007	$	0.125
April 11, 2007	May 21, 2007	June 25, 2007		0.125
August 10, 2007	August 21, 2007	September 24, 2007		0.125
November 9, 2007	November 19, 2007	December 17, 2007		0.125
February 19, 2008	February 29, 2008	March 31, 2008		0.158
May 9, 2008	May 27, 2008	June 30, 2008		0.158
August 7, 2008	August 25, 2008	September 29, 2008		0.158
November 10, 2008	November 17, 2008	December 22, 2008		0.158
February 27, 2009	March 9, 2009	March 30, 2009		0.1075
			$	1.2395

Our ability to make distributions will be limited by the asset coverage requirements under the 1940 Act. For a more detailed discussion, see “Regulation As a Business Development Company.”

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

Equus is a BDC that provides financing solutions for privately held middle market and small capitalization companies. We began operations in 1983 and have been a publicly traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income.

In June 2005, we retained Moore Clayton Capital Advisors, Inc. ("MCCA") as our registered investment adviser to manage our portfolio and provide access to investment opportunities. Our investment advisory agreement with MCCA terminated on June 30, 2009 and we have since internalized the management of the Fund. We now directly employ our management team and incur the costs and expenses associated with Fund operations. There is no outside investment advisory organization providing services to us under a fee-based advisory agreement, or an administrative organization charging us for services rendered. We expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can achieve efficiencies in our cost structure if we are able to grow the Fund.

As a BDC, we are required to comply with certain regulatory requirements. For instance, we generally have to invest at least 70% of the Fund's total assets in "qualifying assets," including securities of private U.S. companies, cash, cash equivalents, U.S. government securities and short-term high-quality debt investments. Equus is a RIC under Subchapter M of the Code. To qualify as a RIC, we must meet certain source of income and asset diversification requirements. If we comply with the provisions of Subchapter M, the Fund generally does not have to pay corporate-level income taxes on any income that distributed to our stockholders.

Investment Income. We generate investment income from interest payable on the debt securities that the Fund holds, dividends received on equity interests in our portfolio companies and capital gains, if any, realized upon sales of equity and, to a lesser extent, debt securities in the investment portfolio. Our equity investments may include shares of common and preferred stock, membership interests in limited liability companies and warrants to purchase additional equity interests. These equity securities may or may not pay dividends, and the exercise prices of warrants that we acquire in connection with debt investments, if any, vary by investment. Our debt investments in portfolio companies may be in the form of senior or subordinated loans and may be unsecured or have a first or second lien on some or all of the assets of the borrower. Our loans typically have a term of three to seven years and bear interest at fixed or floating rates. Interest on these debt securities is generally payable either quarterly or semiannually. Some promissory notes held by the Fund provide that a portfolio company may elect to pay interest in cash or provide that discount interest may accrete in the form of original issue discount or payment-in-kind (PIK) over the life of the notes by adding unpaid interest amounts to the principal balance. Amortization of principal on our debt investments is generally deferred for several years from the date of initial investment. The principal amount of these debt securities and any accrued but unpaid interest generally will become due at maturity. We also earn interest income at market rates on investments in short-term marketable securities. From time to time, we generate income from time to time in the form of commitment, origination and structuring fees in connection with our investments. We recognize all such fees when earned.

Expenses. Currently, our primary operating expenses consist of professional fees, compensation expense, and general and administrative fees. Prior to the internalization described above, our primary operating expenses consisted of investment advisory and management fees payable to MCCA for its work in identifying, evaluating, negotiating, closing and monitoring investments. MCCA provided us with the services of its investment professionals and our former administrator, Equus Capital Administration Company, Inc. ("ECAC") provided us the services of its

administrative staff as well as its investment professionals. MCCA also provided and paid for the management services necessary to run the Fund's business. Under the Advisory Agreement between MCCA and the Fund, MCCA received a management fee equal to an annual rate of 2% of our net assets, which was paid quarterly in arrears. Under the Advisory Agreement, we also agreed to pay an incentive fee to MCCA based on both realized investment income and net realized capital gains less unrealized capital depreciation. This incentive fee was equal to (a) 20% of the excess, if any, of our net investment income for each quarter that exceeded a quarterly hurdle rate equal to 2% (8% annualized) of our net assets, and (b) 20% of our net realized capital gain less unrealized capital depreciation. The incentive fee calculated in clause (b) was paid on an annual basis. ECAC provided administrative

services to us for which we paid ECAC an administrative fee. Under the administration agreement we entered into with ECAC on June 30, 2005, we reimbursed the ECAC for its costs and expenses in performing its obligations and providing personnel and facilities up to a maximum of $450,000 per year. Pursuant to the internalization described above, our administration agreement with ECAC expired on June 30, 2009. Consequently, all services previously provided to us by ECAC are now performed internally by our employees or from time to time by other third parties.

Operating Activities. We use cash to make new investments and follow-on investments in our existing portfolio companies. We record these investments at cost on the applicable trade date. Realized gains or losses are computed using the specific identification method. On an ongoing basis, we carry our investments in our financial statements at fair value, as determined by our board of directors. See "—Significant Accounting Policies – Valuation" below. As of September 30, 2010, we had invested 100% of our net assets in securities of portfolio companies that constituted qualifying investments under the 1940 Act. At that time, we had invested 14.6% by value in shares of common stock, 7.8 % in membership interests in limited liability companies, 0% in preferred stock, 0.4% in options and warrants, and 45.1% in various debt instruments. Also, as of September 30, 2010, we had invested the proceeds of borrowings on margin (as discussed below under "—Financing Activities") in short-term, highly liquid investments, consisting primarily of U.S. Treasury Bills, interest-bearing bank accounts and certificates of deposit, that are, in our opinion, appropriate for the preservation of the principal amount of such instruments.

Under certain circumstances, we make follow-on investments in some of our portfolio companies. As of September 30, 2010, we had an outstanding commitment of $0.8 million to Spectrum Management, LLC. If we are called upon to make follow-on investments in our portfolio companies and we do not have sufficient funds to make such follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, the Fund's equity interest and the estimated fair value of the portfolio company could be reduced.

Financing Activities. From time to time, we use leverage to finance a portion of our investments. We then repay such debt from the sale of portfolio securities. Under the 1940 Act, we have the ability to borrow funds and issue debt securities or preferred stock which are referred to as senior securities, subject to certain restrictions including an overall limitation on the amount of outstanding debt, or leverage, relative to equity of 1:1. Because of the nature and size of our portfolio investments, we periodically borrow funds to make qualifying investments in order to maintain the Fund's qualification as a RIC. During 2009 and 2010, we borrowed funds by accessing a margin account with a securities brokerage firm and paid such borrowings back in full. We invest the proceeds of these margin loans in high-quality securities such as U.S. Treasury securities until they are repaid. We refer to these high-quality investments as "restricted assets" because they are not generally available for investment in portfolio companies under the terms of borrowing. If, in the future, we cannot borrow funds to make such qualifying investments at the end of any future quarter, we may not qualify as a RIC and would become subject to corporate-level income tax on our net investment income and realized capital gains, if any. In addition, our distributions to stockholders would be taxable as ordinary dividends to the extent paid from earnings and profits. See "Federal Income Tax Considerations."

Distributions. On March 24, 2009, we announced that we had suspended our managed distribution policy and payment of quarterly distributions for an indefinite period, following the distribution of the first quarter dividend to be paid on March 30, 2009. As originally implemented, the policy provided for quarterly dividends at an annualized rate equal to 10% of the Fund's market value per share as at the end of the preceding calendar year. We will continue to pay out net investment income and/or realized capital gains, if any, on an annual basis as required under the 1940 Act.

Possible Share Repurchase. As a closed-end BDC, our shares of common stock are not redeemable at the option of stockholders, and our shares currently trade at a discount to their net asset value. Our board of directors has determined that it would be in the best interests of our stockholders to reduce or eliminate this market value discount. Accordingly, we have been authorized to, and may from time to time, repurchase shares of our outstanding common stock (including by means of tender offers or privately negotiated transactions) in an effort to reduce or eliminate this

market discount or to increase the net asset value of our shares. We are not required to undertake any such share repurchases, nor do we anticipate taking such action in 2011 .

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Significant Accounting Policies

Valuation of Investments

The valuation of our portfolio companies is the most significant area of judgment impacting our financial statements. We carry portfolio investments on our financial statements at fair value, with any net change in unrealized appreciation or depreciation included in the determination of net assets. We perform valuations of portfolio securities in accordance with accounting principles generally accepted in the United States of America, or U.S. GAAP, and the financial reporting policies of the SEC. The applicable methods prescribed by such principles and policies are described below:

Publicly traded portfolio securities. We value investments in companies whose securities are publicly traded at their quoted market prices at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities, which we refer to as the valuation discount, if applicable. As of September 30, 2010, we had no investments in publicly traded securities. As of September 30, 2009, one of our portfolio securities, Metic Group plc, was publicly listed on the Alternative Investment Market of the London Stock Exchange. To the extent we hold publicly traded securities, we will adjust our net asset value for changes in the value of such securities on a daily basis.

Privately held portfolio securities. We determine the fair value of investments for which no market exists on the basis of procedures established in good faith by our board of directors and based on input from Management and our Audit Committee of the board of directors. As a general principle, the “fair value” of an investment is the amount that we might reasonably expect to receive upon the investment’s current sale in an orderly manner. Appraisal valuations are necessarily subjective, and the estimated values arrived at by our board of directors may differ materially from amounts actually received upon the disposition of specific portfolio securities.

Generally, cost is the primary factor we use to determine fair value until significant developments affecting a portfolio company (such as results of operations or changes in general market conditions) provide a basis for an appraisal valuation. Thereafter, we carry portfolio investments at appraised values as determined quarterly by management, subject to the approval of our board of directors. We typically base our valuations upon a multiple of each portfolio company’s income and/or cash flow, an assessment of the company’s current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, this appraisal may be based upon estimated liquidation value.

We typically appraise our common equity investments in each portfolio company at a multiple of the free cash flow generated by such company in its most recent fiscal year, less adjustments for outstanding funded indebtedness and other senior securities such as preferred stock. In some cases, we consider projections of current year free cash flow in its appraisals, and may also consider an adjustment to the estimate of free cash flow for non-recurring items. We also apply multiples based on the portfolio company management’s experience and recent transactions in the private company marketplace. We caution, however, that these assessments are necessarily subjective in nature.

From time to time, we may elect to use third-party transactions in a portfolio company’s securities as the basis for our valuation of such company, although this is not our typical approach to valuation. This method of valuation is referred to as the private market method. When an external event, such as a purchase transaction, public rights offering or subsequent equity sale occurs, we apply the pricing indicated by such external event to corroborate our private equity valuation. We generally uses the private market method only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Most of our portfolio companies use leverage, which has the effect of magnifying our return or loss on investments. For example, if our estimate of a portfolio company results in a total enterprise value of $10.0 million and has $7.5 million in funded indebtedness, we value our equity at $2.5 million. If this estimate then increases or

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decreases by 20%, to $12.0 million or $8.0 million, respectively, the value of the equity will increase or decrease by 80%, to $4.5 or $0.5 million, as the case may be. This disproportionate increase or decrease in equity value relative to total asset value adds a level of volatility to our equity-oriented portfolio securities.

From time to time, some of our portfolio companies default in respect of covenants in their loan agreements. When we have a reasonable belief that a portfolio company will be able to restructure its loan agreement to waive or eliminate such default or defaults, we continue to value our portfolio company's securities as a going concern. If a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its debt or is not successful in refinancing its debt at maturity, the value of our investment could be reduced or eliminated through foreclosure on such portfolio company's assets or through reorganization or bankruptcy. Under such circumstances, we adjust the value of our investment in the portfolio company accordingly.

We generally hold investments in debt securities to maturity. Accordingly, we determine the fair value of debt securities on the basis of the terms of the debt securities and the financial condition of the issuer. We value certificates of deposit at their face value, plus interest accrued to the date of valuation. On a daily basis, we adjust net asset value for changes in the value of publicly held securities, if any, and for material changes in the value of investments in securities issued by private companies. We report these amounts to Lipper Analytical Services, Inc. Weekly, and our daily net asset values appear in various publications, including Barron's and The Wall Street Journal.

Federal Income Taxes

We intend to comply with the requirements of the Code necessary for the Fund to qualify as a RIC. So long as we comply with these requirements, the Fund generally will not be subject to corporate-level federal income taxes on otherwise taxable income (including net realized capital gains) distributed to stockholders. Therefore, we did not record a provision for federal income taxes in our financial statements. As of December 31, 2009, we had a capital loss carry forward of $15.6 million which may be used to offset future capital gains. We may borrow money from time to time to maintain the Fund's status as a RIC under the Code. See "—Overview – Financing Activities" above.

Interest Income Recognition

We record interest income, adjusted for amortization of premium and accretion of discount, on an accrual basis to the extent that we expect to collect such amounts. We stop accruing interest on investments when we determine that interest is no longer collectible. If we receive any cash after determining that interest is no longer collectible, we treat such cash as payment on the principal balance until the entire principal balance has been repaid, before we recognizes any additional interest income. We accrete or amortize discounts and premiums on securities purchased over the life of the respective security using the effective yield method. The amortized cost of investments represents the original cost adjusted for the accretion of discount and/or amortization of premium on debt securities.

Payment in Kind Interest

We have loans in our portfolio that may pay PIK interest. We add PIK interest, if any, computed at the contractual rate specified in each loan agreement, to the principal balance of the loan and recorded as interest income. To maintain the Fund's status as a RIC, we must pay out to our stockholders this non-cash source of income in the form of dividends even if we have not yet collected any cash in respect of such investments.

Recent Accounting Pronouncements

Effective January 1, 2010, we adopted changes issued by the Financial Accounting Standards Board (FASB) to add new requirements for disclosures about significant transfers into and out of Levels 1 and 2 and separate disclosures

about purchases, sales, issuances and settlements relating to Level 3 measurements. In addition, the update clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. The adoption of this standard had no impact on our financial position and results of operations.

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In January 2010, the FASB issued changes to disclosure requirements for fair value measurements. Specifically, the changes require a reporting entity to disclose, in the reconciliation of fair value measurements using significant unobservable inputs (Level 3), separate information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). These changes become effective for the Fund beginning January 1, 2011. Other than the additional disclosure requirements, we do not anticipate that the adoption of this standard will have a material effect on our financial position and results of operations.

Current Market Conditions

During 2009, the state of the economy in the U.S. remained in a recession and deteriorated throughout the year until the fourth quarter. Consumer confidence deteriorated and unemployment indices increased. Banks and other financial service companies continue to experience difficulties as bank lending experience its largest single year decline since the World War II era. Loan delinquency rates were at 26 year highs and bank failures increased and the threat of continued failures remains as concerns regarding commercial real estate have weighed on the financial industry. Stock market returns were stronger as the S&P 500 improved approximately 23% during the year despite reaching a 12 year low in the first quarter. Merger and acquisition activity was at its lowest level since 2004. In the first half of 2010, certain systemic indicators showed modest increases but have not resulted in any tangible improvements in the short-term prospects for the U.S. economy.

To the extent that recessionary conditions continue or worsen, the financial results of small and middle-market companies, like those in which we invest, will continue to experience deterioration, which ultimately could lead to difficulty in meeting debt service requirements and an increase in defaults. Many of these companies have experienced difficult operating environments and access to capital has been limited.

Consistent with other companies in the financial services sector, our performance has been adversely affected. Between December 31, 2008 and September 30, 2010 our net asset value declined from $9.16 per share to $3.55 per share. This further impacted the closing price of our common stock, as it declined approximately 25.6% during 2009 and a further 35.0% during the first eleven months of 2010 and, as of November 30, 2010, is trading at a 41.4% discount to our most recently announced net asset value as of September 30, 2010.

During 2009 and 2010, we executed certain initiatives to enhance liquidity, achieve a lower operational cost structure, provide more assistance to portfolio companies and enhance communication with shareholders. Specifically, we changed the composition of our Board of Directors and Management, terminated certain of our follow-on investments, internalized the management of the Fund, suspended our managed distribution policy and modified our investment strategy to pursue shorter term liquidation opportunities. We believe these actions continue to be necessary to protect capital and liquidity during this turbulent economic period in order to preserve and enhance shareholder value. We also expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can achieve efficiencies in our cost structure if we are able to grow the Fund.

Liquidity and Capital Resources

We generate cash primarily from maturities, sales of securities and borrowings, as well as capital gains realized upon the sale of portfolio investments. We use cash primarily to make additional investments, either in new companies or as follow-on investments in the existing portfolio companies and to pay the dividends to our stockholders.

We are currently evaluating the impact of current market conditions on our portfolio company valuations and their ability to provide current income. Although we have followed valuation techniques in a consistent manner; we are cognizant of current market conditions that might affect future valuations of portfolio securities.

Effective September 8, 2010, we terminated our revolving line of credit agreement (the "Credit Facility") with Amegy Bank of Texas. The Credit Facility was secured by substantially all of the Fund's portfolio assets and securities, which has since been released. The Credit Facility contained certain restrictive covenants, including, but not limited to, a requirement

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that the Fund's net asset value not fall below $40.0 million. We did not borrow any amounts under the Credit Facility.

Notwithstanding the unavailability of the Credit Facility, we believe that our operating cash flow and cash on hand will be sufficient to meet operating requirements and to finance routine capital expenditures through the next twelve months.

Nine Months Ended September 30, 2010

As of September 30, 2010, we had total assets of $47.8 million, of which $21.4 million were invested in portfolio investments and $4. 9 million were invested in temporary cash investments. Among our portfolio investments, $14.2 million (at fair value) or 45.1% of net asset value were in the form of notes receivable from portfolio companies as of September 30, 2010. During the nine months ended September 30, 2010, we also had investment activity of $1.3 million in several follow-on investments, including $0. 5 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK).

As of September 30, 2010, we also had $16.2 million of restricted cash and temporary investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $16.0 million was invested in U.S. Treasury bills and $0.2 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on October 1, 2010 and we subsequently repaid this margin.

Operating Activities. We provided $15.4 million in cash for operating activities during the first nine months of 2010. In the first nine months of 2010, we made cash investments in portfolio companies of $0.8 million and paid fees to our directors , banks and suppliers of $2.7 million, while realizing a loss of $0.006 million from the disposition of portfolio securities.

Financing Activities. We used $14.0 million in cash from financing activities for the first nine months of 2010. We declared no dividends in the first nine months of 2010.

Year Ended December 31, 2009

As of December 31, 2009, we had total assets of $50.9 million, of which $42.4 million were invested in portfolio investments and $5.5 million were invested in temporary cash investments. Among our portfolio investments, $25.7 million (at fair value) or 50.5% of net asset value were in the form of notes receivable from portfolio companies as of December 31, 2009. We recorded no interest income, nor did we receive any cash for notes issued by Riptide Entertainment, LLC and Nickent Golf, Inc., having an aggregate value of $3.2 million.

As of December 31, 2009, we also had $30.3 million of restricted cash and temporary investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $30.0 million was invested in U.S. Treasury bills and $0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. The U.S. Treasury bills were sold on January 4, 2010 and we subsequently repaid this margin.

Operating Activities. We provided $12.4 million in cash for operating activities in 2009. In 2009, we made investments in portfolio companies of $1.2 million and paid fees to our advisers, directors, banks and suppliers of $4.1 million, while realizing a loss of $15.6 million from the disposition of portfolio securities.

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Financing Activities. We used $15.0 million in cash from financing activities for 2009. We declared one cash dividend in 2009 totaling $0.9 million ($0.1075 per share). We also issued 296,528 additional shares of our common stock at an effective price of $3.10 per share and paid $2,000 in cash for fractional shares. We determined that the 2009 dividend payment should be classified as a 100% qualifying dividend, with 21.2% allocated ordinary income and 78.8% allocated to return of capital as of December 31, 2009.

Year Ended December 31, 2008

As of December 31, 2008, we had total assets of $124.1 million, of which $68.7 million were invested in portfolio investments and $8.6 million were invested in temporary cash investments. Among our portfolio investments, $26.2 (at fair value) million were in the form of notes receivable from portfolio companies as of December 31, 2008. We recorded no interest income and did not receive any cash for notes issued by Riptide Entertainment, LLC and HealthSPAC, LLC., having an aggregate value of $7.9 million.

As of December 31, 2008, we also had $45.4 million of restricted cash and temporary investments, including primarily the proceeds of a quarter-end margin loan that we incurred to maintain the diversification requirements applicable to a RIC. Of this amount, $45.0 million was invested in U.S. Treasury bills and $0.3 million represented a required 1% brokerage margin deposit. These securities were held by a securities brokerage firm and pledged along with other assets to secure repayment of the margin loan. We sold U.S. Treasury bills on January 2, 2008 and we subsequently repaid this margin.

Operating Activities. We used $32.1 million in cash for operating activities in 2008. In 2008, we made investments in portfolio companies of $19.1 million and paid fees to our advisers, directors, banks and suppliers of $3.9 million, while realizing $0.9 million from the disposition of portfolio securities.

Financing Activities. We provided $9.9 million in cash from financing activities for 2008. We declared four dividends in 2008 totaling $5.3 million ($0.58 per share). We paid $2.1 million in cash and issued 587,899 additional shares of stock. We determined that the 2008 dividend payments should be classified as a 100% qualifying dividend, with 39% allocated to capital gain and 61% allocated to return of capital as of December 31, 2008.

Results of Operations

Investment Income and Expense

Three and Nine Months Ended September 30, 2010 as compared to Three and Nine Months Ended September 30, 2009

Net investment income (loss) after all expenses was ($0.6) million and $0.02 million for the nine months ended September 30, 2010 and September 30, 2009, respectively and $0.08 million and $0.4 million for the three months ended September 30, 2010 and September 30, 2009, respectively. The increase in net investment loss generated at September 30, 2010 compared to September 30, 2009 is due primarily to the decline in investment income from portfolio investments along with an increase in professional fees and mailing and printing expenses associated with a proxy contest we encountered in connection with our Annual Shareholder meeting held in May 2010.

Total income from portfolio securities declined to $2.3 million for the nine months ended September 30, 2010 from $2.9 million for the nine months ended September 30, 2009 and to $0.6 million for the three months ended September 30, 2010 from $1.3 million for the three months ended September 30, 2009. This decrease was largely due to the restructuring of our holding in ConGlobal Industries Holding, Inc. in the third quarter 2009, resulting in the

recognition of additional accrued interest for the period.

During the first six months of 2009, our former investment adviser received management fee compensation at an annual rate of 2% of the net assets of the Fund paid quarterly in arrears. Such fees amounted to $0.7 million for the six months ended June 30, 2009. The Fund also reimbursed Equus Capital Administration Company, Inc. (“ECAC”) our former administrator, for the costs and expenses incurred in performing its obligations and providing

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personnel and facilities under the Fund's Administration Agreement with ECAC, provided that such reimbursements did not exceed $450,000 per year. ECAC received $0.2 million for the six months ended June 30, 2009. As a result of the internalization management, the Fund assumed these obligations directly beginning July 1, 2009.

Professional fees increased to $1.3 million for the nine months ended September 30, 2010 from $1.0 million for the nine months ended September 30, 2009. These increases were due to the increase in legal fees of $0.4 million and solicitation costs of $0.2 million associated with our Annual Shareholder Meeting held in May 2010 and resulting proxy contest. Professional fees declined to $0.1 million for the three months ended September 30, 2010 from $0.4 million for the three months ended September 30, 2009.

Compensation expense was $0.8 million and $0.3 million for the nine months ended September 30, 2010 and September 30, 2009, respectively and remained relatively unchanged for the three months ended September 30, 2010 and September 30, 2009, respectively. The increase in compensation expense generated at September 30, 2010 is due to the internalization of management as of June 30, 2009. Accordingly, the Fund paid no compensation prior to the quarter ending September 30, 2009.

Year Ended December 31, 2009 as compared to Year Ended December 31, 2008

Income from portfolio securities was $3.7 million and $2.6 million in 2009 and 2008, respectively. The increase in total investment income from 2008 to 2009 was due to increase in interest bearing investments 2009, which generated $1.1 million in interest income in 2009. Interest received in kind, or PIK, totaled $1.1 million in 2009 compared to $0.3 million in 2008.

Interest from temporary cash investments was $0.05 million in 2009 and $0.6 million in 2008. Temporary cash investments (excluding the margin account) decreased from $8.6 million to $5.5 million in 2009 as compared to the prior year.

MCCA received management fee compensation at an annual rate of 2% of our net assets paid quarterly in arrears. Such fees amounted to $0.7 million and $1.9 million in 2009 and 2008 respectively as the contract was terminated on June 30, 2009. We reimbursed ECAC for the costs and expenses incurred in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements did not exceed $450,000 per year. Administrative fees were $0.2 million and $0.5 million in 2009 and 2008 respectively. No incentive fees were paid in 2009 or 2008.

Professional fees were $1.2 million and $0.8 million in 2009 and 2008. This increase is largely a result of an SEC inquiry during 2009.

Compensation expenses were $0.5 million in 2009. General and administrative fees were $0.1 million in 2009. As a result of internalization, the Fund assumed these obligations directly beginning on July 1, 2009.

Fund management, administrative fees, and internalization costs totaled $1.5 million in 2009 and $2.4 million in 2008, resulting in an estimated cost savings of $0.9 million as a result of internalization.

As a result of the factors described above, net investment income after expenses was $0.2 million for 2009 as compared to a net investment loss of ($0.7) million for 2008.

Year Ended December 31, 2008 as compared to Year Ended December 31, 2007

Total income from portfolio securities was $2.6 million and $3.1 million in 2008 and 2007, respectively. The decrease in total investment income from 2007 to 2008 was largely due to cessation of interest payments from Creekstone Florida Holdings, LLC., which generated $0.6 million in interest income in 2007, along with a decrease in interest due to the recapitalization of Sovereign Business Forms in 2008. Interest received in kind, or PIK, totaled $0.3 million in 2008 compared to $0.7 million in 2007.

Interest from temporary cash investments was $0.6 million in 2008 and $1.7 million in 2007. Temporary cash investments (excluding the margin account) decreased from $30.9 million in 2007 to $8.6 million in 2008.

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MCCA received management fee compensation at an annual rate of 2% of our net assets, paid quarterly in arrears. Such fees amounted to $1.9 million and $1.7 million in 2008 and 2007, respectively, as we maintained stable average net assets over the period. We had no incentive fee expense in 2008. Our estimated expenses for incentive fees for 2007 were $0.9 million, due to the capital gains generated by the sale of Drilltec Corporation, Cedar Lodge Holdings, Inc. and final escrow payments from the 2006 sales of Champion Windows and Alenco Window Holdings, LLC. Director fees and expenses remained unchanged at $0.4 million in 2008 as compared to 2007.

Offering costs of $0.6 million were expensed in 2007 as we abandoned the shareholders' proposal authorizing us to offer and sell, or to issue rights to acquire shares of our common stock at a price below the net asset value of such stock.

As a result of the factors described above, net investment loss after expenses was ($0.7 million) for 2008 as compared to ($0.5 million) for 2007.

Summary of Portfolio Investment Activity

Nine Months Ended September 30, 2010

During the nine months ended September 30, 2010, we received payment in full of a promissory note issued by Trulite, in the amount of $2.6 million, which included interest income of $0.3 million. We also received a distribution from Equity Media Development Company of $1.0 million and received a principal payment of $0.1 million from Sovereign Business Forms, Inc. During the nine months ended September 30, 2010, we also had investment activity of $1.3 million in several follow-on investments, including $0.5 million in the form of accrued interest and dividends received in the form of paid-in-kind (PIK). The following table includes significant investment activity during the nine months ended September 30, 2010 (in thousands) (unaudited):

	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-on	PIK	Total
Trulite, Inc.	$—	$—	$200	$—	$ 200
1848 Capital Partners, LLC	—	—	—	219	219
London Bridge Entertainment Partners, Ltd	—	—	575	148	723
Big Apple Entertainment Partners, LLC	—	—	—	120	120
	$—	$—	$775	$ 487	$ 1,262

Nine Months Ended September 30, 2009

During the nine months ended September 30, 2009, we made follow-on investments of $1.6 million in several portfolio companies, including $0.9 million in the form of interest and dividends paid-in-kind or original issue discount/premium amortization.

The following table includes significant new and follow-on investments during the nine months ended September 30, 2009 (in thousands) (unaudited):

	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-on	PIK	Total
Nickent Golf, Inc.	—	—	370	—	370
Riptide Entertainment, LLC	—	—	350	—	350

1848 Capital Partners, LLC	—	—	—	382	382
Trulite, Inc.	—	—	—	225	225
Big Apple Entertainment Partners, LLC	—	—	—	114	114
London Bridge Entertainment Partners Ltd	—	—	—	154	154
	$ —	$ —	$ 720	$ 875	$ 1,595

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Year Ended December 31, 2009

During the year ended December 31, 2009, we had investment activity of $2.3 million in seven portfolio companies, including $1.1 million in the form of accrued interest and dividends received in the form of additional portfolio securities (PIK).

The following table includes significant investment activity during the year ended December 31, 2009 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-on	PIK	Total
Nickent Golf, Inc..	$—	$—	$370	$—	$370
Riptide Entertainment, LLC.	—	—	450	—	450
1848 Capital Partners, LLC	—	—	—	453	453
Trulite, Inc..	—	—	300	307	607
London Bridge Entertainment Partners Ltd.	—	—	—	208	208
Big Apple Entertainment Partners, LLC	—	—	—	153	153
HealthSPAC, LLC	—	—	50	—	50
	$—	$—	$1,170	$1,121	$2,291

On November 5, 2009, we invested an additional $0.3 million in Trulite, Inc., a renewable energy company, in the form of a 18% promissory note that matured on January 26, 2010.

On March 25, 2009, we invested an additional $0.4 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. On November 19, 2009, we made a follow-on investment in Riptide Entertainment, LLC of $0.1 million for an 8% promissory note maturing in 2014. The majority of these follow-on investments were expected to fund the Ripley's Believe It or Not Museum franchise located in London, UK.

On February 2, 2009, we made a follow-on investment of $0.3 million in Nickent Golf, Inc. in the form of a 13% promissory note. We invested an additional $0.1 million in 2009, in the form of a receivership certificate.

Year Ended December 31, 2008

During year ended December 31, 2008, we had investment activity totaling $8.1 million in four new portfolio companies. We also made follow-on investments of $11.1 million in four portfolio companies and received $0.2 million in the form of accrued interest and dividends received in the form of additional portfolio securities (PIK).

The following table includes significant new and follow-on investments during the year ended December 31, 2008 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	Cash	PIK	Follow-on	PIK	Total
Infinia Corporation	$—	$—	$5,000	$—	$5,000
Riptide Entertainment, LLC	—	—	4,725	—	4,725
1848 Capital Partners LLC	3,000	135	—	—	3,135
London Bridge Entertainment Partners Ltd	2,500	—	—	—	2,500
Trulite, Inc.	1,500	—	—	—	1,500
Nickent Golf, Inc.	—	—	1,180	184	1,364
Metic Group plc	1,000	—	—	—	1,000

HealthSpac, LLC	—	—	208	—	208
Various others	—	—	—	7	7
	$8,000	$135	$11,113	$191	$19,439

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On February 11, 2008, we made a follow-on investment of $5.0 million in Infinia Corporation in the form of 160,720 Class B preferred shares.

On January 8, 2008, we invested an additional $1.6 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. On May 12, 2008, we made a follow-on investment in Riptide Entertainment, LLC of $3.0 million for an 8% promissory note. These investments were expected to fund the Ripley's Believe It or Not Museum franchise located in London, UK. Additional follow-on investments include 8% promissory notes for $0.1 million on October 25, 2008, all maturing in 2013.

On January 17, 2008, we invested $3.0 million in 1848 Capital Partners, LLC, an entertainment company in the form of an 18% promissory note.

On August 19, 2008, we invested $2.5 million in London Bridge Entertainment Partners LLC, an entertainment company in the form of an 18% promissory note.

On July 30, 2008, we invested $1.5 million in Trulite, Inc., a renewable energy company, in the form of a 15% promissory note.

On February 26, 2008, we made a follow-on investment of $1.0 million in Nickent Golf, Inc. in the form of preferred stock. We invested an additional $0.2 million in 2008, in the form of a 13% promissory note, maturing in 2009.

On August 4, 2008, we invested $1.0 million in Metic Group plc, in the form of a convertible note. On December 27, 2008, Metic was listed on the AIM, and our note was converted to 1,830,660 ordinary shares.

Year Ended December 31, 2007

During the year ended December 31, 2007, we invested $21.2 million in five new portfolio companies and made follow-on investments of $6.4 million in seven portfolio companies. We received $0.7 million in the form of accrued interest and dividends received in the form of additional portfolio securities (PIK), accretion of original issue discount on promissory notes (OID) and amortization of original issue premiums on promissory notes.

The following table includes significant new and follow-on investments during the year ended December 31, 2007 (in thousands):

	New Investments		Existing Investments		
Portfolio Company	Cash	Noncash	Cash	PIK/OID	Total
Nickent Golf, Inc	$10,000	$66	$—	$—	$10,066
Equus Media Development Company, LLC	5,000	—	—	—	5,000
Riptide Entertainment LLC	—	—	3,835	—	3,835
Big Apple Entertainment Partners LLC	3,000	—	—	—	3,000
Infinia Corporation	3,000	—	—	—	3,000
RP&C International Investments LLC	—	—	2,009	—	2,009
Various others	100	—	525	670	1,295
	$21,100	$66	$6,369	$670	$28,205

On April 3, 2007, we made an investment of $2.0 million for 13% promissory note with a maturity date of August 3, 2007 with Nickent Golf, Inc., for working capital for development and growth opportunities. On June 21, 2007, the Fund made a follow-on investment with Nickent Golf, Inc. of $6.0 million for a 13% promissory note with a maturity

date of June 20, 2011, for working capital, strategic marketing and global expansion, and received $2.0 million in repayment of the bridge loan date April 3, 2007. On August 16, 2007, we made a follow-on investment with Nickent Golf, Inc, of $2.0 million in exchange for 2,000,000 Class A Preferred shares, for working capital for development and growth opportunities.

On January 30, 2007, we invested $5.0 million in Equus Media Development Company, LLC, a 100% wholly owned subsidiary which has a development financing agreement with Kopelson Entertainment for the purchase of

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creative material to be used for commercial exploitation in a variety of media including but not limited to the production of motion pictures.

On February 16, 2007, we invested $0.4 million as a follow-on investment in Riptide Entertainment, LLC in the form of an 8% promissory note. On April 14, 2007, we made a follow-on investment in Riptide Entertainment, LLC of $0.3 million for an 8% promissory note with a maturity date of April 12, 2012. Additional follow-on investments include 8% promissory notes for $0.2 million on May 2, 2007, $0.4 million on May 11, and $2.6 million on June 18, all maturing in 2012.

On October 4, 2007, we invested $3.0 million in mezzanine debt in Big Apple Entertainment in the form of an 18% promissory note.

On June 13, 2007, we made an investment of $3.0 million in exchange for 666,667 Class A Preferred Shares in Infinia Corporation, to further the company's sales and product development programs and for company operations.

As of December 31, 2007, we made follow-on investments on RP&C International Investments LLC ("RP&C") amounting to $2.0 million. On September 22, 2006, we made our first investment in RP&C for $0.3 million. Then in the fourth quarter of 2006, we made two more investments in RP&C amounting to $0.4 million and $0.6 million, respectively. These investments followed an August 4, 2006 commitment agreement where, the we subscribed to acquire an interest in RP&C International Investments LLC ("RP&C").

Realized Gains and Losses on Sales of Portfolio Securities

During the quarters and nine month periods ended September 30, 2010 and 2009, we realized no material gains or losses on sales of portfolio securities.

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Year Ended December 31, 2009

During 2009, we realized net capital losses of $15.6 million, including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain
Nickent Golf, Inc.	Entertainment and leisure	Affiliate	$ (9,688)
Creekstone Florida Holdings, LLC	Real estate	Non-Affiliate	(4,000)
Metic Group PLC	Commercial building products	Non-Affiliate	(1,000)
HealthSPAC, LLC	Healthcare	Control	(824)
Various others			(43)
			$ (15,555)

Year Ended December 31, 2008

During 2008, we realized net capital gains of $0.9 million, including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain
ConGlobal Industries Holding, Inc.	Shipping products and services	Control, non-majority	$ 625
RP&C International Investments LLC	Healthcare	Affiliate	351
Various others			(52)
			$ 924

Year Ended December 31, 2007

During 2007,we realized net capital gains of $5.3 million, including the following significant transactions:

Portfolio Company	Industry	Type	Realized Gain/(Loss)
The Drilltec Corporation	Industrial products and services	Non-affiliate	$ 3,830
Champion Window Holdings, Inc.	Residential building products	Control	1,403
Cedar Lodge Holdings, Inc.	Real estate	Control	609
TurfGrass America Inc.	Residential building products	Affiliate	(960)
Various others			382
			$ 5,264

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Changes in Unrealized Appreciation/Depreciation of Portfolio Securities

Nine Months Ended September 30, 2010

Net unrealized depreciation on investments increased by $18.8 million during the nine months ended September 30, 2010, to a net unrealized depreciation of $34.0 million. The depreciation of portfolio securities resulted primarily from the following changes:

(i) Decline in estimated fair market value of 1848 Capital Partners LLC ("1848") of $3.5 million. The management of 1848 has indicated that the company will have to raise outside capital to repay the promissory note due to the Fund upon maturity in January 2011. Due to the uncertainty of the recoverability of the promissory note, we determined that the fair value of the promissory note was impaired. The promissory note is personally guaranteed jointly and serverally by the principals of 1848, who also guarantee the Big Apple Entertainment Partners LLC and London Bridge Entertainment Partners Ltd promissory notes.

(ii) Decline in fair market value of Big Apple Entertainment Partners LLC ("Big Apple") of $1.0 million. Subsequent to September 30, 2010, the loan due from Big Apple matured and Big Apple failed to repay the note. Big Apple has been in payment default of the loan and on October 5, 2010, we demanded that the guarantors pay and perform all obligations of Big Apple under the loan. We are continuing discussions with the guarantors of this note and are contemplating the next prudent course of action.

(iii) Decline in fair market value of Equus Media Development Company, LLC ("EMDC") of $2.8 million. In June 2010, we received a distribution of $1.0 million from EMDC. Currently EMDC holds $1.6 million in cash and has a remaining funding commitment of $0.5 million under its agreement with Kopleson Entertainment. In addition, if Kopleson Entertainment generates $0.2 million of income for EMDC, that event will trigger an additional $1.0 million funding obligation of EMDC. EMDC has written down the fair value of its assets.

(iv) Decline in fair market value of Infinia Corporation of $1.5 million. Infinia has informed us of its significant capital and liquidity needs. Based on these factors, the nominal equity holdings of the Fund, and the future potential dilution, we have written down the investment to $0.

(v) Decline in fair market value of London Bridge Entertainment Partners Ltd ("London Bridge") of $2.6 million. London Bridge has experienced a working capital shortfall and required an additional $0.6 million investment from the Fund in July 2010 in the form of a 60-day promissory note. In September 2010, we accelerated payment of the notes from London Bridge as the company was in payment default of both notes. Subsequent to quarter end, London Bridge paid the Fund $0.7 million which paid, in full, principal and interest of the 60-day note and partially paid previously unpaid and accrued interest of the $2.6 million note but did not cure the default related to this loan. Based on the current condition of London Bridge, we determined the fair value of the $2.6 million loan was impaired. The loan is senior in liquidation preference and is guaranteed by the management principals, many of which guarantee the 1848 Capital Partners LLC and Big Apple promissory notes. On August 31, 2010, we accelerated the maturity and demanded that the guarantors pay and perform all obligations of London Bridge under the April 2009 and July 2010 promissory notes. As of the date of this prospectus, London Bridge remains in default of the April 2009 promissory note. We are continuing discussions with the guarantors of this note and are contemplating the next prudent course of action.

(vi) Decline in fair market value of Riptide Entertainment, LLC ("Riptide") of $3.1 million. Riptide owns subordinated debt interest in both Big Apple and London Bridge directly and through derivative entities and equity directly in London Bridge. We have determined the value of these

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investments to be impaired based on the operating results and liquidity concerns of both companies.

(vii) Decline in fair market value of ConGlobal Industries Holding, Inc. ("ConGlobal") of $2.2 million. ConGlobal has experienced a decline in its storage business due to the increasing activity of shipping containers. While the activity has contributed to revenue through other services of the company, the contribution margin of these services is less than the storage revenue and has had a negative impact on its operating cash flow.

(viii) Increase in fair market value of PalletOne, Inc. of $0.1 million. PalletOne, Inc. has continued to generate cash flows which have reduced debt levels. We believe the performance of the company in recent years and its continued debt reduction initiatives has created value for its equity holdings.

(ix) Increase in fair market value of Sovereign Business Forms, Inc. ("Sovereign") of $0.3 million. Sovereign has continued to reduce its debt which has caused a corresponding increase to the value of the equity held by the Fund in Sovereign.

(x) Decline in fair market value of Spectrum Management, LLC ("Spectrum") of $2.6 million. Subsequent to the quarter-end, we loaned Spectrum $0.4 million to meet its immediate working capital needs. The valuation reflects Spectrum's consistent business results coupled with the working capital shortfall the company recently experienced.

(xi) Increase in fair market value of Trulite, Inc. ("Trulite") of $0.1 million. The Fund holds approximately nine million warrants in Trulite, many with a nominal exercise price. Based on Trulite's recent equity raise and repayment of the Fund's debt, we determined the warrants have increased in value.

Net unrealized depreciation on investments increased by $12.8 million during the nine months ended September 30, 2009, from a net unrealized depreciation of $3.0 million to a net unrealized depreciation of $15.8 million. Such decrease in depreciation resulted primarily from decrease in estimated fair market value of Infinia Corporation, Sovereign Business Forms, Inc., Spectrum Management, Inc., and Metic Group plc, resulting primarily from decreases in operations for the period.

Year Ended December 31, 2009

During 2009, we recorded an increase in net unrealized depreciation on investments of $12.2 million from a net unrealized depreciation position of $3.0 million to a net unrealized depreciation position of $15.2 million. This increase in depreciation resulted primarily from decreases in the estimated fair value of eight portfolio companies due to current market conditions and operations in 2009, aggregating $27.4 million. The portfolio companies contributing to this change are Infinia Corporation, Riptide Entertainment, LLC and Spectrum Management LLC. These decreases were partially offset by the Fund's transfer in net unrealized depreciation to net realized depreciation related to the write-off of Creekstone Florida Holdings, LLC, Metic Solutions, Plc, and HealthSpac LLC.

Year Ended December 31, 2008

During 2008, our net unrealized appreciation on investments decreased by $19.9 million to a net unrealized depreciation position of $3.0 million as of December 31, 2008. This decrease in appreciation resulted primarily from the decrease in the estimated fair values of Nickent Golf, Inc., Infinia Corporation and Creekstone Florida Holdings,

LLC, which we revalued based on current market conditions and operations in 2008. We had additional increases in unrealized appreciation due to increases in fair value of three portfolio companies aggregating $4.6 million. This change was primarily comprised of ConGlobal Industries and Sovereign Business Forms.

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Year Ended December 31, 2007

During 2007, our net unrealized appreciation on investments increased by $7.5 million to a net unrealized appreciation position of $16.8 million. This increase in appreciation resulted primarily from the increase in the estimated fair value of Infinia Corporation, which we revalued based on a subsequent round of financing completed in early 2008. The increase in appreciation also resulted from the transfer of $1.0 million in net unrealized depreciation to net realized depreciation in connection with the Fund's write-off of Turf Grass Holdings, Inc. These increases were partially offset by our transfer of $2.0 million in net unrealized appreciation to net realized appreciation related to the sale of Drilltec Corporation. We had additional decreases in unrealized appreciation due to decreases in fair value of four portfolio companies aggregating $9.0 million. This change was primarily comprised of ConGlobal Industries, PalletOne, Inc, Sovereign Business Forms and Spectrum Management LLC.

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Portfolio Securities

As of September 30, 2010, we had active investments in the following entities or portfolio companies:

1848 Capital Partners, LLC

1848 Capital Partners, LLC ("1848") is the owner of the management and sponsor's interest in several private companies, among them: Big Apple Entertainment Partners LLC, Dick Clark American Bandstand , LLC, The Franklin Mint, London Bridge Entertainment Partners LLP, Sunbelt Diversified Enterprises LLC and, Jet Support Services, Inc. 1848 maintains a network of outside investors to fund various transactions for which 1848 receives sponsorship interests, including management fees and profit participations. With its investor network, 1848 has invested over $150 million in various businesses. The business of 1848 is highly dependent upon the performance of its portfolio companies, as its principal source of operating revenues is derived from management fees received from these companies. The principals of 1848 have worked together for approximately 12 years. During 2008, we invested $3.0 million in 1848 in the form of a promissory note with a stated interest rate of 18% maturing in January 2011. In addition, Equus owns a 5% royalty related to all investments made during the period in which the promissory note is outstanding. As of September 30, 2010, we valued our investment in 1848 at $0.3 million. The fair value of this investment does not include paid-in-kind interest.

Big Apple Entertainment Partners LLC

Big Apple Entertainment Partners LLC ("Big Apple") is a franchisee of Ripley Attractions, Inc. formed to develop and operate the Ripley's Times Square Odditorium in New York City. During 2007, we invested $3.0 million in the form of a promissory note with a stated annual interest rate of 18%. During 2009, we extended the maturity date of the note one year to October 2010 and, as of the date of this prospectus, the note is in default. As of September 30, 2010, we valued our investment in Big Apple at $2.3 million. The fair value of this investment includes $0.2 million of paid-in-kind interest. For additional information concerning Big Apple, see the description of our holding in "Riptide Entertainment" below.

The Bradshaw Group, Inc.

The Bradshaw Group, Inc. ("Bradshaw") is a resource for large volume printer users to find cost effective options for laser print equipment, service, parts and supplies. Founded by its CEO Stan Bradshaw, the company is an authorized parts reseller for Hewlett Packard and is one of the largest suppliers of genuine HP printer parts in the United States. In addition to HP, Bradshaw distributes printer parts for Canon, Xerox, Brother, Lexmark, and other brand-name printers. Bradshaw has customers in all 50 U.S. states and in various countries worldwide. Our $1.8 million investment in Bradshaw consists of 576,828 shares of Class B preferred stock with a 12.25% paid in-kind dividend, 38,750 shares of Class C preferred stock with no dividend rights, 788,649 shares of Class D preferred stock with a 15% paid in-kind stock dividend, 2,218,109 shares of Class E preferred stock with an 8% paid in-kind stock dividend and 2,229,450 warrants to purchase common stock at a purchase price of $0.01 per share which expire in May 2016. This package of investments represents a fully diluted equity interest in Bradshaw of 18%. As of September 30, 2010, we valued this investment at $0 .

ConGlobal Industries Holding, Inc. and Affiliates

Con Global Industries Holding, Inc. is a holding company that owns ConGlobal International, Inc. ("ConGlobal") an operator of 22 container repair and storage depots located near shipping ports across the United States, Mexico, and Costa Rica, catering to major shipping, leasing, and freight movement companies around the world. The company has national storage capacity of over 600 acres and its network of maintenance depots currently handles over 6,500

containers per week and can accommodate 175,000 TEU's (twenty-foot equivalent unit).

ConGlobal has four major business lines:

- Depot Services – The company stores and repairs shipping containers on site. ConGlobal also charges a daily fee for storage of shipping containers and intermodal equipment and also charges a handling fee for the movement of containers.

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- Resale, Leasing and Aftermarket Services – The company purchases used containers from its customers, refurbishes and resells or leases the unit to companies with alternative storage, portable office, housing or other specialized needs where a portable unit can be utilized.

- Transportation Services – The company repositions containers between terminals, pick-up and delivery of loads, deliver purchased containers and a variety of other uses

  - On-Dock Services – The company has the ability to repair and service containers on cargo ships.

ConGlobal's customers are leasing and shipping companies and the company's performance is sensitive to changes in shipping and the container fleet markets. Two other influences on the industry are the U.S. dollar and bank lending. As the dollar weakens, more goods are exported from the U.S. in containers and, as the dollar strengthens, the converse is also generally true. In addition, a lack of bank capital may hinder the growth of new container construction. The ease of availability of capital allowed ConGlobal's customers to continue to build container inventories as demand remained strong.

ConGlobal competes on a local and regional basis against a variety of companies. Transportation and storage companies need only have sufficient real estate and minimal equipment to perform some of these services. As the economy has slowed many companies, including companies with on-dock locations have begun to store containers on site. We believe that none of ConGlobal's competitors have comparable geographic diversity in North America, as most other container repair and storage companies have no more than one to a few locations.

In 2002, subsequent to our initial investment in ConGlobal, we formed CCI-ANI Finance LLC ("CCI-ANI") for the purpose of making a follow-on investment in ConGlobal. CCI-ANI purchased a ConGlobal subordinated note from a former owner of ConGlobal. We owned 100% of CCI-ANI valued its ownership interest at $3.0 million as of December 31, 2008. During 2009, CCI-ANI was wound-up and the note and other promissory notes due from ConGlobal were transferred to a $6.0 million, 7% replacement promissory note issued by ConGlobal. We also held a 67.95% member's interest in JL Madre LLC ("JL Madre"), an affiliate of ConGlobal. During 2009, we received $1.0 million for our member's interest and JL Madre was wound-up.

ConGlobal is managed by Randy Hale, Mike Baldwin, and David Liebman, its Chairman, CEO, and CFO, respectively, as well as a team of managers for terminal operations.

As of September 30, 2010, our investment in ConGlobal consisted of 24,397,303 shares of common stock representing a fully diluted equity interest of approximately 32.2% and a $6.0 million 7% subordinated replacement promissory note due in 2012. As of September 30, 2010, we valued our investment in ConGlobal at $6.0 million.

Equus Media Development Company LLC

Equus Media Development Company, LLC ("EMDC") is a company engaged in the acquisition and development of creative properties with the purpose of developing the properties for release in various entertainment mediums. We formed EMDC in 2007 as a wholly-owned subsidiary of the Fund in connection with a management and development agreement with Kopelson Entertainment ("KE"). KE is a development and production company headed by Arnold and Anne Kopelson. Mr. and Mrs. Kopelson and KE combined have developed over 29 motion pictures grossing over $2.5 billion in total revenues to date. Past productions include The Fugitive, Seven, The Devil's Advocate and the Oscar and Golden Globe winner for best picture, Platoon. Mr. Kopelson also serves on many industry boards and is a

director of CBS Films.

The concept of the business of EMDC is to partner with creators, developers and producers of creative work, such as scripts, short stories or books, by providing capital necessary to enhance the creative development and package the assets to companies, such as major and independent studios, to produce and release. The strategy of EMDC is to provide capital at this early stage in an effort to attract a higher quantity of concepts. To date, EMDC has purchased nine scripts, all of which are in various stages of development including two which have been sold to major studios. As of September 30, 2010, we valued EMDC at $1.2 million.

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Infinia Corporation

Infinia Corporation ("Infinia"), based in Kennewick, WA, is a developer of a Stirling power system operating on concentrated solar energy for commercial and residential users. Founded over 25 years ago, Infinia is attempting to develop an early-stage solar technology - the Infinia Solar System or ISS. The ISS is intended to produce 3.0kW per hour by capturing the sun on a solar dish and focusing the reflection of the sun on a heater head that in turn runs the Stirling Engine. The Stirling Engine has been in existence for a number of years and, we believe, is unique because it requires no fluids to operate.

Historically, solar investments have generally required government incentives or subsidies to make the projects feasible from a return on investment standpoint. The solar industry is estimated to be over $39 billion in annual revenues and is projected to grow at a +10% rate for the next ten years. Germany and Spain have both reduced their respective solar energy incentive programs, the result of which has been tremendous ripple effects throughout the industry. Other influences in the solar market are substitute energy prices and capital availability. The prices of oil and natural gas have a large impact on the attractiveness of solar energy and the ability to achieve acceptable returns on investment. As many of the solar projects are to finance solar farms, large amounts of capital are required. Due to the contraction of the capital markets, chiefly debt, potential customers have encountered additional roadblocks to develop these projects. The solar industry competes with all forms of energy sources including coal, natural gas, nuclear, wind and geothermal.

In June 2007, we made an investment of $3.0 million in exchange for 666,667 Class A Preferred shares in Infinia Corporation, to further the company's sales and product development programs and for company operations. In February 2008, we made a follow-on investment of $5.0 million in exchange for 160,720 Class B Preferred shares. In November 2009, Infinia completed a recapitalization in which the Fund's Class A and B preferred Shares were exchanged for 1,151,800 Series 1 Preferred shares. In February 2010, we announced a write-down of our Infinia holdings from $10.6 million at September 30, 2009 to $1.5 million at December 31, 2009. As of September 30, 2010, we valued our investment in Infinia at $0. The decline in value was principally due to operational and commercialization delays and a recapitalization related to Infinia's most recent fund raising efforts in which our holdings were substantially diluted. Our ownership now represents 0.63% of the fully-diluted ownership of Infinia.

London Bridge Entertainment Partners LLC

London Bridge Entertainment Partners LLC ("London Bridge") is a franchisee of Ripley Attractions, Inc. formed to develop and operate the Ripley's Believe It Or Not Museum located in Piccadilly Circus, London. During 2008, we invested $2.5 million in the form of a promissory note with a stated annual interest rate of 18%. During 2009, we extended the maturity date of the note by one year until August 2011. In July 2010, we loaned London Bridge an additional $0.6 million which was repaid in full, together with interest, in October 2010. As of September 30, 2010, we valued our investment in London Bridge at $0.8 million. The fair value of this investment does not include paid-in-kind interest. For additional information concerning London Bridge, see the description of our holding in "Riptide Entertainment" below.

PalletOne, Inc.

PalletOne, Inc. ("PalletOne") is considered the largest wooden pallet manufacturer in the United States, operating 17 facilities in 11 states, with approximately 1,100 employees. The company manufactures and recycles a variety of pallets types as well as boxes. The company also sells its by-products of mulch and scrap metal. PalletOne also owns and operates a major Florida-based wood treating plant. PalletOne has a diverse customer base and competes with numerous other manufacturers on a regional basis. Its largest pallet customers are agricultural and construction related companies including growers, grocery stores, and housing construction companies. We believe PalletOne's

numerous locations allows for a slight advantage in pursuing large corporate accounts, as sales of pallets are typically regionalized to specific locations. In 2006, the company acquired a wood treating operation. The wood treating facility, Sunbelt, sells treated wood to a variety of customers, the most significant being Lowe's home improvement stores. Sunbelt has had a 20 year exclusive relationship with a large retail company selling treated and pre-fabricated fences.

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The pallet manufacturing industry is mature and is experiencing continuing slow growth as the number of participants shrinks due to consolidation and underutilized plants, which have been eliminated. While the industry is anticipated to grow at a 2.0% rate through 2014, the industry is very mature and could begin to decline in coming years. Industry revenues are estimated to be approximately $7.5 billion. The industry is extremely competitive with over 2,500 participants but is not influenced by technological change (Source: IBISWORLD Industry Report, Wood Pallets & Skids Production in the U.S., August 2009). Barriers to entry are relatively low, but the intensity of competition is a deterrent to new entrants. Plastic and metal pallet manufacturers have introduced competing products, but have yet to capture market share to indicate the expansion of these products to threaten wood products. The most significant risk factor to the industry is increasing wood prices as more industries increase the demand for wood.

The principals of PalletOne have significant pallet manufacturing experience as well as the management team they have assembled.

We initially invested in PalletOne in October 2001. As of September 30, 2010, our investment in PalletOne consisted of 350,000 shares of common stock, which represents a fully diluted equity interest of approximately 19%. The pallet manufacturing industry has been negatively impacted by the recession and the declines in the homebuilding industry. As of September 30, 2010, we valued our interest in PalletOne at $0.05 million.

Riptide Entertainment LLC

We formed Riptide Entertainment LLC (“Riptide”) in 2005 together with David Gray, the principal of Riptide, as an investment vehicle focused on acquiring and developing location based entertainment centers. The two most significant investments held in Riptide, as well as invested separately by the Fund, are Big Apple and London Bridge described above. In addition, Riptide holds an interest in the management and sponsor companies related to both Big Apple and London Bridge and a dormant entity, Dick Clark’s American Bandstand Entertainment Partners, LLC.

Big Apple and London Bridge operate Ripley’s Believe it or Not Museums located near Times Square in New York City and in Piccadilly Circus in London. The attractions are highly dependent on tourism levels in each location and the recognition of the Ripley’s brand. Ripley’s Believe it or Not has been in existence since the 1930s and is the creation of Robert Ripley. Initially created as a cartoon, the Ripley’s brand has become known for finding “odd and unusual” people, things and events around the world. Ripley’s promotes its brand through the publication of books, radio and television productions, and has over 85 attractions currently open in 11 countries.

In 2009, Big Apple saw over 320,000 visitors while London Bridge welcomed over 305,000 patrons and are two of the highest grossing museums in the Ripley’s system. Both operations are managed by 1848 Capital Partners, LLC, an entity in which the Fund also holds a separate investment interest. Michael Hirsch serves as the general manager of the Times Square Ripley’s museum and David Gray manages the London Ripley’s museum.

As of September 30, 2010, our investment in Riptide had a cost of $10.1 million and a fair value of $0 , which consisted of promissory notes with a principal amount of $10.0 million bearing interest at the rate of 8% per annum, together with an investment of $0.07 million in the form of a 64.67% member’s interest in Riptide.

RP&C International Investments LLC

RP&C International Investments, LLC (“RP&C”) is an investment fund designed to provide a mezzanine investment to European Care Group (“ECC”), a United Kingdom based privately owned provider of long term care to more than 4,500 residents in more than 100 facilities across Europe. ECC is the fifth largest provider of long term care beds in the UK and its services include elderly care, mental health, treatment for learning disabilities and children’s services. ECC has grown through acquisition and continues to target additional operations for future expansion. RP&C is managed by

RP&C International, Inc., a boutique investment banking firm located in New York and London.

On August 11, 2006, we committed to invest up to $11.1 million to acquire an equity interest in RP&C. During 2008, we scaled back our investment commitment in RP&C, which included monies already invested, to

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$4.6 million. As of September 30, 2010, our investment in RP&C represents an approximate 17% member's interest and consisted of a $0.6 million loan that is scheduled to earn interest at 9%. As of September 30, 2010, we valued our investment into RP&C at $0.7 million.

Sovereign Business Forms, Inc.

Sovereign Business Forms, Inc. ("Sovereign") was founded in 1996 to participate in the consolidation of the highly fragmented, wholesale business forms industry. Sovereign believes it is one of the ten largest manufacturers and wholesalers of custom business forms in the United States, an industry that is mature and highly competitive. Sovereign operates five manufacturing plants with a combined market reach covering much of the central and eastern United States, Texas and Louisiana. Business forms are typically custom forms sold to distributors which resell the forms to the end-users and include snap-out forms, continuous forms, laser cut sheets and sales/log books. Typical uses of these forms include bank checks, insurance contracts, auto parts and healthcare form/label combinations, and are utilized by banks, insurance companies, auto dealerships and healthcare companies. These types of products account for approximately 95% of the company's historical revenues.

Sovereign focuses its business on "short run" forms which are less than 150,000 per order. Sovereign management estimates the average order is $600, which equates to approximately 50,000 orders per year or 27 orders per day per location (six locations). These jobs typically have a quick turnaround, less than 48 hours and allow SBF to focus its sales efforts on service in a price-sensitive industry. Sovereign management also believes it is advantaged with numerous locations and can manage work flow by shifting orders to facilities that have excess capacity and drop-shipping directly to customers. There are few significant customers in the business with the top five customers accounting for approximately 10% of historical revenues.

The form manufacturing segment has been particularly sensitive to technology changes as customers print multiple copies instead of utilizing products such as carbonless forms. This business forms segment is estimated to be approximately 6.1% of the entire printing industry and has been in decline for some time, a trend that is expected to continue. Sovereign, by focusing on the small-run niche, does not compete directly with the larger printing companies such as RR Donnelley, which target runs of 500,000 to 1 million and is frequently contracted by the larger shops to fulfill quick turnaround orders for larger customers. Sovereign competes with such companies as Ennis Business Forms, Champion Printing and PH Gladfelter as well as local and regional printing companies in each of its operating markets. Competition in this industry is intense as customers are sensitive to price and service and switching costs are low or non-existent.

The principals of Sovereign have been with the company since inception in 1996 and have extensive experience in the industry.

As of September 30, 2010, our investment in Sovereign consisted of a 12% subordinated promissory note in the principal amount of $3.1 million and 1,214,630 shares of common stock valued at $4.6 million. Our investment represents a fully diluted equity interest in Sovereign of 55.0% . As of September 30, 2010, we valued our investment in Sovereign at $7.7 million.

Spectrum Management, LLC

Spectrum Management, LLC ("Spectrum") uses proprietary electronic tracking equipment and software, and a full suite of custom services to help client organizations, mainly financial institutions, protect or recover high-value merchandise and cash. Spectrum markets its services under the brand name Electronic Tracking Systems or ETS. The company specializes in assisting communities and law enforcement in recovery of stolen property. The most common use for the product, or TracPac, is in branch offices of banks. When used in a bank, the product can be

placed between two bills and passed to a robber as a teller empties a drawer. In addition, law enforcement has begun to utilize the product for stake outs in recovering stolen property as the product can be placed on or in property that may have a high likelihood of being stolen.

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Once the robbery event has taken place and the TracPac is moved, the device is activated and begins to transmit a radio signal. Law enforcement can then track the TracPac on pre-installed receivers mounted in various vehicles. The company believes its product is the only product on the market that allows tracking of the "last mile" (within 15-30 feet of the transmitter). Once law enforcement knows it is close to a suspect, it can generally then utilize a handheld device to locate the individual in a building or small radius area.

Spectrum has also developed a GPS system called the TracPac-Plus system. This system works on the cellular network and combines with a location based server to track signals where GPS signals are less reliable. The TracPac-Plus product can also communicate with numerous sources including monitoring the package on the ETS Webtracker site, sending text messages to law enforcement via cell phones, and allow numerous mobile units to track the transmitter simultaneously. Currently Spectrum has systems in approximately 55 markets as well as having a relationship with a distribution company in Europe.

The company leases its transmitters to banks on a per unit basis and has relationships with a number of different banks from international commercial banks to community thrifts. Spectrum has been impacted by the issues facing lending institutions as banks seek to reduce expenses and have slowed branch expansion. Spectrum competes in the currency protection niche of the security industry, which includes home security, private security, identity theft, airport security and many other segments. With regard to banks and theft, the FBI reports in 2008 that there were 1,645 bank robberies and a total of $15 million stolen. Of this amount only $1.7 million or 11.3% was recovered. Currently there are over 75,000 bank branches in the US with an average of five tellers per branch. In the currency protection segment there are a number of competitors providing services, the company's direct competitor in the tracking business is 3SI Security Systems. Competing products include bullet proof glass for teller windows, panic buttons, security personnel, exploding dye packs, ATM protection and safe protection.

Spectrum is managed by Jon Gergen, CEO, Jim Van Cleve, Chief Engineering Officer and Barbara Kent, CFO.

As of September 30, 2010, our $4.5 million investment in Spectrum consisted of 285,000 units of Class A Members' interest and a 16% subordinated promissory note in the amount of $1.7 million due May 2011. Subsequent to September 30, 2010, we loaned Spectrum $0.4 million to meet its immediate working capital needs. As of September 30, 2010, we valued our investment in Spectrum at $2.3 million, which represents a fully diluted equity interest of 79%.

Trulite, Inc.

Trulite, Inc. ("Trulite") is a developer of safe, clean, affordable, portable hybrid power generation products that are also user friendly. Trulite utilizes fuel cells powered by water and hydrogen in portable and semi-portable products that can be used off-grid for applications of up to one kilowatt, with ideal usage in the 150-500 watt range. The company has gone through numerous product developments over the years and its current product, the KH4 has the most commercial promise. The KH4 has the ability to produce 150 watts of continuous power and peak power of up to 300 watts. The system utilizes hydraulic fuel cartridges, Hydrocells that are developed by the company and provide up to 7 hours of run time at 60% of capacity. The products are anticipated to be used in three major categories including emergency response, off-grid power and backup power. Trulite management believes the KH4 has material competitive advantages because of its simplicity of use, safe materials for energy generation, unlimited shelf life for canisters, instantaneous power capability, and its ability to integrate multiple power sources. Currently, the company is continuing to develop its technology and anticipates adding manufacturing capability and capacity by the end of 2010 or early 2011. Fuel cells have been in development for a number of years and have been touted as replacements to batteries and other energy sources, as hundreds of millions of dollars have been invested in the market with varied success. Estimates state the potential market size for global fuel cell demand in 2011 at $46 billion.

The company is managed by John White, Chairman, John Godshall, Vice Chairman and Ron Seftick, CEO.

During 2008 and 2009, we invested an aggregate of $2.0 million in the form of an unsecured promissory note maturing in January 2010, initially bearing interest at 15% and thereafter increased to 18%. In connection with the investment, we also received warrants to acquire 8.9 million shares of Trulite's common stock at exercise prices ranging from $0.01 to $0.38 per share. The warrants expire in 2015. In June 2010, the note, together with all

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interest as accrued, was repaid by Trulite. We retained the Trulite warrants which we valued at $0.1 million as of September 30, 2010.

Off Balance Sheet Arrangements

As of September 30, 2010 and 2009, we did not have any off-balance sheet liabilities that are reasonably likely to have a current or future material effect on our financial condition.

Contractual Obligations

In October 2010, we agreed to provide a working capital facility for Spectrum Management, LLC ("Spectrum") of up to $0.8 million in the form of a subordinated 16% promissory note. As of the date of this prospectus, $0.4 million has been loaned to Spectrum under this facility.

Dividends

We declared no dividends in the first nine months of 2010.

We declared one dividend in 2009 totaling $0.1075 per share. The 2009 dividends were 100% qualified with $0.023 per share classified as ordinary income dividends and $0.0847 per share classified as a return of capital.

We declared four dividends in 2008, totaling $0.63 per share. The 2008 dividends were 100% qualified and classified as 39% capital gains distribution and 61% return of capital. The Fund declared four dividends in 2007 totaling $0.50 per share. The 2007 dividends were 100% qualifying and classified as capital gain distributions.

Common Stock Repurchases

On September 16, 2008, we repurchased an aggregate of 423,960 shares of our common stock, representing 4.9% of our outstanding shares, from unaffiliated third parties in a private transaction. In compliance with federal law, the sale was effected at the shares' market price computed as the 5-day volume-weighted average closing price prior to the date of sale, which was September 11, 2008. The shares were repurchased at a discount to our net asset value and subsequently retired.

We had no common stock repurchases in the first nine months of 2010 or in the years 2009 or 2007.

Subsequent Events

On October 1, 2010, we sold U.S. Treasury Bills for $16.0 million and repaid our margin loan during the fourth quarter of 2010.

On October 1, 2010, we invested $0.2 million in Spectrum as a follow-on investment in the form of an $0.8 million, 16% promissory note facility. The note was funded to assist Spectrum in meeting immediate working capital requirements and matures on May 28, 2011.

On October 1, 2010, we received $0.7 million in the form of principal and interest payments on the July 2010 promissory note and a partial payment of unpaid interest on the April 2009 promissory note from London Bridge.

Since October 2, 2010, Big Apple has been in payment default of an 18% promissory note due to the Fund dated April 2009, having a principal amount of $3.0 million. On October 5, 2010, we demanded that the guarantors of the note

pay and perform all obligations of Big Apple under the April 2009 note.

On October 18, 2010, we received $0.07 million as a principal payment on the 16% promissory note from Sovereign.

On October 20, 2010, we agreed to forbear from exercising certain of our rights and remedies under both the Big Apple and London Bridge promissory notes for a period commencing on the receipt of an initial forbearance fee of $0.03

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million, and ending on the earlier of (a) October 22, 2010 or (b) November 5, 2010, in the event Big Apple, London Bridge or the guarantors of these notes elect to extend the forbearance period by providing the Fund with written notice together with a fee in the amount of $0.03 million (the option forbearance fee) prior to October 22, 2010. We received the initial forbearance fees from Big Apple on October 20, 2010 and from London Bridge on October 22, 2010. We received an option forbearance fee from London Bridge on October 29, 2010 and from Big Apple on November 3, 2010. The forbearance periods ended on November 5, 2010 for the Big Apple and London Bridge notes which continue to be in default. We are continuing discussions with the guarantors of these notes and are contemplating the next prudent course of action.

On November 1, 2010, we invested $0.2 million in Spectrum as a follow-on investment under an $0.8 million 16% promissory note facility.

On November 1, 2010, we announced that our board of directors had approved the terms of a non-transferable rights offering to our shareholders to purchase shares of the Fund’s common stock. This offering of rights is described more fully in this prospectus.

On November 8, 2010, we received $0.3 million in the form of principal payment on a 16% promissory note from Sovereign Business Forms, Inc.

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BUSINESS

Equus is a BDC providing financing solutions for middle market and small capitalization companies that are typically privately held. We began operations in 1983 and have been a publically traded closed-end fund since 1991. Our investment objective is to seek the highest total return, consisting of capital appreciation and current income.

We attempt to maximize the return to our stockholders in the form of current investment income and long-term capital gains by investing in the debt and equity securities of companies with a total enterprise value of between $15.0 million and $75.0 million. We seek to invest primarily in companies seeking growth either through acquisition or organically, leveraged buyouts, management buyouts and recapitalizations of existing businesses. The Fund's income-producing investments consist principally of debt securities including subordinate debt, debt convertible into common or preferred stock, or debt combined with warrants and common and preferred stock. We seek to achieve capital appreciation by making investments in equity and equity-oriented securities issued generally by privately-owned companies in transactions negotiated directly with such companies.

Equus is a closed-end management investment company that has elected to be treated as a BDC under the 1940 Act. In order to remain a BDC, we must meet certain specified requirements under the 1940 Act, including investing at least 70% of the Fund's assets in eligible portfolio companies and limiting the amount of leverage we incur. The Fund is also a RIC under Subchapter M of the U.S. Internal Revenue Code of 1986, or the Code. As such, we are not required to pay corporate-level income tax on the Fund's investment income. We intend to maintain the Fund's RIC status, which requires that the Fund qualify annually as a RIC by meeting certain specified requirements. For a discussion of these requirements necessary to maintain our status as a BDC and as a RIC, please see "Regulation as a Business Development Company—General" and "Certain U.S. Federal Income Tax Considerations—Taxation as a Regulated Investment Company," respectively.

Our principal office is located at Eight Greenway Plaza, Suite 930, Houston, Texas, 77046, and the telephone number is (713) 529-0900. Our corporate website is located at www.equuscap.com. Our website, however, does not constitute a part of this registration statement. We make available free of charge on our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports as soon as reasonably practicable after such material is electronically filed or furnished to the Securities and Exchange Commission ("SEC"). Our shares are traded on The New York Stock Exchange under the ticker symbol "EQS".

Significant Developments

Beginning in late 2007, the United States entered a recession, which has adversely impacted global economic activity, as well as credit and capital markets through the first six months of 2010. In the first half of 2010, certain systemic indicators showed modest increases but have not resulted in any tangible improvements in the short-term prospects for the U.S. economy. The downturn in global economic activity has unfavorably impacted a number of industries in which our portfolio companies operate and the operational performance of these companies. Also, lending institutions have reduced credit and increased the cost and restricted the amount of borrowings from potential lenders. This limited available credit and capital market activity negatively affected access to capital and valuations. Our results of operations and net asset value declined significantly and the price of our common stock has traded significantly below the net asset value per share, as discussed more fully in our Management's Discussion and Analysis of Financial Condition and Results of Operations.

We believe the current market conditions and recent portfolio performance dictated the need to pursue a more active role in our portfolio companies and focus our operations on protecting capital and preserving liquidity necessary to meet our operational needs and servicing our borrowing obligations. In addition, we believe that a change in direction

of the Fund and its management was necessary. Accordingly, we undertook a number of key initiatives including:

- Changes in Leadership. On June 9, 2010, we announced the appointment of John A. Hardy as Executive Chairman, Robert L. Knauss as Non-Executive Chairman, and Fraser Atkinson as Chairman of the Fund's Audit Committee. The summary biographies of these individuals are set forth under "Management – Board of Directors" included in this prospectus.

- New Board Composition. On May 12, 2010, our shareholders elected four new members to our board of directors, each of which who had no prior connection with the Fund. These four new individuals have

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sound finance and investment management backgrounds, execution and management expertise, access to deal flow across diverse industries around the world, and strength in global capital markets.

- Termination of Certain Follow-On Investments. During 2008 and 2009, we terminated our follow-on commitments to invest in HealthSPAC, LLC and RP&C Investments, which collectively preserved $9.9 million in cash.

- Internalization of Management. On June 12, 2009, we announced plans to "internalize" Fund management. Our investment advisory and administration agreements with our former investment advisor and administrator, respectively, terminated on June 30, 2009. We now directly employ management and incur all costs and expenses associated with the Fund's operations. All external fees related to the advisory and administration agreements, including management, incentive and administrative fees have been eliminated. We expect that, because of management internalization, certain expenses of the Fund will not increase commensurate with an increase in the size of the Fund and, therefore, we can achieve efficiencies in our cost structure if we are able to grow the Fund.

- Suspension of dividends. On March 24, 2009, we announced a suspension of our managed distribution policy to conserve liquidity and capital.

- Opportunistic Portfolio Company Strategies. We are seeking to maximize the value of each of our portfolio companies. In an effort to achieve this, we will attempt to pursue strategies including restructuring debt, recapitalizations, refinancing, follow-on investing and opportunistic liquidity events. As we have not borrowed any monies collateralized by portfolio investments, we will pursue prudent short-term liquidation strategies given the current market conditions and impact on valuations while focusing on positioning each of our investments to achieve maximum potential value in future periods.

Our Investment Objective

Our investment objective is to seek the highest total return, consisting of capital appreciation and current income. Given market conditions over the past several years and the performance of our portfolio companies, we have given priority to cash income-generative investment opportunities.

Investment Strategy

Beginning in 2006, we implemented an investment strategy to strike a balance between the potential for gain and the risk of loss. With respect to capital appreciation, Equus is a "growth-at-reasonable-price" investor that identifies and acquires securities that meet our criteria for selling at reasonable prices. We give priority to cash producing investments wherein we invest principally in debt or preferred equity financing with the objective of generating regular interest and dividend income back to the Fund. Debt and preferred equity financing may also be used to create long-term capital appreciation through the exercise and sale of warrants received in connection with the financing.

Given the recent performance of the portfolio and current market conditions, we do not intend to emphasize particular industries or sectors, but expect to seek investments in a variety of industries that generate cash interest payments or distributions on a regular basis in addition to potential for capital appreciation. We believe it prudent to review alternatives to refine and further clarify the current strategies.

Investment Criteria

Consistent with its investment objective and strategy, our Management evaluates prospective investments based upon the criteria set forth below. We may modify some or all of these criteria from time to time.

- Management Competency and Ownership . We seek to invest in companies with experienced management teams who have demonstrated a track record of successful performance. Further, we desire to invest in companies with significant management ownership. We believe that significant management ownership in small capitalization and middle market companies provide appropriate incentives and an alignment of interests for management to maximize shareholder value. In addition, we will seek to design compensation and incentive arrangements that align the interests of the portfolio company's management with those of the Fund to enhance potential returns.

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- Substantial Target Market. We desire to focus on companies whose products or services have favorable growth potential and strong competitive positions in their respective markets. These positions may be as leadership positions within a given industry or market niche positions in which the product or service has a demonstrated competitive advantage. The market in which a potential portfolio company operates should either be sizeable or have significant growth potential.

- History of Profitability and Favorable Growth Potential. We target companies that have demonstrated a history of profitability or a reasonable expectation of a return to profitability in the near future.

- Ability to Provide Regular Cash Interest and Distributions. We look for companies with strong cash flow models sufficient to provide regular and consistent interest and/or preferred dividend payments.

- Management Assistance and Substantial Equity. Given the requirements of a BDC under the 1940 Act, we seek to invest in companies that will permit substantial managerial assistance including representation on the board of directors of the company. With regard to equity investments, we desire to obtain a substantial investment position in portfolio companies. This position may be as a minority shareholder with certain contractual rights and powers, or as a majority shareholder, and should otherwise allow us to have substantive input on the direction and strategies of the portfolio company.

- Plausible Exit and Potential for Appreciation. Prior to investing in a portfolio company, we will seek to analyze potential exit strategies and pursue those investments with such strategies as may be achievable.

Opportunities

We believe that the market for investing in, and financing the growth of, small and middle-market capitalization companies is underserved relative to other financial markets. We believe that companies in our target size range, having enterprise values of between $15 million and $75 million, have access to fewer sources of capital and increasing difficulty in financing their growth through traditional means. We believe that increasing concentration in the banking industry has led many of the surviving lenders and financiers to focus on large capital markets transactions and lending facilities, with some banks and funds discontinuing lending to smaller and even mid-size companies. This generally has reduced the financing options available to these companies in recent years. As a result, we believe that an investment strategy focused on providing financing for such companies will, over time, provide above-average returns to our investors.

We believe that many participants in the private equity market do not provide adequate financing solutions for companies in our target market. Private equity firms and other BDCs have invested, and, notwithstanding present economic conditions, we expect will continue to invest, in middle-market companies and, to a lesser extent, smaller companies. We note that some private equity firms do not provide complete financing solutions to their investee clients, focusing exclusively or primarily on equity investments. When such firms do offer financing options across the balance sheet of an investee company, they often seek to outsource the provision of senior and subordinated debt to other entities, including BDCs such as Equus. This provides us with an opportunity to participate in private equity transactions in association with established market participants. Similarly, while many venture capital and turn-around firms provide speculative equity capital for small and middle-market companies, few market participants appear to offer a full array of equity, preferred stock, senior and subordinated debt securities to these companies. With increased liquidity as a result of this rights offering, we believe that the Fund, either alone or in partnership with institutions and established private equity firms, will supplement our existing investments with income-oriented debt and hybrid securities specifically tailored to finance companies we target for investment.

Based on these factors, we believe that there is considerable opportunity for profitable investments in our target market of small and middle-market capitalization companies and that, as a result of this rights offering, we will be better positioned to serve this market.

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Competitive Advantages

We believe that we have the following competitive advantages over other capital providers in small and middle-market capitalization companies:

Broad, Varied Deal Sourcing

We intend to target investments in a variety of industries and geographic locations. Our Management and board of directors have access to long-term relationships in the United States and internationally that have been developed with industry participants, management teams and consultants. Management will seek to identify potential investments through its interaction with the general financial community, potential investment partners and industry participants with whom they and certain of our board members have established relationships. We also expect that our Management and board of directors will generate investment leads from accountants, consultants, lawyers and management teams with whom they have worked in the past.

Total Return Strategy

We believe that a balanced portfolio of equity and debt instruments will generate returns for investors that exceed those attainable by a purely fixed income portfolio while eliminating much of the volatility and risk associated with a fund invested only in equity securities. We believe that our total return investment strategy offers advantages over other BDCs that focus their investments more completely in debt or equity securities.

Established Infrastructure

We benefit from the resources and expertise developed by our Management and board of directors from many years of experience and across several business cycles. Contrary to many recently formed investment funds, our Management and board of directors has considerable experience and expertise in fund management and private equity development, which we believe are essential to managing and governing a BDC. We have developed and refined processes for investigating and culling prospective investments, including a regimented due diligence process, and for executing attractive investments. We have also have developed effective techniques by which to monitor investments and, when appropriate, exit investments. We have established compliance and reporting procedures that we believe comply with the requirements of the 1940 Act. We believe that this established infrastructure affords us a competitive advantage in our target market.

Experienced Management Team and Board of Directors

Our Management team is led by John A. Hardy, our Executive Chairman, who directs the implementation of our investment strategy in conjunction with a committee of Management personnel who review, analyze and monitor existing and potential investments by the Fund. Mr. Hardy has extensive international experience dealing with corporate finance, banking, mergers and acquisitions and multinational corporations.

Our board of directors consists of individuals with strong backgrounds in finance and investment management, law and governance, execution capacity, and management expertise. For example, Mr. Alessandro Benedetti, a newly elected member of our board, is currently the CEO of SAE Capital Ltd., based in London UK, which he founded in January 2007. Prior to that, he was the CEO of SAE Capital SPA, based in Rome, Italy. Over the last 20 years Mr. Benedetti has been involved in the structuring and financing of complex transactions, acting on behalf of companies and governments in North America, Europe, Central Asia and the Middle East. In 2005, he structured and led the acquisition of Wind Telecomunicazioni SpA, based in Italy, which had 16 million wireless subscribers, 1.6 million

fixed line customers and 28 million registered internet users. At that time the transaction was the largest leveraged buyout in European history, in a deal valued at over 12 billion Euros. Another of our new directors is Bertrand des Pallieres, who is the CEO of SPQR Capital, a London-based hedge fund. He previously served as Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsche Bank from 2005 to 2007. From 1992 to 2005, he held various positions at JP Morgan including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing and Co-head of sales for Europe Middle East and Africa.

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Investment Operations

Our investment operations consist principally of the following basic activities:

Investment Selection. We expect that many of our investment opportunities will come from Management, other private equity investors, direct approaches from prospective portfolio companies and referrals from investment banks, business brokers, commercial, regional and local banks, attorneys, accountants and other members of the financial community. Subject to the approval of our board of directors, we may compensate certain referrals with finder's fees to the extent permissible under applicable law and consistent with industry practice.

Due Diligence. Once a potential investment is identified, our Management undertakes a due diligence review using information provided by the prospective portfolio companies and publicly available information. Management may also seek input from consultants, investment bankers and other knowledgeable sources. The due diligence review will typically include, but is not limited to:

- Review of historical and prospective financial information including audits and budgets;
- On-site visits;
- Review of business plans and an analysis of the consistency of operations with those plans;
- Interviews with management, employees, customers and vendors of the potential portfolio company;
- Review of existing loan documents, if any;
- Background checks on members of management; and
- Research relating to the company, its management, industry, markets, products and services and competitors.

Structuring Investments. We typically negotiate investments in private transactions directly with the owner or issuer of the securities acquired. Management structures the terms of a proposed investment, including the purchase price, the type of security to be purchased and our future involvement in the portfolio company's business. We seek to structure the terms of the investment to provide for the capital needs of the portfolio company while maximizing our opportunities for current income and capital appreciation. In addition, we may invest with other co-investors including private equity firms, BDCs, small business investment companies, venture capital groups, institutional investors and individual investors.

Providing Management Assistance and Monitoring of Investments. Successful private equity investments typically require active monitoring of, and significant participation in, major business decisions of portfolio companies. In many cases, our officers or members of our board of directors will serve as members of the boards of directors of portfolio companies. Such management assistance is required of a BDC under the 1940 Act. We seek to provide guidance and management assistance with respect to such matters as capital structure, acquisitions, budgets, profit goals, corporate strategy, portfolio management and potential sale of the company or other exit strategies. In connection with their service as directors of portfolio companies, our officers and directors may receive and retain directors' fees or reimbursement for expenses incurred, and may participate in incentive stock option plans for non-employee directors, if any. When necessary and as requested by any portfolio company, Management may also assign staff professionals with financial or management expertise to assist portfolio company management.

Follow-On Investments

Following its initial investment, a portfolio company may request that we make follow-on investments by providing additional equity or loans needed to fully implement its business plans to develop a new line of business or to recover from unexpected business problems or other purposes. In addition, follow-on investments may be made to exercise warrants or other preferential rights granted to the Fund or otherwise to increase its position in a portfolio company. We may make follow-on investments in portfolio companies from cash on hand or borrow all or a portion of the funds required. If we are unable to make follow-on investments due to lack of available capital, the portfolio company in need of the investment may be negatively impacted and our equity interest in the portfolio company may be diluted if outside equity capital is required.

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Disposition of Investments

The method and timing of the disposition of our investments in portfolio companies is critical to our ability to realize capital gains and minimize capital losses. We may dispose of our portfolio securities through a variety of transactions, including recapitalizations, refinancings, management buy-outs, repayments from cash flow, acquisitions of portfolio companies by a third party and outright sales of our securities in a portfolio company. In addition, we may distribute our portfolio securities in-kind to our stockholders. In structuring our investments, we endeavor to reach an understanding with the management of the prospective portfolio company as to the appropriate method and timing of the disposition of the investment. In some cases, we seek registration rights for our portfolio securities at the time of investment which typically provide that the portfolio company will bear the cost of registration. To the extent not paid by the portfolio company, we typically bear the costs of disposing of our portfolio investments.

Current Portfolio Companies

For a description of our current portfolio company investments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations–Portfolio Investments."

Valuation

On at least a quarterly basis, Management values our portfolio investments. These valuations are subject to the approval and adoption of our board of directors. Valuations of our portfolio securities at "fair value" are performed in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The fair value of investments for which no market exists (including most of our investments) is determined through procedures established in good faith by our board of directors. As a general principle, the current "fair value" of an investment is the amount we might reasonably expect to receive upon its sale in an orderly manner. There are a range of values that are reasonable for such investments at any particular time.

Generally, cost is the primary factor used to determine fair value until a significant development affecting the portfolio company (such as updated financial results or a change in general market conditions) provides a basis for an adjustment to the valuation. We base adjustments upon such factors as the portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, we may base a portfolio company's fair value upon the company's estimated liquidation value. Fair valuations are necessarily subjective, and our estimate of fair value may differ materially from amounts actually received upon the disposition of our portfolio securities. Also, any failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in increased volatility and result in a significant and rapid change in its value.

We may also use, when available, third-party transactions in a portfolio company's securities as the basis for its valuation. Several of the valuations at September 30, 2010 concur with the valuations recommended by independent valuation firms we have retained.

To the extent that market quotations are readily available for its investments and such investments are freely transferable, we value them at the closing market price on the date of valuation. For securities which are of the same class as a class of public securities but are restricted from free trading (such as Rule 144 stock), we establish our valuation by discounting the closing market price to reflect the estimated impact of illiquidity caused by such restriction. We determine the fair values of its debt securities, which are generally held to maturity, on the basis of the terms of such debt securities and the financial condition of the issuer. We generally value certificates of deposit at

their face value, plus interest accrued to the date of valuation.

Our board of directors reviews the valuation policies on a quarterly basis to determine their appropriateness and reserves the right to hire and from time to time utilizes independent valuation firms to review Management's valuation methodology or to conduct an independent valuation.

On a daily basis, we report our net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc.

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Our weekly and daily net asset values appear in various publications, including Barron's and The Wall Street Journal.

Competition

We compete with a large number of public and private equity and mezzanine funds and other financing sources, including traditional financial services companies such as finance companies and commercial banks. Many of our competitors are substantially larger and have considerably greater financial, technical and marketing resources than we do. Our competitors may have a lower cost of funds and many have access to funding sources that are not available to it. In addition, certain of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. In addition, many of our competitors are not subject to the regulatory restrictions that the 1940 Act imposes on us as a BDC.

We can give no assurance that the competitive pressures we face will not have a material adverse effect on our business, financial condition and results of operations. In addition, because of this competition, we may be foreclosed from taking advantage of attractive investment opportunities and may not be able to identify and make investments that satisfy our investment objectives or meet its investment goals.

Properties

Our principal executive offices are located at Eight Greenway Plaza, Suite 930, Houston, Texas 77046. We believe that our office facilities are suitable and adequate for our operations as currently conducted and contemplated.

Business Development Company Requirements

Qualifying Assets. As a BDC, we may not acquire any asset other than qualifying assets, as defined by the 1940 Act, unless, at the time the acquisition is made the value of our qualifying assets represent at least 70% of the value of our total assets. The principal categories of qualifying assets relevant to our business are the following:

- securities purchased in transactions not involving any public offering from an issuer that is an eligible portfolio company. An eligible portfolio company is any issuer that (a) is organized and has its principal place of business in the United States, (b) is not an investment company other than a small business investment company wholly-owned by the BDC, and (c) either (i) (A) does not have any class of securities with respect to which a broker or dealer may extend margin credit, (B) is controlled by the BDC either singly or as part of a group and an affiliated person of the BDC is a member of the issuer's board of directors, or (C) has total assets of not more than $4 million and capital and surplus of at least $2 million, or (ii) does not have any class of securities listed on a national securities exchange. Qualifying assets may also include follow-on investments in a company that was a particular type of eligible portfolio company at the time of the BDC's initial investment, but subsequently did not meet the definition;

- securities received in exchange for or distributed with respect to securities described above, or pursuant to the exercise of options, warrants or rights relating to such securities; and

- cash, cash items, government securities, or high quality debt securities maturing in one year or less from the time of investment.

We may not change the nature of our business so as to cease to be, or withdraw our election as, a BDC unless authorized by the vote of the holders of the majority of our outstanding voting securities, as defined in the 1940 Act.

To include certain securities above as qualifying assets for the purpose of the 70% test, a BDC must make available to the issuer of those securities significant managerial assistance, such as providing significant guidance and counsel concerning the management, operations, or business objectives and policies of a portfolio company. We offer to provide significant managerial assistance to each of our portfolio companies.

Temporary Investments. Pending investment in portfolio companies, we invest our available funds in interest-bearing bank accounts, money market mutual funds, U.S. Treasury securities and/or certificates of deposit with maturities of less than one year (collectively, “Temporary Investments”). Temporary Investments may also include

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commercial paper (rated or unrated) and other short-term securities. Temporary Investments constituting cash, cash items, securities issued or guaranteed by the U.S. Treasury or U.S. Government agencies and high quality debt securities (commercial paper rated in the two highest rating categories by Moody's Investor Services, Inc. or Standard & Poor's Corporation, or if not rated, issued by a company having an outstanding debt issue so rated, with maturities of less than one year at the time of investment) will qualify for determining whether we have 70% of our total assets invested in qualifying assets or in qualified Temporary Cash Investments for purposes of the BDC provisions of the 1940 Act.

Leverage. We are permitted by the 1940 Act, under specified conditions, to issue multiple classes of senior debt and a single class of preferred stock senior to the common stock if our asset coverage, as defined in the 1940 Act, is at least 200% after the issuance of the debt or the senior stockholders' interests. In addition, provisions must be made to prohibit any distribution to common stockholders or the repurchase of any shares unless the asset coverage ratio is at least 200% at the time of the distribution or repurchase.

Fund Share Sales Below Net Asset Value. We generally may sell our common stock at a price that is below the prevailing net asset value per share only upon the approval of the policy by stockholders holding a majority of our issued shares, including a majority of shares held by nonaffiliated stockholders. We may, in accordance with certain conditions established by the SEC, sell shares below net asset value in connection with the distribution of rights to all of its stockholders, such as is the case with this offering. We may also issue shares at less than net asset value in payment of dividends to existing stockholders.

No Redemption Rights. Since we are a closed-end BDC, our stockholders have no right to present their shares to us for redemption. Recognizing the possibility that our shares might trade at a discount, our board of directors has determined that it would be in the best interest of our stockholders for the Fund to be authorized to attempt to reduce or eliminate a market value discount from net asset value. Accordingly, from time to time the we may, but are not required to, repurchase our shares (including by means of tender offers) to attempt to reduce or eliminate any discount or to increase the net asset value of our shares.

Affiliated Transactions. Many of the transactions involving the Fund and its affiliates (as well as affiliates of such affiliates) require the prior approval of a majority of the independent directors and a majority of the independent directors having no financial interest in the transactions. However, certain transactions involving closely affiliated persons of the Fund require the prior approval of the SEC.

Regulated Investment Company Tax Status

We operate the Fund to qualify as a regulated investment company under Subchapter M of the Code. If Equus qualifies as a regulated investment company and annually distributes to our stockholders in a timely manner at least 90% of our taxable income, the Fund will not be subject to federal income tax on the portion of its taxable income and capital gains distributed to our stockholders. Taxable income generally differs from net income as defined by accounting principles generally accepted in the United States of America due to temporary and permanent timing differences in the recognition of income and expenses, returns of capital and net unrealized appreciation or depreciation.

Generally, in order to maintain the Fund's status as a regulated investment company, we must (i) continue to qualify the Fund as a BDC; (ii) distribute to our stockholders in a timely manner at least 90% of our investment company taxable income, as defined by the Code; (iii) derive in each taxable year at least 90% of our gross income from dividends, interest, payments with respect to securities loans, gains from the sale of stock or other securities or other income derived with respect to our business of investing in such stock or securities as defined by the Code; and (iv) meet investment diversification requirements. The diversification requirements generally require us at the end of

each quarter of the taxable year to have (a) at least 50% of the value of our assets consist of cash, cash items, government securities, securities of other regulated investment companies and other securities if such other securities of any one issuer do not represent more than 5% of our assets and 10% of the outstanding voting securities of the issuer and (b) no more than 25% of the value of our assets invested in the securities of one issuer (other than U.S. government securities and securities of other regulated investment companies), or of two or more issuers (other than RICs) that are controlled by us and are engaged in the same or similar or related trades or businesses.

In addition, with respect to each calendar year, if we distribute or are treated as having distributed (including amounts retained but designated as deemed distributed) in a timely manner 98% of our net capital gains for each

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one-year period ending on October 31, and distribute 98% of our investment company net ordinary income for such calendar year (as well as any income not distributed, or deemed distributed in prior years), we will not be subject to the 4% nondeductible federal excise tax imposed with respect to certain undistributed income of regulated investment companies.

If we fail to satisfy the 90% distribution requirement or otherwise fail to qualify as a regulated investment company in any taxable year, it will be subject to tax in such year on all of its taxable income, regardless of whether the Fund makes any distribution to its stockholders. In addition, in that case, all of the Fund's distributions to its stockholders will be characterized as ordinary income (to the extent of its current and accumulated earnings and profits). The Fund has distributed and currently intends to distribute sufficient dividends to eliminate its investment company taxable income.

Fees Paid to the Former Adviser and Former Administrator of the Fund

On June 12, 2009 our board of directors elected to "internalize" management of the Fund. As such, we did not renew the Advisory Agreement with Moore Clayton Capital Advisors, Inc. ("MCCA") or the Administration Agreement with Equus Capital Administration Company, Inc. ("ECAC"), both of which expired on June 30, 2009. MCCA and ECAC were compensated under their contractual agreements through June 30, 2009 as described below.

The Advisory Fee. MCCA managed our investments pursuant to an Advisory Agreement which included, among other services from MCCA:

- Determining the composition of our portfolio, the nature and timing of the changes therein, and the manner of implementing such changes;
- Identifying, evaluating, and negotiating the structure of our investments;
- Monitoring the performance of, and managing our investments;
- Determining the securities and other assets that we will purchase, retain, or sell and the terms on which any such securities are purchased and sold;
- Arranging for the disposition of our investments; and
- Other specified services.

MCCA received a base advisory fee at an annual rate of 2% of our net assets, paid quarterly in arrears, as well as incentive fees in the following amounts: (i) 20% of the excess, if any, of our net investment income for a quarter that exceeded a quarterly hurdle rate equal to 2% (8% annualized) of our net assets, and (ii) 20% of our net realized capital gains less unrealized capital depreciation, paid on an annual basis. The Fund was responsible for the costs and expenses of our business, operations, and investments. These costs and expenses, included among other items:

- Administration fees and expenses payable under the Administration Agreement;
- Costs of proxy solicitation and meetings of stockholders and the Board;
- Charges and expenses of our custodian, administrator, and transfer and dividend disbursing agent;
- Compensation and expenses of our independent directors;

- Legal and auditing fees and expenses; and

- Subject to Board approval, certain other reasonable costs and expenses directly allocable and identifiable to the Fund or its business or investments.

The Former Administrator. ECAC managed our administrative and business operations pursuant to an Administration Agreement. ECAC provided us, at its expense, with office space, facilities, equipment and personnel necessary for the conduct of our business. We reimbursed ECAC for the costs and expenses incurred by it in performing its obligations and providing personnel and facilities under the Administrative Agreement, provided that such reimbursements did not exceed $0.5 million per year. The Administration Agreement could be terminated by either party without penalty upon 60 days' written notice to the other party. As stated above, the independent directors elected not to renew the agreement as of June 30, 2009.

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Custodian

We act as the custodian of our securities to the extent permitted under the 1940 Act and are subject to the restrictions imposed on self-custodians by the 1940 Act and the rules and regulations thereunder. We have also entered into an agreement with Amegy Bank with respect to the safekeeping of our securities. The principal business office of Amegy Bank is 4400 Post Oak Parkway, Houston, Texas 77019.

Staffing

We have six employees. See "Management."

Properties

Our principal executive offices are located at Eight Greenway Plaza, Suite 930, Houston, Texas 77046. We believe that our office facilities are suitable and adequate for our operations as currently conducted and contemplated.

Legal Proceedings

On June 30, 2009, the Fund received a "Wells" notice from the staff of the Securities and Exchange Commission ("SEC"). Based on discussions with the SEC staff, we believe that the issues the staff intends to pursue relate to a one-time administrative fee that the Fund paid in 2005 and the compensation of a certain Fund officer during approximately the same time period. The Wells notice notified us that the staff intends to recommend that the SEC bring a civil action against the Fund for possible violations of the securities laws. We have been cooperating with the SEC in this inquiry. In accordance with SEC procedures, we have presented our perspective on these issues to the staff. The SEC has not made a formal decision regarding an enforcement proceeding.

On March 10, 2010, American General Life Insurance Company ("American General") filed a complaint against the Fund in the District Court of Harris County, Texas, in connection with an office lease entered into by our former administrator with American General. The complaint by American General seeks to hold the Fund liable for unpaid rent, improvements, and attorneys fees in excess of $375,000. Because we believe that the complaint is without merit, we intend to defend the matter vigorously.

On April 26, 2010, the SEC also subpoenaed our records in connection with certain trades in our shares by SPQR Capital LLP, SAE Capital Ltd., Versatile Systems Inc., Mobiquity Investments Limited, and anyone associated with those entities. We have fully cooperated with the SEC's request.

From time to time, the Fund is also a party to certain legal proceedings incidental to the normal course of our business including the enforcement of our rights under contracts with our portfolio companies. While the outcome of these legal proceedings cannot at this time be predicted with certainty, we do not expect that these proceedings will have a material effect upon our financial condition or results of operations.

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MANAGEMENT

BOARD OF DIRECTORS

Our board of directors provides overall guidance and supervision with respect to our operations and performs the various duties imposed on the directors of BDCs by the 1940 Act. Among other things, our board of directors supervises our management arrangements, the custodial arrangements with respect to portfolio securities, the selection of accountants, fidelity bonding, and transactions with affiliates. All actions taken by our board of directors are taken by majority vote unless a higher percentage is required by law or unless the 1940 Act or our Restated Certificate of Incorporation or bylaws require that the actions be approved by a majority of the directors who are not "interested persons" (as defined in the 1940 Act), whom we refer to as "independent directors."

Our board of directors consists of nine members. We set forth below certain information with respect to each of the directors, including their names, ages, a brief description of their recent business experience, including present occupations and employment, certain directorships that they hold, and the year in which each of them became a director of the Fund. The business address of each director listed below is Eight Greenway Plaza, Suite 930, Houston, Texas 77046.

The members of our board of directors as of the date hereof and the committees of our board of directors on which they serve, are identified below.

Director	Audit Committee	Compensation Committee	Committee of Independent Directors	Governance and Nominating Committee
Fraser Atkinson	Chair		*	
Alessandro Benedetti			*	
Richard F. Bergner			*	Chair
Kenneth I. Denos				
Gregory J. Flanagan	*	*	*	
Henry W. Hankinson		Chair	*	*
John A. Hardy, Exec. Chairman				
Robert L. Knauss	*		Chair	*
Bertrand des Pallieres		*	*	

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Independent Directors

The following directors are not "interested persons" of the Fund as defined in the 1940 Act.

Name and Year First Elected Director	Age	Background Information
Fraser Atkinson (2010)	53	Mr. Atkinson has been CFO of Versatile Systems Inc., a technology consulting company, since February 2003, Corporate Secretary of Versatile since October 2003 and Director since November 2003. Mr. Atkinson was involved in both the technology and corporate finance sectors as a partner at KPMG, LLP for over 14 years, having left the firm in September 2002.
Alessandro Benedetti (2010)	48	Mr. Benedetti is currently the CEO of SAE Capital Ltd., which he founded in January 2007. Prior to that, he was the CEO of SAE Capital SPA, based in Rome, Italy. Over the last 20 years Mr. Benedetti has been involved in the structuring and financing of complex transactions, acting on behalf of companies and governments in North America, Europe, Central Asia and the Middle East. In 2005, he structured and led the acquisition of Wind Telecomunicazioni SpA, based in Italy, which had 16 million wireless subscribers, 1.6 million fixed line customers and 28 million registered internet users. At that time, the transaction was the largest leveraged buyout in European history, in a deal valued at over 12 billion Euros.
Richard F. Bergner, Esq. (2005)	79	Mr. Bergner has been a practicing attorney in Houston, TX for 50 years. Mr. Bergner's practice includes corporate, investment and real estate matters; he has litigated cases in federal and state court.
Gregory J. Flanagan (1992)	64	Mr. Flanagan was Chairman of the Board, CEO and President of the Fund from July 2009 to February 2010. He previously served as COO of Gallagher Healthcare, Inc. – Houston Branch, an insurance brokerage company, from 2003 to 2008. Mr. Flanagan also has more than 20 years of commercial banking experience.
Henry W. Hankinson (2005)	68	Mr. Hankinson is Managing Partner and co-founder of Global Business Associates, LLC, a boutique M&A consulting firm in Atlanta, GA. Mr. Hankinson is a former military officer with engineering and MBA degrees. He has held domestic and international senior executive management positions for over 30 years. In 1993, he moved to Moscow as the senior regional executive for Halliburton / Brown & Root ("HBR") to establish the oil and gas construction market in the Former Soviet Union. In 1997, he moved to Riyadh, Saudi Arabia to serve as the senior HBR regional

Managing Director of Saudi Arabia. In 1999, he was recruited to become the COO and senior American for a large multi-national conglomerate for the Saudi Royal Family. Based in Riyadh, he was responsible for investment acquisitions and portfolio management. During his career, Mr. Hankinson has served as Chairman, CEO, COO, and Director for both small and multinational private and public companies.

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Robert L. Knauss (1991)	79	Mr. Knauss was Chairman of the Board of Philip Services Corp., an industrial services company, from 1998 to 2003, and Chairman of the Board and CEO of Baltic International USA, Inc. from 1995 to 2003. During the past twenty years, Mr. Knauss has served on the Boards of Directors of eight public companies and currently serves as a member of the board of directors of XO Holdings, Inc., and WestPoint International, Inc., and also serves as the chairman of the Audit Committee of The Mexico Fund, Inc. Mr. Knauss was the former Dean and Distinguished University Professor of the University of Houston Law School and was also Dean of Vanderbilt Law School.
Bertrand des Pallieres (2010)	43	Mr. Pallieres has been the CEO of SPQR Capital LLP, based in London, UK since May 2007. He previously served as Global Head of Principal Finance and member of the Global Market Leadership Group of Deutsche Bank from 2005 to 2007. From 1992 to 2005, he held various positions at JP Morgan, including Global Head of Structured Credit, European Head of Derivatives Structuring and Marketing and Co-head of sales for Europe Middle East and Africa.

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Interested Directors

Mr. Hardy and Mr. Denos are deemed to be "interested persons" of the Fund as defined in the 1940 Act by reason of their status as executive officers of the Fund and also by reason of Mr. Denos' affiliation with the former investment adviser to the Fund.

Name and Year First Elected Director	Age	Background Information
John A. Hardy (2010)	59	Mr. Hardy has served as Executive Chairman of the Fund since June 2010. Since June 1997, Mr. Hardy has also been Chairman and Chief Executive Officer of Versatile Systems Inc., a technology consulting company. Mr. Hardy has had extensive experience in the insurance, finance and banking sectors, as well as mergers, acquisitions and litigation and resolution of multi-jurisdictional disputes practicing as a Barrister from 1978-1997. Mr. Hardy was also an adjunct Professor lecturing in insurance law at the University of British Columbia from 1984-2000.
Kenneth I. Denos (2007)	42	Mr. Denos has served as Secretary to the Fund since June 2010. Mr. Denos has served as a director and principal of many small public and private companies throughout the world. Since August 2009, he has been Deputy Executive Chairman of London Pacific & Partners, Inc., a healthcare and hospitality corporate finance advisory and investment firm. Previously he was President of the Fund from December 2007 to June 2009; CEO of the Fund from August 2007 to June 2009; Executive Vice President and Secretary of the Fund from June 2005 until August 2007; Executive Vice President of Equus Capital Administration Company, Inc. from June 2005 to May 2008; CEO and President of Equus Capital Administration Company, Inc. from May 2008 to June 2009; Executive Vice President of Moore Clayton Capital Advisors, Inc from June 2005 to May 2008; CEO and President of Moore Clayton Capital Advisors, Inc from May 2008 to June 2009. From May 2006 until August 2009, Mr. Denos served as CEO of MCC Global NV, a financial services company. From November 2005 until May 2006, Mr. Denos served as the Non-Executive Chairman of Ridgecrest Healthcare Group, Inc. From February 2005 to February 2006, he served as a director and General Counsel of MCC Energy plc (now Tersus Energy plc). From April 1999 until August 2007, he has also served as Chairman and CEO of SportsNuts, Inc. (a sports marketing company). Since March 2007, Mr. Denos has served as a non-executive director of Secure Netwerks, Inc., an

information technology hardware and software reseller. Since January 2000, he has served as President of Kenneth I. Denos, P.C. Since March 2009, he has served as CEO and Chairman of Acadia Group, Inc.

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INFORMATION ABOUT EXECUTIVE OFFICERS WHO ARE NOT DIRECTORS

The following information pertains to our executive officers who are not directors of the Fund.

Name	Age	Background Information
S. Jay Brown	41	Chief Investment Officer and since February 2010 and worked as a consultant to the Fund since October 2009. From 2005 to 2010, Mr. Brown was a principal of Overcup Capital, LLC, the general partner of an investment partnership. Mr. Brown has 16 years of corporate finance and transactional experience serving in principal and advisory roles mostly involving private equity and investment banking sectors. He has an MBA (finance) from the University of Houston, and a BBA from Baylor University and is a Chartered Financial Analyst.
L'Sheryl D. Hudson	45	Vice President, Chief Financial Officer, Treasurer, and Chief Compliance Officer of the Fund since November 2006. Ms.Hudson was named Chief Compliance Officer and a director of MCCA and a director of Equus Capital Administration Company, Inc. in 2007. Ms. Hudson served as Associate Director of WestLB Asset Management (US), LLC from 2002 to 2006.