EQUUS TOTAL RETURN, INC.
Form N-2
November 02, 2010

As filed with the Securities and Exchange Commission on November 1, 2010

Securities Act File No. 333-________

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

FORM N-2

x REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933
¨ Pre-effective Amendment No.
¨ 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

[Missing Graphic Reference]

Title of Securities Being Registered	Amount Being Registered (1)	Proposed Maximum Aggregate Offering Price (2)	Amount of Registration Fee
Common Stock ($0.001 par value)	1,772,329	$ 4,164,973	$ 296.96

(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 •, 2010.

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.

Table of Contents

PRELIMINARY PROSPECTUS SUBJECT TO COMPLETION, November 1, 2010

Up to 1,772,329 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 __________, 2010 entitling holders of these rights to subscribe for an aggregate of up to 1,772,329 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 five rights held. We will not issue fractional shares upon the exercise of less than five 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.

There are two deadlines in connection with the offering:

(1) The rights offering will expire at 5:00 p.m., Eastern Standard Time, on __________, 2010, 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 _________, 2010, 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 __________, 2010, 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 June 30, 2010 (the last date prior to the date of this prospectus on which we determined net asset value) was $4.28. On October 29, 2010, the last reported sale price of a share of our common stock on the NYSE was $2.35.

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.

Table of Contents

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 11 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, before expenses(1)(3)(4)	$	___	$	___

(1) Estimated on the basis of 90% of the market price per share at the close of trading on the Pricing Date (_________, 2010) 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 $378,000.

(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.

EQUUS TOTAL RETURN, INC.

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.

The date of this prospectus is , 2010

Table of Contents

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.

TABLE OF CONTENTS

Table of Contents

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.

Table of Contents

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.

1

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Table of Contents

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.

Stockholder Transaction Expenses	
Sales load (as a percentage of rights offering price)(1)	None
Offering expenses borne by us(2)	1.00%
Dividend reinvestment and cash purchase plan fees(3)	None
Annual Expenses (as a percentage of net assets attributable to common stock)	
Operating expenses(4)	7.56%
Interest payments on borrowed funds(5)	0.13%
Other expenses	None
Total Annual Expenses	8.69%

(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 June 30, 2010 and after giving effect to this offer. Amount reflects estimated rights offering expenses of approximately one percent (1.00%) of our net asset value, or $378,000.

(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 six 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 six 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	$ 91.26	$ 262.63	$ 420.15	$ 760.50

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, 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.

Table of Contents

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 six months ended June 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.

	Six Months Ended June 30, (unaudited)	Year Ended December 31,				
	2010	2009	2008	2007	2006	2005
Income Statement and Balance Sheet Data:	(in thousands, except for per share data)					
Total investment income	$1,678	$3,771	$3,181	$4,857	$6,016	$2,530
Net investment (loss) income	(679)	195	(713)	(523)	(102)	(3,134)
Net realized gain (loss) of portfolio securities	(5)	(15,555)	924	5,264	19,012	1,237
Net change in unrealized appreciation (depreciation) of portfolio securities	(12,329)	(12,172)	(19,873)	7,526	(4,751)	18,617
Net increase (decrease) in net assets resulting from operations	(13,013)	(27,532)	(19,662)	12,267	14,159	16,720
Dividends declared	-	921	5,332	4,123	19,454	-
Total assets	57,076	81,007	124,063	134,730	125,866	143,984
Total net assets	37,888	50,901	78,435	103,216	93,236	92,602
Net cash (used in) provided by operatingactivities	13,107	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	(1.39)	(1.38)	(2.36)	0.91	(0.60)	2.68
Net increase (decrease) in net amounts resulting from		(3.13)	(2.33)	1.49	1.78	2.41

operations per share, basic and diluted	(1.46)					
Dividends declared	0	0.11	0.63	0.50	2.63	0
Net asset value (including unrealized appreciation)	4.28	5.74	9.16	12.29	11.42	12.55

Table of Contents

SUMMARY OF THE OFFERING

Rights Being Offered by the Fund	We are issuing to stockholders of record on , 2010, the record date, one non-transferable right for each share of common stock outstanding. Each five (5) 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 five rights.
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 , 2010, the record date, and ends at 5:00 p.m., Eastern Standard Time, on , 2010, the expiration date, unless the rights offering is terminated or the expiration date is extended by us; 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 the day after the Pricing Date ("Notice Date") (___________, 2010), 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 , 2010, 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

Table of Contents

rights 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 $378,000. 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.
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.”

8

Table of Contents

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.
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 11.

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.

- Our business depends on external financing.
- 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.

Table of Contents

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.
- 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.

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	__________, 2010
Expiration Date for Over-Subscription Privilege (Notice Date)	__________, 2010 *
Expiration Date for Rights Offering	__________, 2010 *
Deadline for Subscription Certificates and Payment for Shares (Over-Subscription)**	__________, 2010 *
Deadline for Subscription Certificates and Payment for Shares (Basic Subscription)***	__________, 2010 *

Final Payment of Shares	_________, 2010 *

* 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).

*** 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).

10

Table of Contents

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

Table of Contents

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 June 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. And, at June 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 June 30, 2010, the cost basis of our portfolio investments was $54.7 million and our estimated fair value was $27.1 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.

Table of Contents

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 June 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 June 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.

Table of Contents

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.

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. Currently, we are unable to draw upon our line of credit from Amegy Bank which may soon be discontinued. 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

Table of Contents

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."

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 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."

Table of Contents

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.

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

Table of Contents

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.

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-fifth 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 6/30/10*	$37.9 million
Net asset value per share	$4.28
Market price at 9/30/10	$2.38
Prevailing discount to net asset value	43.5%
Number of new shares issued	1,772,329
Net proceeds after issuance costs	$_________ million
Net asset value after issuance	$_________ million
Shares outstanding after issuance	10,633,975
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 (_____________, 2010) , 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.

Table of Contents

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 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.

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

Table of Contents

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 31%. 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 or may ultimately affect the market price of our common stock.

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.

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

Table of Contents

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.

Table of Contents

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

Table of Contents

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