Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)**

For the fiscal period ended December 31, 2004

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

Commission File Number 0-19509

EQUUS II INCORPORATED

(Exact name of registrant as specified in its charter)

Delaware	**76-0345915**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2727 Allen Parkway, 13th Floor Houston, Texas	**77019**
	(Zip Code)

Registrant's telephone number, including area code: (713) 529-0900

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statement incorporated by reference in Part III of this 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes ☐ No ☒

Approximate aggregate market value of common stock held by non-affiliates of the registrant: $44,825,139 computed on the basis of $7.72 per share, closing price of the common stock on the New York Stock Exchange on June 30, 2004. For purposes of calculating this amount only, all directors and executive officers of the registrant have been treated as affiliates. There were 6,506,692 shares of the registrant's common stock, $.001 par value, outstanding as of March 28, 2005. The net asset value of a share at December 31, 2004 was $10.54.

Documents incorporated by reference: Portions of the Proxy Statement for 2005 Annual Meeting of Stockholders is incorporated by reference in Part II and III.

TABLE OF CONTENTS

PART I

Item 1. Business

Equus II Incorporated (the "Fund") is a Delaware corporation that seeks to generate current distributions of net investment income and long term capital gains by making equity-oriented investments in small to medium sized privately owned companies ("portfolio companies"). We invest primarily in companies that intend to grow either internally or by acquiring other businesses, including through leveraged buyouts. We may also invest in recapitalizations of existing businesses or special situations from time to time. Our investments in Portfolio Companies consist principally of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. The Fund has elected to be treated as a business development company under the Investment Company Act of 1940 (the "Investment Company Act").

We have nine directors. Seven of our directors are individuals (the "Independent Directors") who are not "interested persons" of the Fund as defined by the Investment Company Act. Our directors are responsible for providing overall guidance and supervision of the Fund, approving the valuation of our investments and performing various duties imposed on directors of a business development company by the Investment Company Act. Among other things, the Independent Directors must approve the management arrangements for the Fund, the custody arrangements with respect to portfolio securities, the selection of independent public accountants, fidelity bonding and any transactions with affiliates.

We have engaged Equus Capital Management Corporation, a Delaware corporation (the "Management Company"), to provide certain investment management and administrative services to the Fund. Subject to the supervision of the directors, the Management Company performs, or arranges for third parties to perform, the management, administrative, certain investment advisory and other services necessary for the operation of the Fund. The Management Company identifies, evaluates, structures, monitors and disposes of our investments. The Management Company also manages our cash and short-term, interest-bearing investments and provides the Fund, at the Management Company's expense, with the office space, facilities, equipment and personnel (whose salaries and benefits are paid by the Management Company) necessary to enable the Fund to conduct its business.

The Management Company, its officers and directors and the officers of the Fund are collectively referred to herein as "Management." Our principal office is located at 2727 Allen Parkway, 13th Floor, Houston, Texas, 77019, and the telephone number is (713) 529-0900.

Investment Practices

Approximately 71% of our net assets are invested in securities of Portfolio Companies and other entities. Substantially all amounts not invested in securities of Portfolio Companies are invested in short-term, highly liquid investments consisting of U.S. Treasury Bills, interest-bearing bank accounts, certificates of deposit or other short-term, highly liquid investments providing, in the opinion of the Management Company, appropriate safety of principal.

Our investments in portfolio securities are usually structured in private transactions negotiated directly with the owner or issuer of the securities acquired. The enterprise value of a

portfolio company typically ranges from $15,000,000 to $75,000,000, at the time of our initial investment. Our initial investment in a portfolio company typically ranges from $1,500,000 to $7,500,000 and normally represents fifteen to eighty percent of the equity in such company. The balance of the purchase price of a portfolio company is supplied by debt financing and other equity investors, if necessary.

We attempt to reduce certain of the risks inherent in private equity-oriented investments by investing in a portfolio of companies involved in different industries. We limit our initial investment (whether in the form of equity or debt securities, commitments to purchase securities or debt guaranties) in any portfolio company to no more than 15% of the Fund's net assets at the date of initial investment. However, our investment in a particular portfolio company may exceed these initial investment limitations due to follow-on investments, as discussed below, or due to increases in the value of such investments. At December 31, 2004, we had approximately 22% of our net assets invested in one company.

We may make investments as a sole investor, with other professional investors or with other persons. We ordinarily are not the sole investor in a portfolio company. Joint equity participants may include management of the portfolio company, other business development companies, small business investment companies, other institutional or individual investors or venture capital groups. The investment position of the Fund and its co-investors in portfolio companies will typically involve a substantial, and may constitute a controlling, interest in such companies.

We may borrow funds to make new or follow-on investments, to maintain our pass through tax status, or to pay contingencies and expenses. See "Borrowings" and "Loss of Conduit Tax Treatment" under "Factors that May Affect Future Results, the Market Price of Common Stock, and the Accuracy of Forward Looking Statements."

Investment Criteria

Prospective investments are evaluated by Management based upon criteria that may be modified from time to time. The criteria currently being used by Management in determining whether to make an investment in a prospective portfolio company include:

1. The presence or availability of competent management;
2. The existence of a substantial market for the products or services of the company characterized by favorable growth potential, or a substantial market position in a stable industry;
3. The existence of a history of profitable operations or a reasonable expectation that operations can be conducted at a level of profitability acceptable in relation to the proposed investment; and
4. The willingness of the company to permit us and our co-investors, if any, to take a substantial position in the company and have representation on its Board of Directors, so as to enable us to influence the selection of management and basic policies of the company.

Investment Operations

The investment operations of the Fund consist principally of the following basic activities:

Identifying Investments. Investment opportunities are identified by the Management Company and its officers and directors. Investment proposals may, however, come from other sources, which may include unsolicited proposals from the public and referrals from banks, lawyers, accountants and members of the financial community. Subject to the approval of the Board of Directors, the Fund may pay such persons (including affiliates of Management other than directors, officers and employees of the Management Company) finder's fees to the extent permissible under applicable law and consistent with industry practice.

Evaluating Investment Opportunities. Prior to committing funds to an investment opportunity, due diligence is conducted to assess the prospects and risks of the potential investment. See "Investment Criteria" above.

Structuring Investments. Portfolio company investments typically are negotiated directly with the prospective portfolio company or its affiliates. The Management Company structures the terms of a proposed investment, including the purchase price, the type of security to be purchased and the future involvement of the Fund and affiliates in the portfolio company's business. The Management Company seeks to structure the terms of the investment to provide for the capital needs of the portfolio company and at the same time maximize the Fund's opportunities for capital appreciation in its investment.

Providing Management Assistance and Monitoring of Investments. Successful private equity investments typically require active monitoring of, and significant participation in, major business decisions of portfolio companies. In most cases, officers of the Fund serve as members of the boards of directors of portfolio companies. Such management assistance is required of a business development company under the Investment Company Act and is intended to enable us to provide guidance and management assistance with respect to such matters as capital structure, budgets, profit goals, diversification strategy, financing requirements, management additions or replacements and development of a public or private market for the securities of the portfolio company. In connection with their service as directors of portfolio companies, officers and directors of Management may receive and retain directors' fees or reimbursement for expenses incurred, and may participate in incentive stock option plans for non-employee directors, if any. When necessary, the Management Company, on behalf of the Fund, may also assign staff professionals with financial or management expertise to assist portfolio company management on specific problems.

Current Portfolio Companies

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

Temporary Investments

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

Temporary Investments may also include commercial paper (rated or unrated) and other short-term securities. Temporary Investments constituting cash, cash items, securities issued or guaranteed by the U.S. Treasury or U.S. Government agencies and high quality debt securities (commercial paper rated in the two highest rating categories by Moody's Investor Services, Inc. or Standard & Poor's Corporation, or if not rated, issued by a company having an outstanding debt issue so rated, with maturities of less than one year at the time of investment) will qualify for determining whether the Fund has 70% of its total assets invested in Managed Companies (as hereafter defined) or in qualified Temporary Investments for purposes of the business development company provisions of the Investment Company Act. See "Regulation" below. At December 31, 2004, the Fund had approximately $18,800,000 in Temporary Investments and cash or approximately 27% of our net assets.

Follow-on Investments

Following our initial investment in a portfolio company, we may be requested to make follow-on investments in the company. Follow-on investments may be made to take advantage of warrants or other preferential rights granted to us or otherwise to increase our position in a successful or promising portfolio company. We may also be called upon to provide additional equity or loans needed by a portfolio company to fully implement its business plans, to develop a new line of business or to recover from unexpected business problems. We may make follow-on investments in portfolio companies from funds on hand or may borrow all or a portion of the funds required to make such follow-on investments. If we are unable to maintain our revolving line of credit and do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted and/or our equity interest in the portfolio company may be reduced.

We have committed, under certain circumstances, to make additional capital contributions to two venture capital funds and follow-on investments in certain portfolio companies. See further discussion of this in the "Liquidity and Capital Resources" section in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Disposition of Investments

The method and timing of the disposition of our portfolio investments is critical to the realization of capital appreciation and to the minimization of any capital losses. We expect to dispose of our portfolio securities through a variety of transactions, including sales of portfolio securities in underwritten public offerings, public sales of such securities and negotiated private sales of such securities to the portfolio company itself or to other investors. In addition, we may distribute our portfolio securities in-kind to our stockholders. In structuring investments, we endeavor to reach such agreements or understandings with a prospective portfolio company as may be appropriate with respect to the method and timing of the disposition of our investment and, if appropriate, seek to obtain registration rights at the expense of the portfolio company. We bear the costs of disposing of investments to the extent not paid by the portfolio company.

Operating Expenses

The Management Company, at its expense, provides the Fund with office space, facilities, equipment and personnel (whose salaries and benefits are paid by the Management Company) necessary for the conduct of our business and pays all costs related to proposed acquisitions of portfolio securities that are not completed, unless such proposed acquisitions have been previously approved by the Board of Directors of the Fund.

The Fund is responsible for paying certain expenses relating to its operations, including: management fees to the Management Company; fees and expenses of the Independent Directors; finder's fees; direct costs of proposed investments in portfolio companies, whether or not completed, if such proposed investments have been approved for acquisition by our Board of Directors; depositary fees of unaffiliated depositaries; fees of unaffiliated transfer agents, registrars and disbursing agents; the administrative fee to the Management Company; portfolio transaction expenses; interest; legal and accounting expenses; costs of printing and mailing proxy materials and reports to stockholders; New York Stock Exchange fees; custodian fees; litigation costs; costs of disposing of investments including brokerage fees and commissions; and other unusual or nonrecurring expenses and other expenses properly payable by the Fund. We also have the ability to pay bonuses to our officers, but none have been paid to date.

Valuation

On a quarterly basis, the Management Company performs a valuation of our investments, subject to the approval of our Board of Directors. Valuations of portfolio securities are done in accordance with accounting principles generally accepted in the United States of America and the financial reporting policies of the Securities and Exchange Commission (the "SEC").

The fair value of investments for which no market exists (including most of our investments) is determined on the basis of procedures established in good faith by our Board of Directors. As a general principle, the current "fair value" of an investment would be the amount we might reasonably expect to receive for it upon its current sale, in an orderly manner. There is a range of values that are reasonable for such investments at any particular time. Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation.

Appraisal valuations are based upon such factors as a portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value. Appraisal valuations are necessarily subjective and the Management Company's estimate of values may differ materially from amounts actually received upon the disposition of portfolio securities. Also, failure by a portfolio company to achieve its business plan or obtain and maintain its financing arrangements could result in a significant and rapid change in its value.

We may also use, when available, third-party transactions in a portfolio company's securities as the basis of valuation (the "private market method"). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

Our investments for which market quotations are readily available and which are freely transferable are valued at the closing price on the date of valuation. For securities which are in a class of public securities but are restricted from free trading (such as Rule 144 stock or large blocks), valuation is set by discounting the closing price to reflect the estimated effects of the illiquidity caused by such restrictions. The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit generally will be valued at their face value, plus interest accrued to the date of valuation.

The Board of Directors reviews the valuation policies on a quarterly basis to determine their appropriateness and may also hire independent firms to review the Management Company's methodology of valuation or to conduct an independent valuation.

On a daily basis, we adjust our net asset value for the changes in the value of our publicly held securities and material changes in the value of our private securities and report those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

Custodian

We act as the custodian of our securities to the extent permitted under the Investment Company Act and are subject to the restrictions imposed on self-custodians by the Investment Company Act and the rules and regulations thereunder. We have entered into an agreement with Frost National Bank with respect to the safekeeping of our securities. The principal business office of the custodian is 100 West Houston, San Antonio, Texas 78205.

Transfer and Disbursing Agent

We employ American Stock Transfer & Trust Company as our transfer agent to record transfers of the shares, maintain proxy records and to process distributions. The principal business office of our transfer agent is 59 Maiden Lane, New York, NY, 10007.

Factors that May Affect Future Results, the Market Price of Common Stock, and the Accuracy of Forward-Looking Statements

In the normal course of our business, in an effort to keep our stockholders and the public informed about our operations and portfolio of investments, we may issue certain statements, either in writing or orally, that contain or may contain forward-looking information. Generally, these statements relate to business plans or strategies of the Fund or Portfolio Companies in which it invests, projected or anticipated benefits or consequences of such plans or strategies, projected or anticipated benefits of new or follow-on investments made by or to be made by the Fund, or projections involving anticipated purchases or sales of securities or other aspects of the Fund's operating results. Forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause actual results to differ materially. As noted elsewhere in this report, the Fund's operations and portfolio of investments are subject to a number of uncertainties, risks, and other influences, many of which are outside the control of the Fund, and any one of which, or a combination of which, could materially affect the results of the Fund's operations or net asset value, the market price of its common stock, and whether forward-looking statements made by the Fund ultimately prove to be accurate.

The following discussion outlines certain factors that could affect our results for 2004 and beyond and cause them to differ materially from those that may be set forth in any forward-looking statement made by us or on our behalf:

Valuation of Investments. Our net asset value is based on the value assigned to our portfolio investments. Investments in companies whose securities are publicly traded are valued at their quoted market price, less a discount to reflect the estimated effects of restrictions on the sale of such securities, if applicable. We adjust our net asset value for changes in the value of our publicly held securities on a daily basis.

The value of the Fund's investments in securities for which market quotations are not available is determined as of the end of each calendar quarter, unless there is a significant event requiring a change in valuation in the interim. Cost is used to approximate fair value of such investments until significant developments affecting an investment provide a basis for use of an appraisal valuation. Thereafter, such portfolio investments are carried at appraised values as determined quarterly by management. Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, our estimate of fair value may materially differ from the fair value that would have been used had a ready market existed for the securities. Appraisal valuations are based on a portfolio company's historical performance and certain assumptions concerning the company's future performance, the financial markets, and general economic conditions. A portfolio company's failure to achieve its business plan, changes in financial and other markets, or changes in general economic conditions could result in significant and rapid changes in the value of a portfolio company. At December 31, 2004, only one of our portfolio companies had securities for which market quotations were readily available. However, because our holdings of shares in such company substantially exceed the average daily trading volume, we have recorded a discount from market value on our shares. Such discount may or may not reflect the actual price we could receive on the sale of such securities. See "Valuation."

Market Value and Net Asset Value. The shares of our common stock are listed on the New York Stock Exchange ("NYSE"). Stockholders desiring liquidity may trade their shares of common stock on the NYSE at current market value, which historically has been below the net asset value. Shares of closed-end investment companies frequently trade at a discount from net asset value. This characteristic of shares of a closed-end fund is a risk separate and distinct from the risk that a fund's net asset value will decrease. The risk of purchasing shares of a closed-end fund that might trade at a discount is more pronounced for investors who wish to sell their shares in a relatively short period of time because for those investors, realization of a gain or loss on their investments is likely to be more dependent upon the existence of a premium or discount than upon portfolio performance. Our shares have traded at a discount to net asset value since they began trading. For information concerning the trading history of our shares, see "Market for Registrant's Common Equity and Related Stockholder Matters."

Non-Diversified Status; Number of Investments. The Fund is classified as a "non-diversified" investment company under the Investment Company Act, which means we are not limited in the proportion of our assets that may be invested in the securities of a single issuer. We do not initially invest more than 15% of the value of our net assets in a single portfolio company. However, follow-on investments, disproportionate increases or decreases in the value of certain portfolio companies or the sale of investments may result in greater than 15% of our net assets being invested in a single portfolio company. At December 31, 2004, we had investments in sixteen entities, including twelve Portfolio Companies, two venture capital funds and two entities awaiting liquidation. The value of one investment exceeded 22% of the value of our net assets. This investment is a business which manufactures residential windows, primarily for new construction. 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 numerous investments.

Leveraged Portfolio Investments. While leveraged buyout investments and investments in highly leveraged companies may offer the opportunity for significant gains, such investments involve a high degree of business and financial risk and can also result in substantial losses. The use of leverage by Portfolio Companies magnifies the increase or decrease in the value of a Fund investment as compared to the overall change in value of a portfolio company.

Many of our portfolio companies have incurred substantial indebtedness in relation to their overall capital base. Such indebtedness generally has a term that will require that the balance of the loan be refinanced when it matures. In the event a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness 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 the portfolio company's reorganization or bankruptcy.

A substantial portion of the indebtedness incurred by portfolio companies may bear interest at rates that will 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 indebtedness. Accordingly, the profitability of our portfolio companies, as well as the value of our investments in such companies, depends significantly upon prevailing interest rates.

If a portfolio company cannot refinance its credit facility on a timely basis, it may be required to sell assets to repay debt or seek protection under applicable reorganization or bankruptcy laws. In either event the value of our investment in such portfolio company may be materially affected.

Lack of Liquidity of Portfolio Investments. Our portfolio investments consist principally of securities that are subject to restrictions on sale because they were acquired from the issuer in "private placement" transactions or because we are deemed to be an affiliate of the issuer. Generally, we will not be able to sell these securities publicly without the expense and time required to register the securities under the Securities Act of 1933 and applicable state securities law, 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, since in many cases the securities of such companies will be privately held and we may own a relatively large percentage of the issuer's outstanding securities. Sales may also be limited by securities market conditions, which may be unfavorable for sales of securities of particular issuers. The above limitations on liquidity of our securities could preclude or delay any disposition of such securities, which may reduce the amount of proceeds that might otherwise be realized.

Borrowings. We may borrow funds to make investments, to maintain our pass-through tax status as a regulated investment company under Subchapter M of the Internal Revenue Code or to pay contingencies and expenses. We are permitted under the Investment Company Act to borrow if, immediately after the borrowing, we will have asset coverage of at least 200%. That is, we may borrow an amount up to 50% of the value of our assets (including investments made with borrowed funds). The amount and nature of any borrowings will 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 the 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 stockholders' return from the Fund, if the spread narrows (because of an increase in the cost of debt or insufficient income on our investments), distributions to the stockholders would be adversely affected. If the spread were reversed, we might be unable to meet our obligations to our lenders, which might then seek to cause 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 our portfolio investments were required to be liquidated in other than an orderly manner.

Many financial institutions today are unwilling to lend against a portfolio of illiquid, private securities. The decline in the number of institutions in our credit market and 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 have been utilized 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 utilized quarterly to enable us to achieve adequate diversification to maintain our pass-through tax status as a regulated investment company.

The costs of borrowing money may exceed the income from the portfolio securities we purchased with the borrowed money. The Fund will suffer a decline in net asset value if the investment performance of the additional securities purchased with borrowed money fails to cover their cost to the Fund (including any interest paid on the money borrowed). A decline in net asset value could affect our ability to make distributions on our common stock. Our failure to distribute a sufficient portion of our net investment income and net realized capital gains could result in a loss of pass-through tax status or subject us to a 4% excise tax. See "Loss of Conduit Tax Treatment." 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 may be disadvantageous to do so.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 2 in the "Notes to the Financial Statements" for further discussion of the current status of our borrowings and liquidity.

Need for Follow-on Investments in Portfolio 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 such company by the exercise of a warrant to purchase common stock. There is no assurance that we will make, or have sufficient funds to make, 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 such an investment or may result in a missed opportunity for us to increase our participation in a successful operation, and may dilute our equity interest in or reduce the expected yield on our investment.

Loss of Conduit Tax Treatment. The Fund may cease to qualify for conduit tax treatment if it is unable to comply with the diversification and gross income requirements of Subchapter M of the Internal Revenue Code. Subchapter M requires that at the end of each quarter (i) at least 50% of the value of our assets must consist of cash, government securities and other securities of any one issuer that do not represent more than 5% of the value of our total assets and 10% of the

outstanding voting securities of such issuer, and (ii) no more than 25% of the value of our assets may be invested in the securities of any one issuer (other than United States government securities), or of two or more issuers that are controlled by us and are engaged in the same or similar or related trades or businesses. Additionally, at least 90% of our gross income must be derived from interest, dividends, gains from sale of portfolio securities and other qualifying sources. As discussed in "Borrowings," we have historically borrowed funds necessary to make qualifying investments to satisfy the foregoing 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 stockholders will be subject to income tax on distributions. We may also cease to qualify for conduit tax treatment, or be subject to a 4% excise tax, if we fail to distribute a sufficient portion of our net investment income and net realized capital gains. Management believes that we have met the Subchapter M requirements to be taxed as a RIC and we intend to be taxed as such for 2004.

Long-Term Objective. The Fund is intended for investors seeking long-term capital growth. The Fund is not meant to provide a vehicle for those who wish to play short-term swings in the stock market. The portfolio securities acquired by us generally require four to seven years or longer to reach maturity and generally are illiquid. An investment in our shares should not be considered a complete investment program. Each prospective purchaser should take into account his investment objectives as well as his other investments when considering the purchase of our shares.

Competition for Investments. We encounter competition from other persons or entities with similar investment objectives. These competitors include private equity partnerships, other business development companies, investment partnerships and corporations, small business investment companies, large industrial and financial companies investing directly or through affiliates, foreign investors of various types and individuals. Many of these competitors have greater financial resources and more personnel than the Fund and may be subject to different and frequently less stringent regulation.

Possible Volatility of Stock Price. The market price of our common stock could be subject to significant fluctuations in response to variations in our net asset value, our quarterly operating results, and other factors. The market price of the common stock may be significantly affected by such factors as the announcement of new or follow-on investments in portfolio companies, the sale or proposed sale of a portfolio investment, the results of operations or fluctuations in the market prices or appraised value of one or more of our Portfolio Companies, changes in earnings estimates by market analysts, speculation in the press or analyst community and general market conditions or market conditions specific to particular industries. From time to time in recent years, the securities markets have experienced significant price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of particular companies. These broad fluctuations may adversely affect the market price of the common stock. In addition, we are subject to the risk of the securities markets in which our portfolio securities are traded. Securities markets are cyclical and the prices of the securities traded in such markets rise and fall at various times. These cyclical periods may extend over significant periods of time.

Regulation

The Investment Advisers Act generally prohibits investment advisers from entering into investment advisory contracts with an investment company that provides for compensation to the

investment adviser on the basis of a share of capital gains or capital appreciation of the portfolio investments or any portion of the funds of the investment company or pursuant to a stock option plan. The Investment Advisers Act, however, permits the payment of compensation based on capital gains or the issuance of incentive stock options to management in an investment advisory contract between an investment adviser and a business development company. The Fund has elected to be treated as a business development company under the Investment Company Act. We have provided for incentive compensation to our officers based on an incentive stock option plan established and approved by our stockholders in 1997.

We may not withdraw our election to be treated as a business development company without first obtaining the approval of a majority in interest of our stockholders. The following brief description of the Investment Company Act is qualified in its entirety by reference to the full text of the Investment Company Act and the rules thereunder.

A business development company must be operated for the purpose of investing in the securities of certain present and former "eligible portfolio companies" or certain bankrupt or insolvent companies and must make available significant managerial assistance to portfolio companies. An eligible portfolio company generally is a company that (1) is organized under the laws of, and has its principal place of business in, any state or states, (2) is not an investment company and (3)(a) does not have a class of marginable securities, (b) is actively controlled by the business development company acting either alone or as part of a group acting together and an affiliate of the business development company is a member of the portfolio company's board of directors or (c) meets such other criteria as may be established by the SEC. Control is presumed to exist where the business development company owns more than 25% of the outstanding voting securities of a portfolio company.

"Making available significant managerial assistance" is defined under the Investment Company Act to mean (a) any arrangement whereby a business development company, through its directors, officers or employees, offers to provide and, if accepted, does provide significant guidance and counsel concerning the management, operations or business objectives or policies of a portfolio company or (b) the exercise of a controlling influence over the management or policies of a portfolio company by the business development company acting individually or as part of a group acting together which controls such company ("Managed Company"). A business development company may satisfy the requirements of clause (a) with respect to a portfolio company by purchasing securities of such a company as part of a group of investors acting together if one person in such group provides the type of assistance described in such clause. However, the business development company will not satisfy the general requirement of making available significant managerial assistance if it only provides such assistance indirectly through an investor group. A business development company need only extend significant managerial assistance with respect to portfolio companies, which are treated as Qualifying Assets (as defined below) for the purpose of satisfying the 70% test discussed below.

The Investment Company Act prohibits or restricts the Fund from investing in certain types of companies, such as brokerage firms, insurance companies, investment banking firms and investment companies. Moreover, the Investment Company Act limits the type of assets that we may acquire to "Qualifying Assets" and certain assets necessary for its operations (such as office furniture, equipment and facilities) if, at the time of the acquisition, less than 70% of the value of our total assets consists of qualifying assets. Qualifying Assets include (1) securities of companies that were eligible portfolio companies at the time that the Fund acquired their securities; (2) securities of companies that are actively controlled by the Fund; (3) securities of

bankrupt or insolvent companies that are not otherwise eligible portfolio companies; (4) securities acquired as follow-on investments in companies that were eligible portfolio companies at the time of our initial acquisition of their securities but are no longer eligible portfolio companies, provided that we have maintained a substantial portion of our initial investment in such companies; (5) securities received in exchange for or distributed on or with respect to any of the foregoing; and (6) cash items, government securities and high-quality, short-term debt. The Investment Company Act also places restrictions on the nature of the transactions in which, and the persons from whom, securities can be purchased in order for such securities to be considered Qualifying Assets. As a general matter, Qualifying Assets may only be purchased from the issuer or an affiliate in a transaction not constituting a public offering. We may not engage in short term sales of securities or purchase any security on margin, except such short-term credits as are necessary for the clearance of portfolio transactions or to maintain our pass-through tax status as a regulated investment company.

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

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

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

The investments and business of the Fund are managed by the Management Company, pursuant to a Management Agreement (the "Management Agreement") initially approved by our stockholders at a special meeting on April 9, 1997. The Management Agreement provides that the Management Company shall provide, or arrange for suitable third parties to provide, any and all management and administrative services reasonably necessary for the operation of the Fund and the conduct of its business. In return for its service and the expenses which the Management Company assumes under the Management Agreement, we pay the Management Company, on a quarterly basis, a management fee equal to 0.5% of our net assets on the last day of each calendar quarter (2% per annum).

The Management Agreement will continue in effect until May 9, 2005, and from year-to–year thereafter provided such continuance is approved at least annually by (i) a vote of a majority of the outstanding shares of the Fund or (ii) a majority of the directors who are not "interested persons" of the Fund, at a meeting called for the purpose of voting on such approval.

The Management Agreement may be terminated at any time, without the payment of any penalty, by a vote of our Board of Directors or the holders of a majority of our shares on 60 days' written notice to the Management Company, and would automatically terminate in the event of its "assignment" (as defined in the Investment Company Act).

Many of the transactions involving the Fund and our affiliates (as well as affiliates of such affiliates) require the prior approval of a majority of the Independent Directors and a majority of the Independent Directors having no financial interest in the transactions. However, certain transactions involving closely affiliated persons of the Fund, including the Management Company, require the prior approval of the SEC. In general (a) any person who owns, controls or holds with power to vote more than 5% of the outstanding shares, (b) any director or executive officer and (c) any person who directly or indirectly controls, is controlled by or is under common control with such person, must obtain the prior approval of a majority of the Independent Directors and, in some situations, the prior approval of the SEC, before engaging in certain transactions involving the Fund or any company controlled by the Fund. In accordance with the Investment Company Act, a majority of the directors must be persons who are not "interested persons" as defined in such act. Except for certain transactions which must be approved by the Independent Directors, the Investment Company Act generally does not restrict transactions between the Fund and its Portfolio Companies.

Pursuant to the Equus II Incorporated 1997 Stock Incentive Plan ("Stock Incentive Plan"), the Fund may issue options to our officers, all of whom are employed by the Management Company, and our directors, in an aggregate amount of up to 20% of our outstanding shares of common stock. Options are issued to our officers at the discretion of the compensation committee in accordance with the Stock Incentive Plan.

In November 2001, options to acquire a total of 990,000 shares at $7.69 per share were issued to our officers. These options included dividend equivalent rights. Dividend equivalent rights represent the right of our officers to receive a credit against the option exercise price for the amount of any dividends paid by us during the option period. In January 2002, we filed an application with the SEC seeking an amendment to an exemptive order previously issued by the SEC to permit us to grant dividend equivalent rights to the Fund's independent directors as part of their stock option awards. During its review of such application, the SEC staff advised us that it does not believe that dividend equivalent rights are permitted under the Investment Company Act. Based on the ongoing discussion with the SEC, no dividends have been credited to the options and we have not recorded any associated compensation expense for the 2004 or 2003 dividends applicable to dividend equivalent rights.

On September 30, 1999, options to purchase 719,794 shares of common stock of the Fund were exercised by six officers of the Fund for $15.45 per share. Pursuant to the terms of the options, the Stock Incentive Plan, and the Investment Company Act, the Fund loaned the officers the exercise price of $11,124,086 and the officers issued promissory notes, which were secured by the 719,794 shares, to the Fund. In 2001, the Fund agreed to cancel the remaining principal balance and accrued interest on the promissory notes aggregating $11,040,849 in consideration of the officers surrendering to the Fund 844,133 shares of common stock (the shares originally issued and certain shares received as dividends). Pursuant to the terms of the notes, the cancellation of the principal and accrued interest on the notes was based on the net asset value of the shares at date of surrender. The officers retained 71,235 shares of common stock following the cancellation of the notes.

During its review of the exemptive application filed by the Fund in connection with the granting of the dividend equivalent rights as part of the Stock Incentive Plan, the SEC staff raised certain issues with respect to the valuation of the shares held as collateral and the manner in which the notes were settled in 2001. In November 2003, the Fund's board of directors appointed a special committee of independent directors (Robert L. Knauss, Gary R. Petersen, and Gregory J. Flanagan) to address the SEC staff's issues and retained Dechert LLP as independent legal counsel to the special committee of the board with respect to the issues raised by the SEC. The Fund responded to the staff's questions and supplied additional information, and the special committee and counsel met personally with the SEC staff.

In September 2004, the independent directors of the Fund unanimously approved a proposal to resolve the issues surrounding the loan transactions by unwinding the loan transactions and attempting to place the Fund in the position it would have been in had the loan transactions never taken place. In exchange for repayment of the balance of benefits received as a result of the loan transactions, the Fund agreed to formally release each of the Fund's officers and former officers from any and all claims that the Fund might have with respect to the loan transactions. The aggregate amount requested from individual current and former officers under the proposal was approximately $863,000, the value of the 71,235 shares retained by the officers plus any dividends received and retained on any of the shares while they were outstanding. In November and December 2004 the Fund issued releases to three officers and one former officer in consideration of their payment to the Fund of an aggregate of $629,785 in cash. Also in December 2004, the Fund, upon recommendation of the special committee and receipt of a fairness opinion, agreed to accept the return of options to purchase 198,000 shares of the Fund's common stock at $7.69 per share from a second former officer in lieu of a cash payment of $186,574 in exchange for a similar release. In March 2005, the Fund issued a release to one additional former officer in consideration of his payment to the Fund of $23,475.

Item 2. Properties.

We do not have any direct interest in any physical properties.

Item 3. Legal Proceedings.

The Fund, our affiliates, and certain of our portfolio companies are involved in asserted claims and have the possibility for unasserted claims which may ultimately affect our net asset value or the fair value of our portfolio investments.

Item 4. Submission of Matters to a Vote of Security Holders.

No matters were submitted to a vote of security holders during the fourth quarter of 2004.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Our common stock is listed on the New York Stock Exchange under the symbol "EQS". We had approximately 6,100 stockholders at December 31, 2004, 1,124 of which were registered holders. Registered holders do not include those stockholders whose stock has been issued in street name. At December 31, 2004, our net asset value was $10.54 per share of our common stock ($10.52 per diluted share).

The following table reflects the high and low sales prices per share of our common stock on the New York Stock Exchange for the two years ended December 31, 2004, by quarter:

Quarter Ended	High	Low
March 31, 2003	$7.00	$6.50
June 30, 2003	$8.84	$6.87
September 30, 2003	$8.94	$7.96
December 31, 2003	$8.65	$7.79
March 31, 2004	$8.71	$7.79
June 30, 2004	$7.92	$7.25
September 30, 2004	$8.20	$7.32
December 31, 2004	$8.45	$7.43

As a regulated investment company under Subchapter M of the Internal Revenue Code, we are required to distribute to our stockholders, in a timely manner, at least 90% of our taxable net investment income each year. If we do not distribute, in a timely manner, 98% of our taxable net capital gains and 98% of our taxable net investment income each year (as well as any portion of the respective 2% balances not distributed in the previous year), we will be subject to a 4% non-deductible federal excise tax on certain undistributed income of regulated investment companies. Under the Investment Company Act, we are not permitted to pay dividends to stockholders unless we meet certain asset coverage requirements. If taxable net investment income is retained, we will be subject to federal income and excise taxes. We reserve the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to the Fund as long-term capital gains and our stockholders will be able to claim their proportionate share of the federal income taxes paid by us on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

Historically, we have distributed net investment income and net taxable realized gains from the sale of portfolio investments at least annually. We declared a net investment income dividend of $3,560,205 ($0.57 per share) during 2004. The 2004 dividend was paid in additional shares of common stock or in cash by specific election made by each stockholder. We paid $1,589,160 in cash and issued 260,719 additional shares of stock at $7.56 per share in January 2005, in connection with such dividend. The Fund also declared dividends of $4,556,772 ($0.72 per share) during 2003.

We invest in companies that we believe have a high potential for capital appreciation, and we intend to realize the majority of our profits upon the sale of our investments in Portfolio Companies. Consequently, most of the companies in which we invest do not have established policies of paying annual dividends. However, a portion of the investments in portfolio securities held by us consists of interest-bearing subordinated debt securities or dividend-paying preferred stock, and we have received dividends on one common stock investment in 2003 and 2004.

The information under the heading "Equity Compensation Plan Information" in the Fund's Definitive Proxy Statement for the 2005 Annual Meeting of Stockholders, to be filed pursuant to Regulation 14A under the Securities and Exchange Act of 1934, as amended, prior to April 30, 2005 (the "2004 Proxy Statement"), is incorporated into Item 12 of this report by reference.

During the fiscal year ended December 31, 2004, we did not sell any securities which were not registered under the Securities Act of 1933. In December 2003, we issued a $1.5 million 9% secured note payable to an individual due on January 31, 2005. The Fund repaid the note in full in April 2004.

1997 Stock Incentive Plan

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	809,000	$ 8.68	382,438(1)
Equity compensation plans not approved by security holders	0	n/a	n/a
Total	809,000	$ 8.68	382,438(1)

(1) The number of shares of common stock available for issuance under the plan is equal to (a) the greater of 836,953 shares or an amount equal to 20% of the issued and outstanding shares of common stock of the Fund on the last day of each calendar quarter less (b) the number of options previously granted.

Directors and officers of the Fund who are responsible for or contribute to the management, growth, success, and profitability of the Fund and who are designated by the Compensation Committee are eligible to participate in the plan.

The Fund initially reserved 836,953 shares of common stock for issuance under the plan (which represented 20% of the number of shares of common stock outstanding as of September 30, 1996). Each calendar quarter the number of shares available for issuance under the plan is adjusted to equal the greater of 836,953 or 20% of the number of shares of common stock outstanding on the last day of the preceding calendar quarter. If an option or award lapses or is

terminated or canceled without issuance of shares, the unissued shares subject to such option or award will again be available for grant under the plan. If there is a stock split, stock dividend, reclassification of shares, or other similar corporate event affecting the Fund's shares, appropriate adjustments will be made in the number and kind of shares that can be issued under the plan and the number and kind of shares and exercise prices of options or awards outstanding at the date of such event. No officer may be granted in any fiscal year of the Fund options or rights to acquire in the aggregate more than 500,000 shares of common stock.

The plan is administered by the Compensation Committee appointed by the Board that, to the extent required to qualify for the exemption contained in Rule 16b-3 under the Securities Exchange Act of 1934, must include at least two directors. Members of the Compensation Committee are not eligible to receive discretionary options or awards under the plan.

The plan authorizes the grant, either alone or in combination, of (a) "nonqualified" stock options that do not qualify for beneficial treatment under the Internal Revenue Code of 1986, as amended (the "Code"), (b) incentive stock options under Section 422A of the Code, (c) alternate appreciation rights, and (d) limited rights. Any award granted under the plan must be evidenced by a written award agreement.

The Compensation Committee may grant options qualifying as incentive stock options under the Code and nonqualified stock options. Subject to certain terms and conditions provided in the plan, options granted under the plan are exercisable at the price and on the terms determined by the Committee. The exercise price of options may not be less than the fair market value of the common stock at the date of grant. Options are exercisable at such times as provided in the award agreement although options may not be exercised prior to six months after the date they are granted and the option period for any award may not exceed ten years. Payment of the exercise price of an option may be made in cash, and in the discretion of the Committee, with such other consideration as the Committee may specify and as is permitted under the Investment Company Act. Consistent with Section 422A of the Code and the regulations thereunder, the plan contains certain limits on the value of incentive stock options that may be exercised during a year and restrictions on the exercise price and period of incentive stock options granted to employees who own more than 10% of the Fund's common stock.

Unless otherwise provided in the award agreement, options terminate three months after an option holder's termination of employment for any reason other than death, retirement, disability, or termination by the Fund without cause. In the event of the termination of employment because of death, the option holder's estate may exercise his or her options during the one-year period following death. In the event of termination of employment because of disability or retirement, the option holder may exercise his or her options during the 36-month period following his or her termination. In the event of termination of employment by the Fund without cause, all options shall vest and the option holder may exercise his or her options during the 60-month period following his or her termination. The termination of an officer's services does not otherwise accelerate the termination date of his or her options.

Concurrently with or subsequent to the award of a stock option, the Compensation Committee may award to the option holder with respect to each share of common stock covered by an option, a related alternate appreciation right ("alternate appreciation rights"), permitting the option holder to be paid the appreciation on the option in lieu of exercising the option. Alternate appreciation rights are exercisable subject to the same terms and conditions as the related options; provided, however, that alternate appreciation rights may be exercised only if

and to the extent that any payment on the alternate appreciation rights would not result in a greater dilution of the interests of the Fund's stockholders than would result, if instead of the alternate appreciation rights, the stock options to which they relate were exercised. The amount to be paid on an alternate appreciation right is the difference between the fair market value of a share of common stock and the option price per share on the exercise date. Payment of alternate appreciation rights will be made in shares of common stock determined by dividing the payment amount by the current market value of a share of common stock on the exercise date. Exercise of an alternate appreciation right will cancel an equal number of options related to the alternate appreciation right. Unless otherwise provided in the award agreement, alternate appreciation rights will terminate three months after an option holder's termination of employment for any reason other than retirement or disability. In the event of termination of employment because of disability or retirement, the option holder may exercise his or her alternate appreciation rights during the six-month period following his or her termination.

Concurrently with or subsequent to the award of a stock option, the Compensation Committee may grant with respect to each share of common stock covered by an option, a related limited right permitting the option holder, during a specified time period, to be paid the appreciation on the option in lieu of exercising the option ("limited right"). Limited rights are exercisable in full for a period of seven months following the date of a "Change in Control" of the Fund. A Change in Control of the Fund is defined as a change in a majority of the directors of the Fund within one year following certain designated transactions, including a tender offer, merger, or proxy contest, the acquisition of 51% or more of the shares of common stock by an unaffiliated person, entity, or group, or the termination of the Management Company as investment adviser to the Fund. The amount to be paid on a limited right is the difference between the option price per share of common stock covered by the related option and the greater of (a) the highest price per share paid in connection with the Change in Control or (b) the highest price per share of the common stock on the NYSE during the 60-day period prior to the Change in Control; provided, however, that limited rights may be exercised only if and to the extent that any payment on the limited rights would not result in a greater dilution of the interests of the Fund's stockholders than would result, if instead of the limited rights, the stock options to which they relate were exercised. Payment of the limited right will be made in cash.

Unless otherwise provided in the award agreement, limited rights will terminate upon an option holder's termination of employment for any reason other than retirement or disability. In the event of termination of employment because of disability or retirement, the option holder may exercise his or her limited rights during the six-month period following his or her termination. Terminations following a Change in Control (except for "just cause") do not terminate a limited right.

Each non-officer director serving on the Board on April 1, 1997, was granted a nonqualified stock option to purchase 5,500 shares of common stock of the Fund that will vest 50% immediately and 16-2/3% on the first, second, and third anniversaries of the date of grant. Each new non-officer director is granted upon his or her election a nonqualified stock option for a similar number of shares. In addition, beginning with the 1998 annual meeting of stockholders, each individual elected as a non-officer director was and is, on the first business day following the annual meeting of stockholders, granted a nonqualified stock option to purchase 2,200 shares of common stock. The exercise price of the options is the closing price of the Fund's common stock on the NYSE on the date the option is granted. Each option is exercisable during the period beginning six months after the date of grant and ending ten years after the date of grant. In the event of the termination of a director's services because of death, permanent disability, or

retirement, any unvested options vests and the director or, if the director is not living, the director's estate, may exercise his or her options during the one-year period following the date of death, permanent disability, or retirement. The termination of a director's services does not otherwise accelerate the termination date of his or her options.

The Board may amend, alter, or discontinue the plan at any time, provided that no amendment, alteration, or discontinuance may be made that would impair the rights of an award holder without his or her consent. The Board may not, without the prior approval of stockholders, amend the plan to increase the number of shares reserved for grant under the plan, change the employees eligible to participate, or otherwise if a stockholder vote is required to comply with any tax or regulatory requirement.

Share Repurchases in 2004

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan	Approximate Dollar Amount of Shares that May Yet Be Purchased Under the Plan (1)
Jan 1 - Apr 30	—	—	—	—
May 1 - May 31	7,305	$ 7.66	7,305	$ 2,944,016
Jun 1 - Jun 30	66,800	$ 7.76	66,800	$ 2,425,796
Jul 1 - Jul 31	126,400	$ 7.79	126,400	$ 1,440,707
Aug 1 - Aug 31	3,850	$ 7.60	3,850	$ 1,411,461
Sept 1 - Sept 30	121,800	$ 7.94	121,800	$ 444,333
Oct 1 - Oct 31	38,945	$ 8.13	38,945	$ 127,807
Nov 1 - Nov 30	16,600	$ 8.23	16,600	$ 0(2)
Total	381,700	$ 7.88	381,700	$ 0

(1) On May 24, 2004, the Fund announced that the Board of Directors had authorized the purchase of up to $3 million of the Fund's common stock through open market transactions.

(2) On November 12, 2004, the Board of Directors approved the additional $8,795 needed to complete the Fund's common stock repurchase.

Item 6. Selected Financial Data.

Following is a summary of selected financial data and per share data of the Fund for the five years ended December 31, 2004. Amounts are in thousands except per share data. All shares and per share amounts have been retroactively adjusted to reflect the 10% stock dividend declared and paid in 2001.

	2004	2003	2002	2001	2000
Total investment income	$ 6,196	$ 7,166	$ 2,987	$ 2,714	$ 5,117
Net investment income	$ 3,706	$ 3,398	$ 145	$ 1,155	$ 549
Realized gain (loss) on dispositions of portfolio securities, net	$ (5,474)	$ (5,508)	$ 802	$ (7,196)	$ (6,161)
Increase (decrease) in unrealized appreciation of portfolio securities, net	$ 3,003	$ (2,159)	$ (924)	$ (3,674)	$ 282
Total increase (decrease) in net assets from operations	$ 1,236	$ (4,269)	$ 24	$ (9,716)	$ (5,329)
Dividends declared	$ 3,560	$ 4,556	$ —	$ —	$ 3,844
Total assets at end of year	$ 94,622	$ 132,908	$ 148,337	$ 150,819	$ 176,018
Net assets at end of year	$ 68,600	$ 71,538	$ 76,976	$ 76,967	$ 90,925
Net cash provided by operating activities	$ 57,265	$ 11,429	$ 2,908	$ 13,182	$ 14,453
Shares outstanding at end of year	6,507	6,615	6,233	6,233	6,493
Average shares outstanding during year	6,462	6,244	6,233	6,363	6,457

Per Share Data:

	2004	2003	2002	2001	2000
Net investment income	$ 0.57	$ 0.54	$ 0.02	$ 0.18	$ 0.08
Realized gain (loss) on dispositions of portfolio securities, net	$ (0.84)	$ (0.88)	$ 0.13	$ (1.13)	$ (0.95)
Increase (decrease) in unrealized appreciation of portfolio securities, net	$ 0.46	$ (0.35)	$ (0.15)	$ (0.57)	$ 0.05
Diluted earnings (loss) per common share	$ 0.19	$ 0.68	$ —	$ (1.52)	$ (0.82)
Dividends declared	$ 0.57	$ 0.72	$ —	$ —	$ 0.55
Net asset value (including unrealized appreciation), end of year	$ 10.54	$ 10.81	$ 12.35	$ 12.35	$ 14.00
Diluted net asset value	$ 10.52	$ 10.75	$ 12.35	$ 12.25	$ 14.00

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview

Equus II Incorporated is a business development company which invests in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. We had investments in sixteen entities, including twelve portfolio companies, two venture capital funds and two entities which have disposed of substantially all of their assets and are awaiting liquidation at December 31, 2004. At December 31, 2003, we had investments in eighteen entities, including fifteen Portfolio Companies, two venture funds and one entity awaiting liquidation. We did not make any new investments in the twelve months ended December 30, 2004 or 2003.

We attempt to limit risk by investing in a portfolio of companies involved in different industries. We limit our initial investment in any company to no more than 15% of the Fund's net assets. However, at December 31, 2004, 22% of our net assets were invested in one portfolio company in the residential window industry.

The valuation of our investments is the most significant area of judgment impacting our financial statements. Our portfolio investments are valued at our estimates of fair value, with the net change in unrealized appreciation or depreciation included in the determination of net assets. Almost all of our long-term investments are in privately-held or restricted securities, the valuation of which is necessarily subjective. Actual values may differ materially from our estimated fair value. Portfolio valuations are determined quarterly by the Management Company, subject to the approval of the Board of Directors, and are based on a number of relevant factors.

Most of our Portfolio Companies utilize leverage, and the leverage magnifies the return on our investments. For example, if a portfolio company has a total enterprise value of $10 million and $7.5 million in funded indebtedness, its equity is valued at $2.5 million. If the enterprise value increases or decreases by 20%, to $12 million or $8 million, respectively, the value of the equity increases or decreases by 80%, to $4.5 million or $.5 million, respectively. This disproportionate increase or decrease adds a level of volatility to our equity-oriented portfolio securities.

We derive our cash flow from interest and dividends received and sales of securities from our investment portfolio. We pay certain administrative costs, management fees to the Management Company overseeing the portfolio, and interest expense on our existing debt. We also spend our cash on new investments, or follow-on investments which may be required by certain portfolio companies. Historically, our cash flow from interest and dividends has not been sufficient to cover our expenses and follow-on investments. Because our investments are illiquid, we have utilized leverage to provide the required funds, and the leverage is then repaid from the sale of portfolio securities. In April and May of 2004, we sold securities of two portfolio companies and paid off our loans. We have maintained substantial amounts of cash and cash equivalents since May 2004.

We have distributed to our stockholders any net taxable investment income or realized capital gains on an annual basis. We declared a net investment income dividend of $0.57 per share in 2004, all of which was qualifying dividend income. We declared a dividend of $0.72 per share in 2003, including $0.57 per share in qualifying dividend income and $0.15 per share as a return of capital.

Since we are a closed-end business development company, stockholders have no right to present their shares to the Fund for redemption. Because our shares might trade at a discount, our Board of Directors has determined that it would be in the best interest of our stockholders for the Fund to be authorized to attempt to reduce or eliminate the market value discount from net asset value. Accordingly, from time to time we may, but we are not required to, repurchase our shares (including by means of tender offers) to attempt to reduce or eliminate the discount or to increase the net asset value of our shares.

Significant Accounting Policies

Valuation of Investments - The valuation of our Portfolio Companies is the most significant area of judgment impacting the financial statements. Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with accounting principles generally accepted in the United States of America and the financial reporting policies of the SEC. The applicable methods prescribed by such principles and policies are described below:

Publicly-traded portfolio securities - Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities ("Valuation Discount"), if applicable.

Privately-held portfolio securities – The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by our Board of Directors. As a general principle, the current "fair value" of an investment is the amount we might reasonably expect to receive for it upon its current sale, in an orderly manner. Appraisal valuations are necessarily subjective and the Management Company's estimate of values may differ materially from amounts actually received upon the disposition of portfolio securities.

Generally, cost is the primary factor used to determine fair value until significant developments affecting a portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Management Company, subject to the approval of our Board of Directors. Appraisal valuations are based upon such factors as a portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

Most of our common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Management Company's experience in the private company

marketplace, and are necessarily subjective in nature. Most of our portfolio companies utilize a high degree of leverage. From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Management Company has a reasonable belief that a portfolio company will be able to restructure its loan agreements to adjust for any defaults, the portfolio company's securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on its indebtedness or is not successful in refinancing the debt upon its maturity, the value of the Fund's investment could be reduced or eliminated through foreclosure on the portfolio company's assets or the portfolio company's reorganization or bankruptcy.

We may also use, when available, third-party transactions in a portfolio company's securities as the basis of valuation (the "private market method"). The private market method is used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial conditions of the issuer. Certificates of deposit generally will be valued at their face value, plus interest accrued to the date of valuation.

On a daily basis, we adjust our net asset value for changes in the value of our publicly held securities and material changes in the value of our private securities, and report those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including *Barron's* and *The Wall Street Journal*.

Federal Income Taxes – We intend to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in our financial statements. As of December 31, 2004, the Fund had a capital loss carryforward of approximately $16,000,000, which may be used to offset future taxable capital gains. We borrow money from time to time to maintain our tax status under the Internal Revenue Code as a regulated investment company ("RIC"). See "Borrowings" and "Loss of Conduit Tax Treatment" for further discussions of our borrowings.

Liquidity and Capital Resources

At December 31, 2004, we had cash and unrestricted temporary investments of approximately $19 million. We had $48,621,356 of our total assets of $94,622,246 invested in portfolio securities of sixteen entities, including twelve portfolio companies, two venture capital funds, and two entities which have disposed of substantially all of their assets and are awaiting liquidation. $23,978,450 of our remaining assets were invested in U.S. Treasury Bills for the purpose of satisfying the diversification requirement to maintain our pass-through tax treatment. These securities were held by a securities brokerage firm and were pledged along with cash and other securities to secure the payment of the margin account balance. The U.S. Treasury bills were sold and the margin loan was repaid to the brokerage firm on January 3, 2005.

We had a $10,000,000 revolving line of credit with Bank of America, N.A. that expired on January 31, 2004. The line of credit was extended through March 15, 2004 at the reduced

maximum borrowing amount of $6,600,000. We used our revolving line of credit to pay operating expenses and for new and follow-on investments in portfolio securities. We had $5,000,000 outstanding under this line of credit at December 31, 2003, which was collateralized by our portfolio securities. In December 2003, we borrowed an additional $1,500,000 from an individual pursuant to a 9% promissory note, secured by 240,000 shares of common stock of Champion Window Holdings, Inc., due January 31, 2005, in order to fund a follow-on investment. This note was paid in full during April 2004.

Effective March 15, 2004, we entered into a new $6,500,000 revolving line of credit loan with Frost National Bank, which extends through March 31, 2005. The proceeds of the new loan were utilized to pay off the previous line of credit. There is no outstanding balance as of December 31, 2004, under the new line of credit, and the availability of such line is approximately $4 million. In March 2005, the Fund extended our revolving line of credit with The Frost National Bank through April 2006. We paid a commitment fee of $25,000 to extend the line of credit, and reduced the amount that may be borrowed to $5,000,000.

The new loan is collateralized by our investments in portfolio securities. The provisions of the new revolver include a borrowing base that cannot exceed 10% of the total value of eligible portfolio securities. Interest on the new revolving line of credit is payable quarterly at a rate of .50% above the floating prime rate, adjusted daily. A facility fee of .25% per annum on the unused portion of the line of credit is payable quarterly in arrears. We paid a commitment fee of $65,000 at the closing of the loan in March 2004 and a $25,000 fee in March 2005 to extend the loan through April 2006. Management believes that cash on hand and the new line of credit will provide us with sufficient liquidity to meet our known obligations, including expected follow-on investments, during 2005.

We declared a net investment income dividend of $0.57 per share for 2004, or $3,560,205. We paid $1,589,160 in cash and issued 260,719 additional shares of common stock at $7.56 per share on January 16, 2005. We declared a dividend of $0.72 per share for 2003, or $4,556,472. We paid $2,287,194 in cash and issued 286,540 additional shares of common stock at $7.919 per share on January 16, 2004.

Under certain circumstances, we may be called on to make follow-on investments in certain portfolio companies. If we do not have sufficient funds to make follow-on investments, the portfolio company in need of the investment may be negatively impacted. Also, our equity interest in and our estimated fair value of the portfolio company could be reduced. As of December 31, 2004, we have committed to invest up to an additional $990,000 in the two venture capital funds in our portfolio.

Net cash provided by operating activities was $57,264,888, $11,429,076 and $2,908,001 for the three years ended December 31, 2004, 2003, and 2002, respectively. Approximately $10.6 million in estimated value of our investments are in the form of notes receivable from portfolio companies. However, only two notes of the portfolio companies are currently consistently paying cash interest to us in accordance with their respective notes receivable, which aggregate $2,335,049 in fair value. At December 31, 2004, three of the promissory notes, with an estimated fair value of $4,605,980, provide that interest is paid in kind or that the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. The Fund has agreed to suspend the accrual of additional interest on one of its notes with a cost of $4,614,824 and fair value of $1,994,890.

Because of the nature and size of our portfolio investments, we periodically borrowed funds under a line of credit promissory note to make qualifying investments to maintain our tax status under the Internal Revenue Code as a regulated investment company ("RIC"). Our line of credit promissory note expired on January 1, 2003. During 2003 and 2004, we borrowed sufficient funds to maintain our RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on our net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to us and our stockholders.

We have the ability to borrow funds and issue forms of senior securities representing indebtedness or stock, such as preferred stock, subject to certain restrictions. Net taxable investment income and net taxable realized gains from the sales of portfolio investments are intended to be distributed at least annually, to the extent such amounts are not reserved for payment of expenses and contingencies or to make follow-on or new investments. Pursuant to the restrictions in our existing line of credit, we are not allowed to incur additional indebtedness unless approved by the lender.

We reserve the right to retain net long-term capital gains in excess of net short-term capital losses for reinvestment or to pay contingencies and expenses. Such retained amounts, if any, will be taxable to us as long-term capital gains and stockholders will be able to claim their proportionate share of the federal income taxes paid by the Fund on such gains as a credit against their own federal income tax liabilities. Stockholders will also be entitled to increase the adjusted tax basis of their Fund shares by the difference between their undistributed capital gains and their tax credit.

Results of Operations

Investment Income and Expense

Our net investment income after all expenses amounted to $3,706,343, $3,398,033, and $145,483 for the years ended December 31, 2004, 2003 and 2002, respectively. Interest and dividend income from portfolio securities was $6,017,545 in 2004, $7,161,128 in 2003, and $2,725,541 in 2002. The decrease in 2004 compared to 2003 is attributable primarily to interest income on notes receivable from Turfgrass America and Strategic Holdings, Inc., which were outstanding for all of 2003, but less than four months in 2004. The increase in 2003 was primarily due to the receipt of a cash dividend of $3.5 million on our common stock investment in Champion Window Holdings, Inc.

Interest expense was $281,057 in 2004 as compared to $985,967 in 2003 and $573,997 in 2002. The decrease in 2004 as compared to 2003 and 2002 is due primarily to the Fund paying off its bank line of credit in April 2004. The increase in 2003 was due primarily to the average interest rate on the loan being approximately four percentage points higher than the average rate paid in 2002 and fees of $120,670 paid to extend the previous line of credit during 2003.

Professional fees were $586,286 in 2004 as compared to $298,537 in 2003 and $250,704 during 2002. The increase in 2004 as compared to 2003 and 2002 is due primarily to legal fees incurred in 2004 related to the SEC matter concerning the officers' option exercise notes.

Mailing, printing and other expenses were $91,000 in 2004 as compared to $155,996 in 2003 and $119,747 during 2002. The decrease in 2004 as compared to 2003 is primarily due to one mid-year report being produced and mailed instead of quarterly reports.

We pay a management compensation fee to the Management Company at an annual rate of 2% of our net assets, paid quarterly in arrears. Such fees amounted to $1,382,680, $1,530,016, and $1,532,152 during 2004, 2003 and 2002, respectively. The decrease in 2004 was due to lower average net assets during the year.

On November 14, 2001, options to acquire a total of 990,000 shares at $7.69 per share (market price on date of grant) were issued to officers of the Fund. These options included dividend equivalent rights, which require that the options be accounted for using variable plan accounting. Such accounting resulted in additional non-cash compensation expense (benefit) of ($290,035), $387,002, and ($14,434) for the years ended December 31, 2004, 2003, and 2002, respectively. See Note 8 in the "Notes to the Financial Statements" for a table that reflects stock option activity for the three years ended December 31, 2004.

Realized Gains and Losses on Dispositions of Portfolio Securities

During the year ended December 31, 2004, we realized a net capital loss of $5,473,638 from the sale or disposition of portfolio securities as follows:

- exchanged our investment in Turfgrass America, Inc for an investment in the new entity Turf Grass Holdings, Inc., realizing a capital loss in the exchange of $6,049,696;
- sold 1,337,795 shares of ENGlobal, Inc. ("ENG") common stock, realizing a capital gain of $94,674;
- received proceeds of $10,579,395, including $385,000 as the estimated fair value to be received from amounts held in escrow, from the sale of our investment in Alenco Holding Corp. and distributions from Alenco Window Holdings LLC, realizing a net capital gain of $10,579,395;
- received proceeds of $14,196,000, including $2,275,000 as the estimated fair value to be received from amounts held in escrow, from the sale of our investment in Stategic Holdings Inc. and SMIP, realizing a net capital gain of $211,567;
- received proceeds of $100,000 for our investment in warrants related to our former investment in Carruth-Doggett, realizing a capital gain of $100,000;
- received proceeds of $72,002 from Milam Enterprises, LLC relating to our former investment, realizing a capital gain of $72,002;
- sold a portion of and exchanged the balance of our investment in Container Care International for securities of ConGlobal Industries, Inc. (formed from the merger of Container Care International and Global Intermodal Systems), realizing a capital loss of $8,860,360; and
- write-off of American Trenchless Technology, LLC, realizing a capital loss of $1,624,654.

In addition, we realized a net short term capital gain of $3,474 from the purchase and sale of U.S. Treasury Bills during 2004.

During the year ended December 31, 2003, we realized a net capital loss of $5,508,277 from the sale or disposition of portfolio companies as follows:

- received proceeds of $197,985 from our investment in Milam Enterprises LLC, realizing capital gains of $196,075;
- received proceeds of $2,406,398 from Doane PetCare Enterprises, Inc. for payment in full of its 15% promissory note, realizing a capital gain of $551,850;
- received proceeds of $500,000 for our investment in FS Strategies, Inc., realizing a capital loss of $8,758,667;
- sold 8,863 shares of Weatherford International common stock for $353,409, realizing a capital loss of $160,202;
- received proceeds of $3,452 from ENG in payment of 3,596 shares of common stock, realizing a capital gain of $1,350;
- received proceeds of $790,126 from the liquidation of GCS RE, Inc., realizing a capital gain of $469,202;
- sold 200,000 shares of NCI Building Systems, Inc. for $4,789,216, realizing a capital gain of $4,629,433;
- wrote off our investment in Equipment Support Services, Inc., realizing a capital loss of $3,168,500; and
- received proceeds of $1,105,712 from our investment in Reliant Window Holdings LLC, realizing a capital gain of $733,456.

In addition, we realized a net short term capital loss of $2,274 from the purchase and sale of U.S. Treasury Bills during 2003.

During the year ended December 31, 2002, we realized a net capital gain of $802,235 from the sale or disposition of securities of Portfolio Companies as follows:

- sold 60,595 shares of common stock of Weatherford International for $2,844,558, realizing a capital loss of $666,922;
- sold a portion of our investment in Travis International, Inc. for $921,577 in cash plus an interest in Milam Enterprises, LLC, realizing a capital gain of $918,091;
- received proceeds from Jones Industrial Holdings, Inc. for the redemption of 18,667 warrants, realizing a capital gain of $148,131; and
- received proceeds from our investment in Milam Enterprises LLC, realizing a capital gain of $402,935.

Unrealized Appreciation and Depreciation of Portfolio Securities

Net unrealized depreciation on investments decreased by $3,002,845 during the year ended December 31, 2004, from $7,576,155 to $4,573,310. This decrease in unrealized depreciation is due to the decrease in estimated fair value of five of our portfolio companies of ($9,897,478), and an increase in estimated fair value of securities of five of our portfolio companies and our two venture capital fund investments of $6,503,401. We also had transfers of ($8,199,773) from net unrealized appreciation to realized gains in connection with the sale of Alenco and the transfer of $14,596,695 from net unrealized depreciation to realized losses in three portfolio companies.

Net unrealized depreciation increased by $2,159,141 during the year ended December 31, 2003 from $5,417,014 to $7,576,155. This increase resulted from an increase in estimated fair value of securities of six of our portfolio companies of $7,520,643, a decrease in estimated fair value of securities of ten of our portfolio companies and our two venture capital fund investments of $17,775,571, and the transfer of $8,095,787 in net unrealized depreciation to net realized losses from the sale or disposition of investments in six Portfolio Companies.

Net unrealized depreciation increased by $924,020 during the year ended December 31, 2002 from $4,492,994 to $5,417,014. Such increase resulted from an increase in estimated fair value of securities of ten of our portfolio companies of $20,949,486, a decrease in estimated fair value of securities of twelve of our portfolio companies and our two venture capital fund investments of $20,457,188, and the transfer of $1,416,318 in net unrealized depreciation to net realized losses from the sale or disposition of investments in five portfolio companies.

Capital Transactions

Dividends

We declared a dividend of $3,560,205 ($0.57 per share) during 2004, all classified as qualifying dividend income. The 2004 dividend was paid in additional shares of common stock or in cash by specific election made by each stockholder in December 2004. The Fund paid $1,589,160 in cash and issued 260,719 additional shares of stock at $7.56 per share in January 2005, in connection with such dividend. The 260,719 shares of stock are included in outstanding shares as of December 31, 2004. The Fund also declared dividends of $4,556,772 ($0.72 per share) during 2003, including $0.57 per share in qualifying dividend income and $0.15 per share as return of capital. We did not have any net taxable ordinary income or capital gains for the calendar year 2002 and did not declare or pay a dividend in 2002.

Common Stock Repurchases

In May through November 2004, the Fund repurchased 381,700 shares of its common stock in the open market for $3,008,795. The 381,700 shares were purchased at an average discount of approximately 27% from net asset value, and the effect of these transactions added approximately $0.18 per share to the net asset value of our outstanding shares.

Note Settlement

To resolve issues surrounding transactions related to loans to officers for the exercise of stock options in 1997, the Fund issued releases from claims to three officers and one former officer in consideration of their payment to the Fund of an aggregate of $629,785 in cash in November and December 2004. See "Item 1. Business - Regulation." These payments had the effect of adding approximately $0.10 to the net asset value of our outstanding shares. Also in December 2004, the Fund, upon recommendation of the special committee and receipt of a fairness opinion, agreed to accept the return of options to purchase 198,000 shares of the Fund's common stock at $7.69 per share from a second former officer in lieu of a cash payment of $186,574 in exchange for a similar release.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board ("FASB") approved the revision of SFAS 123, Accounting for Stock-Based Compensation, and issued the revised SFAS Statement No. 123R, "Share-Based Payment." SFAS 123R effectively replaces SFAS 123, and supersedes APB opinion No. 25, "Accounting for Stock Issued to Employees." The new standard is effective for awards that are granted, modified or settled in cash for interim or annual periods beginning after June 15, 2005. The adoption of SFAS 123R will require the Fund to begin expensing unvested or newly granted stock options as compensation cost.

We currently use the intrinsic value method to value stock options, and accordingly, no compensation expense has been recognized for stock options since we grant stock options with exercise prices equal to our common stock market price on the date of grant. SFAS 123(R) requires the expensing of all stock-based compensation, including stock options using the fair value method. We are currently evaluating the impact to the Fund of adopting this standard.

Portfolio Investments

As of December 31, 2004, we had active investments in the following entities or Portfolio Companies:

Alenco Window Holdings, LLC
(formerly Reliant Window Holdings, LLC)

Alenco Holding Corporation ("Alenco"), Bryan, Texas, was formed to purchase certain assets of Reliant Building Products, Inc. ("Reliant") pursuant to a plan of reorganization confirmed in bankruptcy court in 2001. Alenco manufactures aluminum and vinyl windows in two plants, one in Bryan and one in Peachtree City, Georgia, for single and multi-family residential purposes.

Alenco Window Holdings, LLC ("AWH") was formed to acquire the senior secured debt of Reliant, which it exchanged for notes receivable from and an equity interest in Alenco. We initially invested in AWH through Reliant Window Holdings, LLC ("RWH"). During the fourth quarter of 2003, RWH was dissolved. Upon dissolution, we received cash and a 32.25% membership interest of AWH. In May 2004, the Fund and AWH sold their investments in Alenco. AWH holds cash and the right to receive proceeds of up to $1,968,000 from a cash escrow account set up upon the sale of Alenco in May 2004. The escrow funds are subject to claims that may be made related to the representations and warranties in the Alenco sale agreement. AWH has valued the escrow receivable at $1,250,000 at December 31, 2004. At December 31, 2004, our investment in AWH was valued at $400,000 with no cost, and consisted of a 32.25% membership interest. Nolan Lehmann, President of the Fund, serves as a member of the board of managers of AWH.

During 2004, we recorded realized capital gains aggregating $10,579,395 from the sale of our investment in Alenco and distributions received from AWH.

The Bradshaw Group

The Bradshaw Group ("TBG"), Dallas, Texas, provides innovative printing solutions primarily for customers in need of high-speed mass printings. TBG maintains a web site at www.bradshawgroup.com. At December 31, 2004 and 2003, our investment in TBG was valued at zero with a cost of $1,794,547. Our investment consisted of 1,335,000 shares of preferred stock, a warrant to buy 2,229,450 shares of common stock at $0.01 through May 2008, a 15% promissory note in the amount of $459,546 and a prime + 2% promissory note in the amount of $398,383, representing an approximate 17.8% fully-diluted equity interest. Gary L. Forbes, a Vice President of the Fund, serves on TBG's Board of Directors.

Champion Window Holdings, Inc.

Champion Window Holdings, Inc. ("Champion"), Houston, Texas, manufactures and sells aluminum and vinyl windows for single and multi-family residential purposes, primarily in Texas. Most of Champion's sales are for new construction, sold directly to homebuilders. Champion maintains a web site at www.championwindow.net.

At December 31, 2004 our investment in Champion, valued at $15,400,000 with a cost of $1,471,800, consisted of 1,410,000 shares of common stock and a warrant to purchase 10,000 shares of common stock at $12.50 per share through June 2009. Our investment in Champion represents an approximate 31% fully-diluted equity interest. Sam P. Douglass, Chairman and CEO of the Fund, and Mr. Lehmann serve as directors of Champion.

At December 31, 2003, our investment in Champion, valued at $19,668,200 with a cost of $1,400,000, consisted of 1,400,000 shares of common stock and a warrant to purchase 10,000 shares of common stock at $7.18 per share through July 2008.

During 2004, we recorded a reduction in unrealized appreciation of $4,340,000 on the Champion investment, which was partially offset by a cash dividend of $3,525,000 from Champion.

CMC Investments, LLC

CMC Investments, LLC, ("CMC"), Houston, Texas, invested in Cooper Manufacturing Company, which manufactured drilling rigs for the oil and gas industry. The investment in CMC was received by us upon the liquidation of Tulsa Industries, Inc., a former investment.

At December 31, 2004 and December 31, 2003, our investment in CMC was valued at $65,000 with a cost of $525,000. Our investment consists of a 21% membership interest in CMC. We expect that CMC will be liquidated in 2005.

ConGlobal Industries, Inc (formerly Container Acquisition, Inc). / CCI-ANI Finance, LLC

ConGlobal Industries, Inc (formerly Container Acquisition, Inc.) ("ConG"), Houston, Texas, provides logistics and maintenance services to owners and lessees of international shipping containers. ConG maintains a web site at www.cgini.com.

At December 31, 2004, our investment in ConG, valued at $680,000 with a cost of $4,081,634, consisted of 24,397,303 shares of common stock, and a subordinated promissory note with a cost of $2,711,139 ($3,265,762 face less OID of $554,623.) Our investment in ConG represents an approximate 28.5% fully-diluted equity interest. Mr. Lehmann serves on ConG's Board of Directors.

CCI-ANI Finanace, LLC ("CCI-ANI") was formed to purchase a subordinated seller note from the former owner of Container-Care International in 2002. We owned approximately 85%

of CCI-ANI, and acquired the remaining approximately 15% in 2004. At December 31, 2004 our ownership interest was valued at $570,000 with a cost of $1,926,942. Mr. Lehmann serves on the board of managers of CCI-ANI.

At December 31, 2003, our investment in Container Acquisition, Inc., was valued at $2,275,000 with a cost of $13,000,218. At December 31, 2003, our ownership interest in CCI-ANI was valued at $1,300,000, with a cost of $1,571,000.

During 2004, we recorded realized losses of $8,860,360 and additional unrealized depreciation of $1,594,663 on our investments in ConG and CCI-ANI.

Doane PetCare Enterprises, Inc.

Doane PetCare Enterprises, Inc. ("Doane"), Nashville, Tennessee, is the largest producer of private-label dry pet food in the United States, with revenues of over $1 billion in 2004. Doane maintains a website at www.doanepetcare.com. At December 31, 2004, our investment in Doane was valued at zero with a cost of $3,936,644. Our investment consists of 1,943,598 shares of common stock, and represents an approximate 5% fully-diluted equity interest.

At December 31, 2003, our investment in Doane was valued at $1,000,000. During 2004, we recorded additional unrealized depreciation of $1 million on our investment in Doane, reducing the valuation to zero.

The Drilltec Corporation

The Drilltec Corporation ("Drilltec"), Houston, Texas, provides thread protectors and packaging for premium tubular goods, drill pipe and line pipe, utilized primarily in the oil and gas industry. Drilltec maintains a web site at www.drilltec.com. At December 31, 2004 and 2003, our investment in Drilltec, valued at zero with a cost of $1,000,000, consisted of a prime + 9.75% promissory note. We recognized a loss of $7,645,000 on our investment in the preferred stock and common stock of Drilltec in October 2000. Our investment in Drilltec represents an approximate 62% fully-diluted equity interest. Mr. Forbes serves on Drilltec's Board of Directors.

ENGlobal Corporation (AMEX: ENG)
(formerly Industrial Data Systems Corporation and Petrocon Engineering Inc.)

ENGlobal Corporation ("ENG"), Houston, Texas, provides engineering consulting, control systems, field inspections and plant maintenance services, primarily to the energy industry. ENG maintains a website at www.englobal.com. On December 21, 2001, Petrocon Engineering Inc. ("Petrocon") was merged into ENG. As a result of the merger, we recorded a book capital loss of $510,000. At December 31, 2004, our investment in ENG consisted of 1,033,456 shares of common stock and was valued at $2,778,878, with a cost of $604,058. Our investment in ENG represents an approximate 4.4% fully diluted equity interest at December 31, 2004.

At December 31, 2003, our investment in ENG was valued at $5,834,377, with a cost of $5,789,192. In 2004, ENG paid our subordinated note in full and purchased 86,163 shares of our ENG common stock, which were being held in escrow, for $0.96 per share, payable in three equal payments at year end of 2004, 2005 and 2006.

In 2004, we sold 1,337,795 shares of ENG common stock, realizing a capital gain of $94,674. We also recorded net unrealized appreciation of $2,129,600 on our ENG investment during 2004.

Equicom, Inc. (formerly Texrock Radio, Inc.)

Equicom, Inc. ("Equicom"), Bryan, Texas, was formed to acquire radio stations in small to medium-sized cities in Texas. At December 31, 2004, Equicom owned and operated 4 radio stations in the Bryan area. At December 31, 2004, our investment in Equicom, valued at $3,931,351 with a cost of $13,268,644, consisted of 452,000 shares of common stock, 657,611 shares of preferred stock, $4,614,824 in a 10% subordinated promissory note, $905,110 in a 10% senior subordinated promissory note and $1,031,350 in an 8.81% senior secured promissory note we purchased from Equicom's former lender. Our investment in Equicom represents an approximate 56% fully-diluted equity interest at December 31, 2004.

At December 31, 2003, our investment in Equicom, valued at $2,300,000 with a cost of $10,474,090, consisted of 452,000 shares of common stock, 657,611 shares of preferred stock and $3,756,730 in 10% promissory notes.

During 2004, we recorded unrealized depreciation of $1,163,200 on our investment in Equicom.

Jones Industrial Services, Inc. (formerly United Industrial Services, Inc.)

Jones Industrial Services, Inc. ("JIS"), Houston, Texas, was formed to acquire businesses providing field services for the petrochemical and power generation industries. At December 31, 2004, our investment in JIS was valued at $3,200,000 with an original cost of $3,500,100 and consisted of 35,000 shares of preferred stock and warrants to buy up to 63,637 shares of common stock at $0.01 per share through June 2008. Our investment in JIS represents an approximate 37.4% fully-diluted equity interest. Mr. Forbes serves on JIS's Board of Directors.

At December 31, 2003, our investment in JIS was valued at $2,775,000 with an original cost of $3,500,100.

During 2004, we increased the value of the investment in JIS by $425,000.

PalletOne, Inc.

PalletOne, Inc. ("PalletOne"), Bartow, Florida, was formed to acquire and operate wooden pallet manufacturing facilities in eight states. PalletOne maintains a website at www.palletone.com. At December 31, 2004, our investment in PalletOne, valued at $4,842,650 with a cost basis of $4,542,650, consisted of 350,000 shares of common stock and 4,192,650 shares of preferred stock, representing an approximate 21% fully-diluted equity interest. Mr. Lehmann and Mr. Forbes serve as directors of PalletOne.

At December 31, 2003, our investment in PalletOne, valued at $3,800,000 with a cost basis of $4,161,500, consisted of 350,000 shares of common stock and 3,811,500 shares of preferred stock.

We received a dividend on the preferred stock in 2004 paid by the issuance of 381,150 additional preferred shares. During 2004, we recorded unrealized appreciation of $661,500 on the investment in PalletOne.

Sovereign Business Forms, Inc.

Sovereign Business Forms, Inc. ("Sovereign"), Houston, Texas, is a manufacturer of wholesale business forms, with operations in six states. At December 31, 2004, our investment in Sovereign, valued at $7,249,779 with a cost of $6,949,779, consisted of 22,858 shares of preferred stock, $4,663,979 in 15% promissory notes and warrants to buy up to 551,894, 25,070 and 273,450 shares of common stock at $1, $1.25 and $1 per share through August 2006, October 2007 and October 2009, respectively. Our investment represents an approximate 31% fully-diluted equity interest in Sovereign. Mr. Forbes serves on Sovereign's Board of Directors.

At December 31, 2003, our investment in Sovereign, valued at $6,098,709 with a cost of $6,438,909, consisted of 20,912 shares of preferred stock, $4,347,709 in 15% promissory notes and warrants to buy up to 551,894, 25,070 and 273,450 shares of common stock at $1, $1.25 and $1 per share through August 2006, October 2007 and October 2009, respectively.

Sovereign paid interest-in-kind of $316,270 in 2004 by adding such amount to the principal of the notes, and paid $340,457 in cash interest. Sovereign also issued 1946 shares of preferred stock as dividends paid-in-kind for 2004.

During 2004, we recorded unrealized appreciation on the investment in Sovereign of $640,200.

Spectrum Management, LLC

Spectrum Management, LLC ("Spectrum"), Dallas, Texas, was formed to acquire a business which provides security devices to financial institutions. At December 31, 2004, our investment in Spectrum, valued at $7,303,698 with a cost of $4,153,698, consisted of 285,000 units of Class A equity interest and a 16% subordinated promissory note in the amount of $1,303,698. Our investment in Spectrum represents an approximate 79% fully-diluted equity interest. Mr. Forbes serves on the board of directors of Spectrum.

At December 31, 2003, our investment in Spectrum, valued at $4,803,698 with a cost of $4,153,698, consisted of 285,000 units of Class A equity interest and a 16% subordinated promissory note in the amount of $1,303,698.

During 2004, we recorded unrealized appreciation on the investment in Spectrum of $2,500,000.

Sternhill Partners I, L.P.

Sternhill Partners I, L.P. ("Sternhill"), Houston, Texas, is a venture capital fund which was formed to invest in seed and early stage information, communication and entertainment technology companies. Sternhill maintains a web site at www.sternhillpartners.com. At December 31, 2004, our investment in Sternhill was valued at $1,050,000 with a cost of $2,431,604. We have committed to invest up to an additional $90,000 in Sternhill. Our investment consists of a 3% limited partnership interest.

At December 31, 2003, our investment in Sternhill was valued at $700,000 with a cost of $2,176,604.

During 2004, we invested an additional $255,000 in Sternhill and recorded unrealized appreciation of $95,000 on the investment.

Turf Grass Holdings, Inc (formerly Turfgrass America, Inc.).

Turfgrass America, ("Turfgrass"), Granbury, Texas, was formed for the purpose of acquiring several companies which grow and market warm season turfgrass, including Milberger Turf Farms and Thomas Bros. Grass. Turfgrass is one of the largest warm season turfgrass companies in the United States. Turfgrass maintains a web site at www.turfgrassamerica.com. At December 31, 2004, our investment in Turfgrass was valued at zero with a cost of $959,632. Our investment consisted of 1,000 shares of common stock of Turf Grass Holdings, Inc., which is wholly-owned by the Fund and which owns an approximate 15% fully-diluted equity interest in Turfgrass. Mr. Douglass serves as a director of Turfgrass.

At December 31, 2003, our investment in Turfgrass was valued at zero with a cost of $6,099,328. In addition we had $900,000 of accrued interest receivable on our notes from Turfgrass.

In March 2004, another investor acquired 51% of a new limited liability company which acquired substantially all of the operating assets of Turfgrass. Our promissory notes (including accrued interest), preferred stock, common stock and warrants were exchanged for approximately 15% of the common stock of the new entity. We realized a net capital loss of $6,049,696 on this transaction. We also recorded additional unrealized depreciation of $959,632 on our investment in 2004.

Vanguard VII, L.P.

Vanguard VII, L.P. ("Vanguard"), Houston, Texas, is a venture capital fund which was formed to invest in seed and early stage communications and life science technology companies. Vanguard maintains a web site at www.vanguardventures.com. At December 31, 2004, the investment in Vanguard was valued at $1,150,000 with a cost of $2,047,934. We have committed to invest up to an additional $900,000 in Vanguard. Our investment consists of a 1.3% limited partnership interest.

At December 31, 2003, the investment in Vanguard was valued at $550,000 with a cost of $1,500,000.

During 2004, we invested an additional $600,000 in Vanguard and received our first distribution from Vanguard of $52,066. This payment reduced our cost in Vanguard from $2,100,000 to $2,047,934.

Summary of New and Follow-On Investments.

During the year ended December 31, 2004, we made follow-on investments of $8,570,876 in eight portfolio companies, including $3,753,240 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes.

On February 24, 2004, we exercised warrants in Champion and acquired 10,000 shares of common stock for $71,800.

For the year ended December 31, 2004, we received an additional 1,946 and 381,150 shares of preferred stock valued at $194,600 and $381,150 of Sovereign and PalletOne in dividends, respectively. In addition, Sovereign elected to convert $316,270 of accrued interest into the balance of the 15% promissory notes due to the Fund.

On January 12, 2004 we advanced $75,000 to Equicom pursuant to a 10% promissory note. On September 24, 2004, the Fund paid $1,038,342 to Equicom's senior debt holder, to acquire their senior note. At December 31, 2004, $1,713,204 of accrued interest receivable was added to the cost balance of the notes receivable from Equicom.

In March and December 2004 we invested an additional $300,000 each (aggregate $600,000) into Vanguard, pursuant to a $3,000,000 commitment made in June 2000.

In March 2004 we exchanged our investment in Turfgrass America, Inc. for 1000 shares of common stock of Turf Grass Holdings, Inc. We transferred $900,000 of accrued interest and $49,632 of the cost of the original Turfgrass investment into the cost of the new investment in Turf Grass Holdings, Inc. On July 12, 2004, the Fund made a follow-on investment into Turf Grass of $10,000 in cash.

In June and December 2004, we invested an additional $150,000 and $105,000, respectively, in Sternhill pursuant to a $2,550,000 commitment made in March 2000.

On September 3, 2004, Container Acquisition, Inc. and Global Intermodal Systems completed a merger, with the surviving entity changing its name to ConGlobal Industries, Inc. The Fund sold a portion of its former investment in Container Acquisition and exchanged the rest for a new subordinated promissory note with a face value of $3,265,762 (which was recorded net of original issue discount at a cost of $2,648,791), and 23,027,303 additional shares of ConGlobal common stock. We also acquired all of the other member's interest in CCI-ANI, which holds a subordinated promissory note receivable from ConGlobal with a face value of $2,734,238, recorded net of original issue discount of $516,555.

During the year ended December 31, 2003, we made follow-on investments of $6,685,841 in nine portfolio companies, including $1,545,841 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes.

During the year ended December 31, 2002, we invested $783,749 in two new limited liability companies, which in turn invested in two existing portfolio companies, and made follow-on investments of $8,451,097 in twelve portfolio companies, including $2,354,775 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on promissory notes.

Of the companies in which we have investments at December 31, 2004, only ENG is publicly held. The others each have a small number of stockholders and do not generally make financial information available to the public. However, each company's operations and financial information are reviewed by Management to determine our valuation of the Fund's investment. See "Valuation."

Subsequent Events

On January 4, 2005, the Fund received $83,853 preferred stock dividend payment from PalletOne, which was shown as a dividend receivable at December 31, 2004.

On January 4, 2005, the Fund received the first of three equal cash payments in the amount of $27,574 from the 86,163 shares of common stock sold to ENG. This amount is shown as an accounts receivable at December 31, 2004.

On January 4, 2005, the Fund issued 150,000 stock options (in the aggregate) to two officers at an exercise price at date of grant of $7.69.

On January 4, 2005, the Fund sold U.S. Treasury Bills for $23,979,363 and repaid the margin loan.

From January 3, 2005 through February 28, 2005, the Fund sold all 1,033,456 of our remaining shares of our common stock of ENG for proceeds of $2,493,240, realizing capital gains of $1,889,182.

In March 2005, the Fund extended our revolving line of credit with The Frost National Bank through April 2006. We paid a commitment fee of $25,000 to extend the line of credit, and reduced the amount that may be borrowed to $5,000,000.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk.

We are subject to financial market risks, including changes in interest rates with respect to our investments in debt securities and our outstanding debt payable, as well as changes in marketable equity security prices. We do not use derivative financial instruments to mitigate any of these risks. The return on our investments is generally not affected by foreign currency fluctuations.

Our investments in portfolio securities consist of some fixed rate debt securities. Since the debt securities are generally priced at a fixed rate, changes in interest rates do not directly impact interest income. In addition, changes in market interest rates are not typically a significant factor in our determination of fair value of these debt securities, since the securities are generally held to maturity. Their fair values are determined on the basis of the terms of the debt security and the financial condition of the issuer.

Borrowings under our lines of credit expose the Fund to certain market risks. Based on the average outstanding borrowings under our lines of credit for the year ended December 31, 2004, 2003 and 2002, respectively, of approximately $1,355,491, $10,528,000 and $12,325,000, a change of one percent in the interest rate would have caused a change in interest expense of approximately $13,555, $105,280 and $123,250. This change would have resulted in no change in net asset value per share at December 31, 2004 and a change of $0.02 in each of 2003 and 2002. We did not enter into our credit facility for trading purposes and the line of credit carries interest at a pre-agreed upon percentage point spread from the prime rate. There were no significant changes to the factors that affect market risk from 2003 to 2004. We obtained a new line of credit effective March 15, 2004, which expires on March 31, 2005. In March 2005, the Fund extended our revolving line of credit with The Frost National Bank through April 2006. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding our liquidity and capital resources.

A major portion of our investment portfolio consists of debt and equity investments in private companies. Modest changes in public market equity prices generally do not significantly impact the estimated fair value of these investments. However, significant changes in market equity prices can have a longer-term effect on valuations of private companies, which could affect the carrying value and the amount and timing of gains or losses realized on these investments. A portion of our investment portfolio also consists of common stocks in publicly traded companies. These investments are directly exposed to equity price risk, in that a hypothetical ten percent change in these equity prices would result in a similar percentage change in the fair value of these securities.

Item 8. Financial Statements and Supplementary Data.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Equus II Incorporated:

In our opinion, the accompanying balance sheets, including the schedules of portfolio securities, and the related statements of operations, changes in net assets and cash flows and the selected per share data and ratios present fairly, in all material respects, the financial position of Equus II Incorporated (a Delaware corporation) at December 31, 2004 and 2003, and the results of its operations, changes in net assets and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These financial statements and selected per share data and ratios are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and selected per share data and ratios based on our audits. We conducted our audits of these statements and selected per share data and ratios in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our procedures included physical inspection or confirmation of securities owned as of December 31, 2004. We believe that our audits provide a reasonable basis for our opinion. The selected per share data and ratios of Equus II Incorporated for each of the two years in the period ended December 31, 2001 were audited by other independent public accountants who have ceased operations. Those independent public accountants expressed an unqualified opinion on the selected per share data and ratios in their report dated March 1, 2002, which included an explanatory paragraph that described Equus Capital Management Corporation's (the "Management Company") valuation of investments in portfolio securities in the absence of readily ascertainable market values.

As discussed in Note 3, the financial statements include investments in portfolio securities valued at $48,621,356 (71% of net assets) and $75,553,608 (106% of net assets) as of December 31, 2004 and 2003, respectively, whose values have been estimated by the Management Company and approved by the Board of Directors of Equus II Incorporated in the absence of readily ascertainable market values. Those estimated values may differ materially from the values that would have been used had a ready market for the securities existed.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Houston, Texas
March 21, 2005

The following report is a copy of a report previously issued by Arthur Andersen LLP and has not been reissued by Arthur Andersen LLP. Equus II Incorporated's balance sheet as of December 31, 2001 and 2000 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2000 and 1999 and the selected per share data and ratios for the years ended December 31, 1998 and 1997 are not required to be presented and are not included in this Form 10-K.

Report of Previous Independent Public Accountants

To Equus II Incorporated:

We have audited the accompanying balance sheets of Equus II Incorporated (a Delaware corporation), including the schedules of portfolio securities, as of December 31, 2001 and 2000, and the related statements of operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2001, and the selected per share data and ratios for each of the five years in the period ended December 31, 2001. These financial statements and selected per share data and ratios are the responsibility of the management of Equus II Incorporated. Our responsibility is to express an opinion on these financial statements and selected per share data and ratios based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and selected per share data and ratios are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included physical inspection or confirmation of securities owned as of December 31, 2001, by correspondence with the custodian and brokers. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3, the financial statements include investments in portfolio securities valued at $79,750,789 (104% of net assets) and $90,328,540 (99% of net assets) as of December 31, 2001 and 2000, respectively, whose values have been estimated by Equus Capital Management Corporation (the "Management Company") and approved by the Board of Directors of Equus II Incorporated in the absence of readily ascertainable market values. We have reviewed the procedures used by the Management Company in arriving at their estimates of value of such securities and have inspected the underlying documentation, and in the circumstances we believe the procedures are reasonable and the documentation is appropriate. However, because of the inherent uncertainty of valuation, the Management Company's estimates of values may differ significantly from the values that would have been used had a ready market existed for the securities and the differences could be material.

In our opinion, the financial statements and selected per share data and ratios referred to above present fairly, in all material respects, the financial position of Equus II Incorporated as of December 31, 2001 and 2000, the results of its operations, changes in net assets and cash flows for each of the three years in the period ended December 31, 2001, and the selected per share data and ratios for each of the five years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ Arthur Andersen LLP

ARTHUR ANDERSEN LLP
Houston, Texas
March 1, 2002

Table of Contents

EQUUS II INCORPORATED
BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

	2004	2003
Assets		
Investments in portfolio securities at fair value (cost $53,194,666 and $83,129,763, respectively)	$ 48,621,356	$ 75,553,608
Restricted cash & temporary investments, at cost which approximates fair value	24,218,234	52,695,202
Cash	12,523	11,296
Temporary cash investments, at cost which approximates fair value	18,563,525	375,583
Accounts receivable	104,964	15,469
Accrued interest and dividends receivable due from portfolio companies	441,644	4,256,557
Escrowed receivables, at fair value	2,660,000	—
Total assets	$ 94,622,246	$ 132,907,715
Liabilities and net assets		
Liabilities:		
Accounts payable and accrued liabilities	$ 111,981	$ 240,186
Dividends payable	1,589,160	2,287,194
Due to management company	342,998	357,692
Borrowing under margin account	23,978,450	51,984,089
Revolving line of credit	—	5,000,000
Note payable	—	1,500,000
Total liabilities	26,022,589	61,369,161
Commitments and contingencies		
Net assets:		
Preferred stock, $.001 par value, 5,000,000 shares authorized, no shares outstanding	—	—
Common stock, $.001 par value, 25,000,000 shares authorized, 6,506,692 and 6,615,173 shares outstanding, respectively	6,507	6,615
Additional paid-in capital	84,174,979	84,497,378

Undistributed net investment income (losses)	(12,367)	(695,282)
Undistributed net capital gains (losses)	(10,996,152)	(4,694,002)
Unrealized depreciation of portfolio securities, net	(4,573,310)	(7,576,155)
Total net assets	$ 68,599,657	$ 71,538,554
Net assets per share	$ 10.54	$ 10.81

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Investment income:			
Interest income from portfolio securities	$ 1,832,942	$ 2,884,655	$ 1,063,676
Dividend income from portfolio securities	4,184,603	4,276,473	1,661,865
Interest from temporary cash investments	148,223	4,608	21,170
Other income	30,000	—	240,000
Total investment income	6,195,768	7,165,736	2,986,711
Expenses:			
Management fee	1,382,680	1,530,016	1,532,152
Director fees and expenses	298,087	245,839	241,266
Professional fees	586,286	298,537	250,704
Administrative fees	50,000	50,000	50,000
Mailing, printing and other expenses	91,000	155,996	119,747
Interest expense	281,057	985,967	573,997
Compensation expense (benefit)	(290,035)	387,002	(14,434)
Excise tax	(37,332)	36,832	36,832
Franchise taxes	127,682	77,514	50,964
Total expenses	2,489,425	3,767,703	2,841,228
Net investment income	3,706,343	3,398,033	145,483
Realized gain (loss) on dispositions of portfolio securities, net	(5,473,638)	(5,508,277)	802,235
Unrealized depreciation of portfolio securities, net:			
End of year	(4,573,310)	(7,576,155)	(5,417,014)
Beginning of year	(7,576,155)	(5,417,014)	(4,492,994)
Increase (decrease) in unrealized depreciation of portfolio securities, net			

	3,002,845	(2,159,141)	(924,020)
Total increase (decrease) in net assets from operations	$ 1,235,550	$ (4,269,385)	$ 23,698
Increase (decrease) in net assets from operations per share:			
Basic	$ 0.19	$ (0.68)	$ 0.00
Diluted	$ 0.19	$ (0.68)	$ 0.00
Weighted average shares outstanding, in thousands			
Basic	6,462	6,244	6,233
Diluted	6,474	6,244	6,233

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Operations:			
Net investment income	$ 3,706,343	$ 3,398,033	$ 145,483
Realized gain (loss) on dispositions of portfolio securities, net	(5,473,638)	(5,508,277)	802,235
Increase (Decrease) in unrealized depreciation of portfolio securities, net	3,002,845	(2,159,141)	(924,020)
Increase (decrease) in net assets from operations	1,235,550	(4,269,385)	23,698
Capital transactions:			
Non-cash compensation expense (benefit)	(302,402)	387,002	(14,434)
Increase from officer notes settlement	629,785	—	—
Stock repurchase	(3,008,795)	—	—
Dividends declared	(3,560,205)	(4,556,472)	—
Shares issued in dividend	1,971,045	2,269,278	—
Options exercised by directors and officers	96,125	732,036	—
Decrease in net assets from capital share transactions	(4,174,447)	(1,168,156)	(14,434)
Increase (decrease) in net assets	(2,938,897)	(5,437,541)	9,264
Net assets, at beginning of year	71,538,554	76,976,095	76,966,831
Net assets, at end of year	$ 68,599,657	$ 71,538,554	$ 76,976,095

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002

	2004	2003	2002
Cash flows from operating activities:			
Interest and dividends received	$ 6,167,947	$ 3,973,977	$ 912,404
Cash paid to management company, directors, bank and suppliers	(2,934,726)	(3,368,585)	(2,921,745)
Purchase of portfolio securities	(2,048,076)	(5,140,000)	(6,880,071)
Proceeds from dispositions of portfolio securities	25,230,784	8,289,479	6,944,160
Principal payments from portfolio securities	2,371,991	2,369,547	853,522
Sales of restricted temporary cash investments	28,476,968	5,304,797	4,000,000
Advances to portfolio companies	—	(139)	(269)
Net cash provided by operating activities	57,264,888	11,429,076	2,908,001
Cash flows from financing activities:			
Advances from bank	3,034,044	5,300,000	246,935,000
Repayments to bank	(8,034,044)	(71,075,000)	(249,360,000)
Borrowings under margin account	120,970,498	292,870,318	—
Repayments under margin account	(148,976,138)	(240,886,229)	—
Borrowing (Repayment) of note payable	(1,500,000)	1,500,000	—
Repurchase of common stock	(3,008,795)	—	—
Dividends paid	(2,287,194)	—	—
Exercise of stock options	96,125	732,036	—
Payments received on officer notes	629,785	—	—
Net cash used by financing activities	(39,075,719)	(11,558,875)	(2,425,000)
Net increase (decrease) in cash and cash equivalents	18,189,169	(129,799)	483,001
Cash and cash equivalents at beginning of year	386,879	516,678	33,677
Cash and cash equivalents at end of year	$ 18,576,048	$ 386,879	$ 516,678

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2004, 2003 AND 2002
(Continued)

	2004	2003	2002
Reconciliation of increase (decrease) in net assets from operations to net cash provided by operating activities:			
Increase (decrease) in net assets from operations	$ 1,235,550	$ (4,269,385)	$ 23,698
Adjustments to reconcile increase (decrease) in net assets from operations to net cash provided by operating activities:			
Realized (gain) loss on dispositions of portfolio securities, net	5,473,638	5,508,277	(802,235)
Decrease (increase) in unrealized appreciation, net	(3,002,845)	2,159,141	924,020
Decrease (increase) in accrued interest receivable due from portfolio companies	3,814,913	(1,645,918)	280,468
Increase in accounts receivable and other	(89,495)	(139)	(269)
Accrued interest or dividends exchanged for portfolio securities	(3,753,240)	(1,545,841)	(2,354,775)
Non-cash compensation expense (benefit)	(290,035)	387,002	(14,434)
Increase (decrease) in accounts payable and accrued liabilities	(140,572)	39,304	(66,129)
Increase (decrease) in due to management company	(14,694)	(27,188)	46
Purchase of portfolio securities	(2,048,076)	(5,140,000)	(6,880,071)
Proceeds from dispositions of portfolio securities	25,230,785	8,289,479	6,944,160
Principal payments from portfolio securities	2,371,991	2,369,547	853,522
Sales of restricted temporary cash investments	28,476,968	5,304,797	4,000,000
Net cash provided by operating activities	$ 57,264,888	$ 11,429,076	$ 2,908,001

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
SELECTED PER SHARE DATA AND RATIOS
FOR THE FIVE YEARS ENDED DECEMBER 31, 2004

	2004	2003	2002	2001	2000
Selected per share data:					
Investment income	$ 0.96	$ 1.15	$ 0.48	$ 0.43	$ 0.79
Expenses	0.39	0.60	0.46	0.25	0.71
Net investment income	0.57(1)	0.55	0.02	0.18	0.08
Realized gain (loss) on dispositions of portfolio securities, net	(0.84)	(0.88)	0.13	(1.13)	(0.95)
Increase (decrease) in unrealized appreciation of portfolio securities, net	0.46	(0.35)	(0.15)	(0.57)	0.05
Increase (decrease) in net assets from operations	0.19	(0.68)	—	(1.52)	(0.82)
Capital transactions:					
Officers notes settlement	0.10				
Dividends declared	(0.57)	(0.72)	—	—	(0.55)
Effect of common stock repurchases	0.18	—	—	0.17	0.46
Dilutive effect of shares issued in common stock dividend and options	(0.17)	(0.14)	—	(0.30)	(0.19)
Net decrease in assets from capital transactions	(0.46)	(0.86)	—	(0.13)	(0.28)
Net increase (decrease) in net assets	(0.27)	(1.54)	—	(1.65)	(1.10)
Net asset value at beginning of year	10.81	12.35	12.35	14.00	15.10
Net asset value at end of year	$10.54	$10.81	$ 12.35	$ 12.35	$14.00
Weighted average number of shares outstanding during year, in thousands	6,462	6,244	6,233	6,363	6,457
Market value per share at end of year	$ 7.71	$ 8.05	$ 6.64	$ 7.79	$ 8.01
Selected ratios:					
Ratio of total expenses to average net assets	3.55%	5.07%	3.69%	1.86%	4.75%
Ratio of net investment income (loss) to average net assets	5.29%	4.58%	0.19%	1.38%	0.57%
Ratio of increase (decrease) in net assets from operations to average net assets	1.76%	(5.75)%	0.03%	(11.57)%	(5.54)%

Total Return	2.90%	21.23%	(14.76)%	(2.75)%	(8.74)%

(1) Net investment income of $0.57 is calculated as the net investment income of $3,706,343 divided by the weighted average number of shares outstanding during the year of 6,462,138.

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2004

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Alenco Window Holdings, LLC	February 2001		
Holds cash and escrowed receivables			
- 32.25% membership interest		$ —	$ 400,000
The Bradshaw Group	May 2000		
Sells and services midrange and high-speed printing equipment			
- 1,335,000 shares of preferred stock		1,335,000	—
- Prime + 2% promissory note with a face amount of $398,383 (2)		—	—
- 15% promissory note (2)		459,546	—
- Warrant to buy 2,229,450 shares of common stock for $0.01 through May 2008		1	—
Champion Window Holdings, Inc.	March 1999		
Manufacturer & distributor of residential windows			
- 1,410,000 shares of common stock (1)		1,471,800	15,400,000
- Warrant to purchase 10,000 shares of common stock for $12.50 per share through June 2009		—	—
ConGlobal Industries (Formerly Container Acquisition, Inc.)	February 1997		
Shipping container repair & storage			
- 24,397,303 shares of common stock		1,370,495	—
- Member interest in CCI-ANI, LLC		1,926,942	570,000
- Promissory note (3)		2,711,139	680,000
CMC Investments, LLC	December 2001		
Awaiting liquidation			
- 21% membership interest		525,000	65,000

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2004

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Doane PetCare Enterprises, Inc.	October 1995		
Manufacturer of private label pet food			
- 1,943,598 shares of common stock		$ 3,936,644	$ —
The Drilltec Corporation	August 1998		
Provides protection & packaging for pipe & tubing			
- Prime + 9.75% promissory note [2]		1,000,000	—
ENGlobal, Inc. (AMEX: ENG)	December 2001		
Engineering and consulting services			
- 1,033,456 shares of common stock		604,058	2,778,878
- Options to acquire 200,000 shares of common stock exercisable only upon change of control		—	—
Equicom, Inc.	July 1997		
Radio stations			
- 452,000 shares of common stock		141,250	—
- 657,611 shares of preferred stock		6,576,110	—
- 10% subordinated promissory note		4,614,824	1,994,890
- 10% senior subordinated promissory note [1][3]		905,110	905,110
- 8.81% promissory note [1]		1,031,350	1,031,351
PalletOne, Inc.	October 2001		
Wooden pallet manufacturer			
- 4,192,650 shares of preferred stock [1][3]		4,192,650	4,192,650
- 350,000 shares of common stock		350,000	650,000
Sovereign Business Forms, Inc.	August 1996		
Business forms manufacturer			
- 22,858 shares of preferred stock [1][3]		2,285,800	2,285,800

- 15% promissory notes [1][3]	4,663,979	4,663,979
- Warrant to buy 551,894 shares of common stock at $1 per share through August 2006	—	197,700
- Warrant to buy 25,070 shares of common stock at $1.25 per share through October 2007	—	4,275
- Warrant to buy 273,450 shares of common stock at $1 per share through October 2009	—	98,025

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2004
(Continued)

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Spectrum Management, LLC	December 1999		
Business & personal property protection			
- 285,000 units of Class A equity interest		$ 2,850,000	$ 6,000,000
- 16% subordinated promissory note [1]		1,303,698	1,303,698
Sternhill Partners I, LP	March 2000		
Venture capital fund			
- 3% limited partnership interest		2,431,604	1,050,000
Turf Grass Holdings, Inc.	May 1999		
Grows, sells & installs warm season turfgrasses			
- 1,000 shares of common stock		959,632	—
Jones Industrial Services, Inc.	July 1998		
Field service for petrochemical & power generation industries			
- 35,000 preferred stock		3,500,000	3,200,000
- Warrants to buy 63,637 shares of common stock at $0.01 through June 2008		100	—
Vanguard VII, L.P.	June 2000		
Venture capital fund			
- 1.3% limited partnership interest		2,047,934	1,150,000
Total		$ 53,194,666	$ 48,621,356

(1) Income-producing. All other securities are considered non-income producing.
(2) As of December 31, 2004, the Fund has reduced the fair value of these notes to zero and has discontinued recognizing any additional interest income on these notes due to conditions specific to the respective Portfolio Companies. However, the Portfolio Companies are still liable for such notes and related interest.
(3) Income on these securities may be paid-in-kind by the issuance of additional securities or through the accretion of original issue discount.

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2004
(Continued)

Substantially all of the Fund's portfolio securities are restricted from public sale without prior registration under the Securities Act of 1933. The Fund negotiates certain aspects of the method and timing of the disposition of the Fund's investment in each portfolio company, including registration rights and related costs.

In connection with the investments in Champion Window Holdings, Inc., The Drilltec Corporation, Jones Industrial Services, Inc., and Sovereign Business Forms, Inc., rights have been obtained to demand the registration of such securities under the Securities Act of 1933, providing certain conditions are met. The Fund does not expect to incur significant costs, including costs of any such registration, in connection with the future disposition of its portfolio securities.

As defined in the Investment Company Act of 1940, during the year ended December 31, 2004, the Fund was considered to have a controlling interest in Champion Window Holdings, Inc., ConGlobal Industries, The Drilltec Corporation, Equicom, Inc., PalletOne, Inc., Sovereign Business Forms, Inc., and Spectrum Management, LLC. The fair value of the Fund's investment in ENGlobal, Inc. includes a discount of $424,836 from the closing market price to reflect the estimated effect of restrictions on the sale of such securities at December 31, 2004.

Income was earned in the amount of $5,898,107, $6,143,310 and $921,273 for the years December 31, 2004, 2003 and 2002, respectively, on portfolio securities of companies in which the Fund has a controlling interest. Income was earned in the amount of $119,438, $904,018 and $1,416,797 for the years ended December 31, 2004, 2003 and 2002, respectively, on portfolio securities of companies that are affiliates of the Fund but are not controlled by the Fund.

As defined in the Investment Company Act of 1940, all of the Fund's investments are in eligible portfolio companies except Sternhill Partners I, L.P. and Vanguard VII, L.P. The Fund provides significant managerial assistance to all of the portfolio companies in which it has invested, except Doane PetCare Enterprises, Inc. ("Doane"), ENGlobal, Inc., Sternhill Partners I, L.P., and Vanguard VII, L.P. The Fund provides significant managerial assistance to portfolio companies that comprise 90% of the total value of the investments in portfolio companies at December 31, 2004.

The investments in portfolio securities held by the Fund are not geographically diversified. All of the Fund's portfolio companies (except for Doane, PalletOne, Inc. and certain investments in the venture capital funds) are headquartered in Texas, although several have significant operations in other states.

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2004
(Continued)

The Fund's investments in portfolio securities consist of the following types of securities at December 31, 2004:

Type of Securities	Cost	Fair Value	Fair Value as a Percentage of Net Assets
Common stock	$ 8,833,878	$ 18,828,878	27.4%
Secured and subordinated debt	16,689,647	10,579,028	15.4%
Preferred stock	17,889,560	9,678,450	14.1%
Limited liability company investments	5,301,942	7,035,000	10.3%
Limited partnership investments	4,479,538	2,200,000	3.2%
Options and warrants	101	300,000	0.5%
Total	$ 53,194,666	$ 48,621,356	70.9%

Three notes receivable included in secured and subordinated debt with an estimated fair value of $4,605,980 provide that interest is paid in kind or that the original issue discount is accreted over the life of the notes, by adding such amount to the principal of the notes. In addition, cash payments of interest are being made currently on notes aggregating only $2,335,049 in fair value.

The following is a summary by industry of the Fund's investments as of December 31, 2004:

Industry	Fair Value	Fair Value as a Percentage of Net Assets
Business Products and Services	$ 14,553,477	21.2%
Engineering and Consulting Services	2,778,878	4.1%
Industrial Products and Services	3,200,000	4.7%
Media	3,931,351	5.7%
Residential Building Products	15,800,000	23.0%
Shipping Products and Services	6,092,650	8.9%
Venture Funds and Other	2,265,000	3.3%
Total	$ 48,621,356	70.9%

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2003

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Alenco Holding Corporation	February 2001		
(formerly Alenco Window Holdings II, LLC)			
Manufacturer & distributor of alumimmum and vinyl windows			
- 22,657 shares of common stock		$ 227	$ 3,600,000
- 32.25% membership interest in Alenco Window Holdings, LLC (*formerly Reliant Window Holdings, LLC*)		—	5,000,000
American Trenchless Technology, LLC	February 2001		
Boring, tunneling and directional drilling			
- 4,160 shares of common stock		1,324,694	—
- 50% membership interest in Glendale, LLC		300,000	—
The Bradshaw Group	May 2000		
Sells and services midrange and high-speed printing equipment			
- Prime + 2% promissory note with a face amount of $398,383 [2]		—	—
- 15% promissory note [2]		459,545	—
- 1,335,000 shares of preferred stock		1,335,000	—
- Warrant to buy 2,229,450 shares of common stock for $0.01 through May 2008		1	—
Champion Window Holdings, Inc.	March 1999		
Manufacturer & distributor of residential windows			
- 1,400,000 shares of common stock [1]		1,400,000	19,600,000
- Warrant to purchase 10,000 shares of common stock for $7.18 through July 2008		—	68,200
CMC Investments, LLC	December 2001		
Awaiting liquidation			
- 21% membership interest		525,000	65,000
Container Acquisition, Inc.	February 1997		
Shipping container repair & storage			

- Promissory note [1]	3,797,418	2,275,000
- 78,318 shares of preferred stock	7,831,800	—
- Conditional warrant to buy up to 370,588 shares of common stock at $0.01 through February 2007	1,000	—
- 1,370,000 shares of common stock	1,370,000	—
- 85% membership interest in CCI-ANI Finance, LLC	1,571,000	1,300,000

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Table of Contents

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2003
(Continued)

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Doane PetCare Enterprises, Inc.	October 1995		
Manufacturer of private label pet food			
- 1,943,598 shares of common stock		$ 3,936,644	$ 1,000,000
The Drilltec Corporation	August 1998		
Provides protection & packaging for pipe & tubing			
- Prime + 9.75% promissory note [2]		1,000,000	—
ENGlobal, Inc. (AMEX: ENG)	December 2001		
Engineering and consulting services			
- 9.5% promissory note [1]		2,340,000	2,340,000
- 2,371,251 shares of common stock		3,449,192	3,494,377
- Options to acquire 200,000 shares of common stock exercisable only upon change of control		—	—
Equicom, Inc.	July 1997		
Radio stations			
- 10% promissory notes		3,756,730	2,300,000
- 657,611 shares of preferred stock		6,576,110	—
- 452,000 shares of common stock		141,250	—
Jones Industrial Services, Inc.	July 1998		
Field service for petrochemical & power generation industries			
- 35,000 shares of preferred stock		3,500,000	2,775,000
- Warrant to buy 63,637 shares of common stock at $0.01 through June 2008		100	—
PalletOne, Inc.	October 2001		
Wooden pallet manufacturer			
- 3,811,500 shares of preferred stock [1][3]		3,811,500	3,800,000
- 350,000 shares of common stock			

	350,000	—

The accompanying notes are an
integral part of these financial statements.

Table of Contents

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2003
(Continued)

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Sovereign Business Forms, Inc.	August 1996		
Business forms manufacturer			
- 15% promissory notes [1][3]		$ 4,347,709	$ 4,347,709
- 20,912 shares of preferred stock [1][3]		2,091,200	1,751,000
- Warrant to buy 551,894 shares of common stock at $1 per share through August 2006		—	—
- Warrant to buy 25,070 shares of common stock at $1.25 per share through October 2007		—	—
- Warrant to buy 273,450 shares of common stock at $1 per share through October 2009		—	—
Spectrum Management, LLC	December 1999		
Business & personal property protection			
- 285,000 units of Class A equity interest		2,850,000	3,500,000
- 16% subordinated promissory note [1]		1,303,698	1,303,698
Sternhill Partners I, LP	March 2000		
Venture capital fund			
- 3% limited partnership interest		2,176,604	700,000
Strategic Holdings, Inc.	September 1995		
Processor of recycled glass			
- 15% promissory note		6,750,000	6,750,000
- 3,822,157 shares of Series B preferred stock		3,820,624	3,820,624
- Warrant to buy 225,000 shares of common stock at $0.4643 per share through August 2005		—	108,000
- Warrant to buy 100,000 shares of common stock at $1.50 per share through August 2005		—	—
- Warrant to buy 2,219,237 shares of common stock at $0.01 per share through November 2005		—	2,010,000
- 3,089,751 shares of common stock		3,088,389	2,820,000
- 15% promissory note of SMIP, Inc.		175,000	175,000
- 1,000 shares of SMIP, Inc. common stock		150,000	100,000

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
SCHEDULE OF PORTFOLIO SECURITIES
DECEMBER 31, 2003
(Continued)

Portfolio Company	Date of Initial Investment	Cost	Fair Value
Turfgrass America, Inc.	May 1999		
Grows, sells & installs warm season turfgrasses			
- 12% subordinated promissory note		$ 288,580	$ —
- 12% subordinated promissory note		502,035	—
- 12% subordinated promissory note with a face amount of $4,000,000 (3)		3,940,075	—
- 1,507,226 shares of convertible preferred stock		768,638	—
- Warrants to buy 250,412 shares of common stock at $0.51 per share through April 2010		—	—
- 211,184 shares of common stock		600,000	—
Vanguard VII, L.P.	June 2000		
Venture capital fund			
- 1.3% limited partnership interest		1,500,000	550,000
Total		$ 83,129,763	$ 75,553,608

(1) Income-producing. All other securities are considered non-income producing.
(2) As of December 31, 2003, the Fund has reduced the fair value of these notes to zero and has discontinued recognizing any additional interest income on these notes due to conditions specific to the respective Portfolio Companies. However, the Portfolio Companies are still liable for such notes and related interest.
(3) Income on these securities may be paid-in-kind by the issuance of additional securities or through the accretion of original issue discount.

The accompanying notes are an
integral part of these financial statements.

EQUUS II INCORPORATED
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2004, 2003 AND 2002

(1) Organization and Business Purpose

Equus II Incorporated (the "Fund"), a Delaware corporation, was formed by Equus Investments II, L.P. (the "Partnership") on August 16, 1991. On July 1, 1992, the Partnership was reorganized and all of the assets and liabilities of the Partnership were transferred to the Fund in exchange for shares of common stock of the Fund. The shares of the Fund trade on the New York Stock Exchange under the symbol EQS.

The Fund seeks to achieve capital appreciation by making investments in equity and equity-oriented securities issued by privately-owned companies in transactions negotiated directly with such companies. The Fund seeks to invest primarily in companies which intend to grow either by acquiring other businesses, including leveraged buyouts, or internally. The Fund may also invest in recapitalizations of existing businesses or special situations from time to time. The Fund's investments in Portfolio Companies consist principally of equity securities such as common and preferred stock, but also include other equity-oriented securities such as debt convertible into common or preferred stock or debt combined with warrants, options or other rights to acquire common or preferred stock. The Fund elected to be treated as a business development company under the Investment Company Act of 1940. For tax purposes, the Fund has elected to be treated as a regulated investment company ("RIC"). The Fund has entered into a management agreement with Equus Capital Management Corporation, a Delaware corporation (the "Management Company").

(2) Liquidity and Financing Arrangements

Liquidity and Revolving Line of Credit – We currently have approximately $19 million in cash and cash equivalents, and our only debt is the borrowing under the margin account payable. The Fund had a $10,000,000 revolving line of credit with Bank of America, N.A. that expired on January 31, 2004. The line of credit was extended through March 15, 2004 at the reduced maximum borrowing amount of $6,600,000. The Fund used its revolving line of credit to pay operating expenses and for new and follow-on investments in portfolio securities. The Fund had $5,000,000 outstanding under this line of credit at December 31, 2003, which was collateralized by its portfolio securities.

In December 2003, the Fund borrowed an additional $1,500,000 from an individual pursuant to a 9% promissory note, secured by 240,000 shares of common stock of Champion Window Holdings, Inc., due January 31, 2005, in order to fund a follow-on investment. The note was paid in full in April, 2004.

Effective March 15, 2004, the Fund entered into a new $6,500,000 revolving line of credit loan with Frost National Bank. The new line of credit extends through March 31, 2005. The proceeds of the new loan were utilized to pay off the previous line of credit. The amount outstanding as of December 31, 2004 under the new line of credit is $0 and the availability of such line is approximately $4 million at such date. In March 2005 we extended the line of credit through April 2006, and reduced the amount that may be borrowed to $5,000,000.

The new loan is collateralized by the Fund's investments in portfolio securities. The provisions of the new revolver include a borrowing base which cannot exceed 10% of the total value of eligible portfolio securities, as defined.

Interest on the new revolving line of credit is payable quarterly at a rate of .50% above the Frost National Bank floating prime rate, adjusted daily. A facility fee of .25% per annum on the unused portion of the line of credit is payable quarterly in arrears and the Fund paid a commitment fee of $65,000 at the closing of the loan in March 2004 and a $25,000 fee in March 2005 to extend the loan through April 2006. The line of credit restricts the Fund's ability to incur additional indebtedness, merge with another entity, dispose of assets outside the ordinary course of business and engage in certain transactions with affiliates. The only financial covenant within the line of credit requires the Fund to maintain a ratio of total liabilities to total net assets of not greater than 1.10 to 1.0. The Fund is in compliance with the covenant

Under certain circumstances, the Fund may be called on to make follow-on investments in certain portfolio companies. As of December 31, 2004, the Fund has committed to invest up to an additional $990,000 in the two venture capital funds in its portfolio.

The average daily balances outstanding on the Fund's line of credit during the years ended December 31, 2004, 2003 and 2002, was $1,355,491, $10,528,228, and $10,842,927, respectively. During the years ended December 31, 2004, 2003 and 2002, the amount of interest and loan fees paid in cash was $298,308, $923,665, and $544,479, respectively.

RIC Borrowings and Restricted Temporary Cash Investments - During 2003 and 2004, we borrowed sufficient funds to maintain our RIC status by utilizing a margin account with a securities brokerage firm. There is no assurance that such arrangement will be available in the future. If we are unable to borrow funds to make qualifying investments, we may no longer qualify as a RIC. We would then be subject to corporate income tax on our net investment income and realized capital gains, and distributions to stockholders would be subject to income tax as ordinary dividends. Failure to continue to qualify as a RIC could be material to us and our stockholders.

During December 2004, the Fund borrowed $23,978,450 to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $24,218,234. The U.S. Treasury bills were sold and the total amount borrowed was repaid on January 4, 2005.

During December 2003, the Fund borrowed $51,984,089 to make qualifying investments to maintain its RIC status by utilizing a margin account with a securities brokerage firm. The Fund collateralized such borrowings with restricted cash and temporary investments in U.S. Treasury bills of $52,695,202. The U.S. Treasury bills were sold, and the total amount borrowed was repaid on January 2, 2004.

(3) Significant Accounting Policies

Valuation of Investments - Portfolio investments are carried at fair value with the net change in unrealized appreciation or depreciation included in the determination of net assets. Valuations of portfolio securities are performed in accordance with accounting principles generally accepted in the United States and the financial reporting policies of the Securities and Exchange Commission ("SEC"). The applicable methods prescribed by such principles and policies are described below:

Publicly-traded portfolio securities - - Investments in companies whose securities are publicly traded are valued at their quoted market price at the close of business on the valuation date, less a discount to reflect the estimated effects of restrictions on the sale of such securities ("Valuation Discount"), if applicable.

Privately-held portfolio securities – The fair value of investments for which no market exists is determined on the basis of procedures established in good faith by the Board of Directors of the Fund. As a general principle, the current "fair value" of an investment would be the amount the Fund might reasonably expect to receive for it upon its current sale, in an orderly manner. Appraisal valuations are necessarily subjective and the Management Company's estimate of values may differ materially from amounts actually received upon the disposition of portfolio securities.

Generally, cost is the primary factor used to determine fair value until significant developments affecting the portfolio company (such as results of operations or changes in general market conditions) provide a basis for use of an appraisal valuation. Thereafter, portfolio investments are carried at appraised values as determined quarterly by the Management Company, subject to the approval of the Board of Directors. Appraisal valuations are based upon such factors as a portfolio company's earnings, cash flow and net worth, the market prices for similar securities of comparable companies, an assessment of the company's current and future financial prospects and various other factors and assumptions. In the case of unsuccessful operations, the appraisal may be based upon liquidation value.

Most of the Fund's common equity investments are appraised at a multiple of free cash flow generated by the portfolio company in its most recent fiscal year, less outstanding funded indebtedness and other senior securities such as preferred stock. Projections of current year free cash flow may be utilized and adjustments for non-recurring items are considered. Multiples utilized are estimated based on the Management Company's experience in the private company marketplace, and are necessarily subjective in nature.

From time to time, portfolio companies are in default of certain covenants in their loan agreements. When the Management Company has a reasonable belief that the portfolio company will be able to restructure the loan agreements to adjust for any defaults, the portfolio company's securities continue to be valued assuming that the company is a going concern. In the event a portfolio company cannot generate adequate cash flow to meet the principal and interest payments on such indebtedness or is not successful in refinancing the debt upon its maturity, the Fund's investment could be reduced or eliminated through foreclosure on the portfolio company's assets or the portfolio company's reorganization or bankruptcy.

The Fund may also use, when available, third-party transactions in a portfolio company's securities as the basis of valuation (the "private market method"). The private market method will be used only with respect to completed transactions or firm offers made by sophisticated, independent investors.

The fair values of debt securities, which are generally held to maturity, are determined on the basis of the terms of the debt securities and the financial condition of the issuer. Certificates of deposit purchased by the Fund generally will be valued at their face value, plus interest accrued to the date of valuation.

Because of the inherent uncertainty of the valuation of portfolio securities which do not have readily ascertainable market values, amounting to $48,621,356 (including $2,778,878 in publicly-traded securities, net of a $424,836 Valuation Discount) and $75,553,608 (including $3,494,377 in publicly-traded securities, net of a $1,069,676 Valuation Discount) at December 31, 2004 and 2003, respectively, the Fund's estimate of fair value may materially differ from the value that would have been used had a ready market existed for the securities. Appraised values do not reflect brokers' fees or other normal selling costs which might become payable on disposition of such investments.

On a daily basis, the Fund adjusts its net asset value for the changes in the value of its publicly held securities and material changes in the value of its private securities and reports those amounts to Lipper Analytical Services, Inc. Weekly and daily net asset values appear in various publications, including Barron's and The Wall Street Journal.

Escrowed Receivables – In April and May of 2004, we sold our investments in Strategic Holdings, Inc. and Alenco Holding Corporation. A portion of the proceeds from each sale was placed in a cash escrow account to secure the representations and warranties we made to the respective purchasers. We could receive up to an aggregate of $3,371,000 in 2005, 2006 and 2007 from such escrow accounts if no claims are made. At December 31, 2004, we have valued the amounts receivable from the escrows at $2,660,000, because of the uncertainty of collection. We are not aware of any claims that have been made as of December 31, 2004.

Investment Transactions - Investment transactions are recorded on the accrual method. Realized gains and losses on investments sold are computed on a specific identification basis.

Cash Flows - For purposes of the Statements of Cash Flows, the Fund considers all highly liquid temporary cash investments purchased with an original maturity of three months or less to be cash equivalents. The Fund includes its investing activities within cash flows from operations. The Fund excludes "Restricted Cash & Temporary Investments" used for purposes of complying with RIC requirements from cash equivalents.

Stock-Based Compensation – The Fund accounts for stock-based compensation using the intrinsic value method in accordance with the provisions of APB No. 25.

The weighted average fair value of the stock options granted pursuant to our stock option plans during 2004, 2003 and 2002 was $1.009, $0.623 and $1.287 per share, respectively. The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used:

	2004	2003	2002
Expected life	3 years	10 years	10 years
Risk-free interest rate	2.78%	1.03%	5.15%
Volatility	19.67%	20.15%	21.60%
Dividend Yield	6.89%	8.94%	6.50%

Had the Fund accounted for the options using the fair value method under SFAS 123, the decrease in net assets from operations for each of the three years in the period ended December 31, 2004 would have been:

	2004	2003	2002
Increase (decrease) in net assets from operations, as reported	$ 1,235,719	$ (4,269,385)	$ 23,698
Stock-based employee compensation expense (benefit) included in increase (decrease) in net assets from operations	(290,035)	387,002	(14,434)
Stock-based employee compensation expense determined using fair value method	(31,749)	(94,874)	(106,903)
Pro forma increase (decrease) in net assets from operations	$ 913,935	$ (3,977,257)	$ (97,639)
Net increase (decrease) in net assets from operations per share			
Basic, as reported	$ 0.19	$ (0.68)	$ —
Basic, pro-forma	$ 0.14	$ (0.64)	$ (0.02)
Diluted, as reported	$ 0.19	$ (0.68)	$ —
Diluted, pro-forma	$ 0.14	$ (0.64)	$ (0.02)

In December 2004, the Financial Accounting Standards Board ("FASB") approved the revision of SFAS 123, Accounting for Stock-Based Compensation, and issued the revised SFAS Statement No. 123R, "Share-Based Payment." SFAS 123R effectively replaces SFAS 123, and supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The new standard is effective for awards that are granted, modified or settled in cash for interim or annual periods beginning after June 15, 2005. The adoption of SFAS 123R will require the Fund to begin expensing unvested or newly granted stock options as compensation cost.

Federal Income Taxes – The Fund intends to comply with the requirements of the Internal Revenue Code necessary to qualify as a regulated investment company and, as such, will not be subject to federal income taxes on otherwise taxable income (including net realized capital gains) which is distributed to stockholders. Therefore, no provision for federal income taxes is recorded in the financial statements. The Fund borrows money from time to time to maintain its tax status under the Internal Revenue Code as a RIC. See Note 2 for further discussion of the Fund's RIC borrowings.

(4) Management

The Fund has entered into a management agreement with the Management Company. Pursuant to such agreement, the Management Company performs certain services, including certain management and administrative services necessary for the operation of the Fund. The Management Company receives a management fee at an annual rate of 2% of the net assets of the

Fund, paid quarterly in arrears. The Management Company also receives compensation for providing certain investor communication services. The accompanying Statements of Operations include $50,000 related to such services for each of the three years in the period ended December 31, 2004 The management fees paid by the Fund represent the Management Company's primary source of revenue and support. The Management Company is controlled by a privately-owned corporation. Additionally, two officers of the Management Company serve as directors of the Fund.

As compensation for services rendered to the Fund during 2004 each director who is not an officer of the Fund received an annual fee of $20,000 paid quarterly in arrears, a fee of $2,000 for each meeting of the Board of Directors attended in person, a fee of $1,000 for participation in each telephonic meeting of the Board of Directors and a fee of $2,000 for each committee meeting attended ($1,000 for each committee meeting if attended on the same day as a Board Meeting), and reimbursement of all out-of-pocket expenses relating to attendance at such meetings. In addition, each director who is not an officer of the Fund is granted incentive stock options to purchase shares of the Fund's stock from time to time. (See Note 8). Certain officers and directors of the Fund serve as directors of Portfolio Companies, and may receive and retain fees, including non-employee director stock options, from such Portfolio Companies in consideration for such service. The aggregate amount of such cash fees paid by Portfolio Companies to certain officers and directors of the Fund amounted to $131,750 and $223,500 for the years ended December 31, 2004 and 2003, respectively.

The Management Agreement will continue in effect until May 9, 2005, and from year-to–year thereafter provided such continuance is approved at least annually by (i) a vote of a majority of the outstanding shares of the Fund or (ii) a majority of the directors who are not "interested persons" of the Fund, at a meeting called for the purpose of voting on such approval. The Management Agreement may be terminated at any time, without the payment of any penalty, by a vote of the Board of Directors of the Fund or the holders of a majority of the Fund's shares on 60 days' written notice to the Management Company, and would automatically terminate in the event of its "assignment" (as defined in the Investment Company Act).

(5) Federal Income Tax Matters

The Fund is required to make distributions of any net taxable investment income on an annual basis, and may elect to distribute or retain net taxable realized capital gains. The Internal Revenue Service approved the Fund's request, effective October 31, 1998, to change its year-end for determining capital gains for purposes of Section 4982 of the Internal Revenue Code from December 31 to October 31.

The Fund was required to make a distribution of ordinary income for 2004 under income tax regulations. For the year ended December 31, 2004, the Fund had net investment income for book purposes of $3.7 million and $3.5 million for tax purposes. During 2004, the Fund had a net capital loss for book purposes of $5.5 million and a net capital loss for tax purposes of $7.8 million. As of December 31, 2004, the Fund has a capital loss carryforward of $16.0 million, which may be used to offset future taxable capital gains. If not utilized, some of the loss will expire beginning in 2009.

The aggregate cost of investments for federal income tax purposes as of December 31, 2004 was $50.8 million. Such investments had unrealized appreciation of $20.2 million and unrealized depreciation of $24.8 million for book purposes, or net unrealized depreciation of $4.6 million. They had unrealized appreciation of $25.8 million and unrealized depreciation of $25.3 million for tax purposes, or net unrealized appreciation of $0.5 million at December 31, 2004.

For the year ended December 31, 2003, the Fund had net investment income for book purposes of $3.4 million and $3.5 million net investment income for tax purposes. The Fund had a net capital loss for book purposes of $5.5 million and a net capital loss for tax purposes of $5.8 million.

(6) Dividends

During the year ended December 31, 2004, the Fund declared dividends of $3,560,205 ($0.57 per share.) The 2004 dividend was paid in additional shares of common stock or in cash by specific election made by each stockholder. We paid $1,589,160 in cash and issued 260,719 additional shares of stock at $7.56 per share on January 16, 2005, in connection with such dividend.

During the year ended December 31, 2003, the Fund declared dividends of $4,556,772 ($0.72 per share). The Fund paid $2,287,194 in cash and issued 286,540 additional shares of common stock at $7.919 per share on January 16, 2004 in payment of such dividend.

No dividends were declared for the year ended December 31, 2002.

(7) Portfolio Securities

During the year ended December 31, 2004, the Fund made follow-on investments of $8,570,876 in eight portfolio companies, including $3,753,240 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on a promissory note. In addition, the Fund realized a net capital loss of $5,473,638 during the year ended December 31, 2004.

During the year ended December 31, 2003, the Fund made follow-on investments of $6,685,841 in nine portfolio companies, including $1,545,841 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on a promissory note. In addition, the Fund realized a net capital loss of $5,508,277 during the year ended December 31, 2003.

During the year ended December 31, 2002, the Fund invested $783,749 in two new limited liability companies, which in turn invested in two existing Portfolio Companies, and made follow-on investments of $8,451,097 in twelve portfolio companies, including $2,354,775 in accrued interest and dividends received in the form of additional portfolio securities and accretion of original issue discount on a promissory note. In addition, the Fund realized a net capital gain of $802,235 during the year ended December 31, 2002.

(8) Stock Option Plan

In 1997, stockholders approved the Equus II Incorporated 1997 Stock Incentive Plan (“Stock Incentive Plan”), which authorizes the Fund to issue options to the directors and officers of the Fund in an aggregate amount of up to 20% of the outstanding shares of common stock of the Fund. The Stock Incentive Plan provides that each director who is not an officer of the Fund is, on the first business day following each annual meeting, granted an incentive stock option to purchase 2,200 shares of the Fund’s common stock. Options are issued to the officers of the Fund at the discretion of the compensation committee. The options have a ten year life and vest 50% six months after the grant date and 16-2/3% on the first, second and third anniversaries of the date of the grant.

Under the Stock Incentive Plan, options to purchase 809,000 and 1,033,800 shares of the Fund's common stock with a weighted average exercise price of $8.68 and $8.47 per share were outstanding at December 31, 2004 and 2003, respectively. Of these options, 779,527 and 829,338 shares, with a weighted average exercise price per share of $8.72 and $8.65, were exercisable at December 31, 2004 and 2003, respectively. Of the outstanding options at December 31, 2004, 751,800 have exercise prices ranging from $7.43 to $9.03 and the remaining options have exercise prices ranging from $14.14 to $24.95. These options expire in November 2007 through May 2014.

On May 7, 2004, options to acquire a total of 15,400 shares at $7.72 per share were issued to the non-officer directors. On May 12, 2003, options to acquire a total of 13,200 shares at $7.43 per share were issued to the non-officer directors. On August 8, 2003, options to purchase 5,500 shares of the Fund's common stock at a price of $8.63 per share were issued to a new director, upon his election to the board of directors of the Fund. On December 24, 2003, options to purchase 40,000 shares of the Fund's common stock at a price of $7.85 per share were issued to a new officer.

On November 14, 2001, options to acquire a total of 990,000 shares at $7.69 per share were issued to officers of the Fund. These options included dividend equivalent rights. Generally accepted accounting principles require that the options be accounted for using variable plan accounting. Variable plan accounting resulted in non-cash compensation expense (benefit) of $(290,035), $387,002 and $(14,434) during the years ended December 31, 2004, 2003 and 2002, respectively.

Dividend equivalent rights represent the right of the officers of the Fund to receive a credit against the option exercise price for the amount of any dividends paid by the Fund during the option period. In January 2002, the Fund filed an application with the SEC seeking an amendment to an exemptive order previously issued by the SEC to permit the Fund to grant dividend equivalent rights to the Fund's independent directors as part of their stock option awards. During its review of such application, the SEC staff advised the Fund that it does not believe that dividend equivalent rights are permitted under the Investment Company Act. Based on the ongoing discussion with the SEC, the Fund has not credited any dividends to the outstanding options or recorded any associated compensation expense for the 2004 or 2003 dividends applicable to dividend equivalent rights. If the dividend equivalent rights had been in effect, additional non-cash compensation expense of approximately $387,000 and $650,000, with a credit to accrued compensation, would have been recognized under variable plan accounting in 2004 and 2003, respectively.

Options to purchase 12,500 shares were exercised by one officer of the Fund during 2004 and the Fund received $96,113 in cash from the exercise of such options. During 2003, options to purchase 95,200 shares were exercised by one officer, one former officer and one director of the Fund and the Fund received $732,036 in cash from the exercise of such options.

On September 30, 1999, options to purchase 719,794 shares of common stock of the Fund were exercised by six officers of the Fund for $15.45 per share. Pursuant to the terms of the options, the Stock Incentive Plan, and the Investment Company Act, the Fund loaned the officers the exercise price of $11,124,086 and the officers issued promissory notes, which were secured by the 719,794 shares, to the Fund. In 2001, the Fund agreed to cancel the remaining principal balance and accrued interest on the promissory notes aggregating $11,040,849 in

consideration of the officers surrendering to the Fund 844,133 shares of common stock (the shares originally issued and certain shares received as dividends). Pursuant to the terms of the notes, the cancellation of the principal and accrued interest on the notes was based on the net asset value of the shares at date of surrender. The officers retained 71,235 shares of common stock following the cancellation of the notes.

During its review of the exemptive application filed by the Fund in connection with the granting of the dividend equivalent rights as part of the Stock Incentive Plan, the SEC staff raised certain issues with respect to the valuation of the shares held as collateral and the manner in which the notes were settled in 2001. In November 2003, the Fund's board of directors appointed a special committee of independent directors (Robert L. Knauss, Gary R. Petersen, and Gregory J. Flanagan) to address the SEC staff's issues and retained Dechert LLP as independent legal counsel to the special committee of the board with respect to the issues raised by the SEC. The Fund responded to the staff's questions and supplied additional information, and the special committee and counsel met personally with the SEC staff.

In September 2004, the independent directors of the Fund unanimously approved a proposal to resolve the issues surrounding the loan transactions by unwinding the loan transactions and attempting to place the Fund in the position it would have been in had the loan transactions never taken place. In exchange for repayment of the balance of benefits received as a result of the loan transactions, the Fund agreed to formally release each of the Fund's officers and former officers from any and all claims that the Fund might have with respect to the loan transactions. The aggregate amount requested from current and former officers under the proposal was approximately $863,000, the value of the 71,235 shares retained by the officers plus any dividends received and retained on any of the shares while they were outstanding. In November and December 2004 the Fund issued releases to three officers and one former officer in consideration of their payment to the Fund of an aggregate of $629,785 in cash. Also in December 2004, the Fund, upon recommendation of the special committee and receipt of a fairness opinion, agreed to accept the return of options to purchase 198,000 shares of the Fund's common stock at $7.69 per share from a second former officer in lieu of a cash payment of $186,574 in exchange for a similar release. In March 2005, the Fund issued a release to one additional former officer in consideration of his payment to the Fund of $23,475.

If all outstanding options for which the market price exceeds the exercise price at December 31, 2004, had been exercised, the Fund's net asset value would have been reduced by $0.02 per share, assuming the Fund had used the proceeds from the exercise of such options to repurchase shares at the market price pursuant to the treasury stock method. If the Fund retained the proceeds from the exercise of all such options and did not repurchase shares, net asset value would have been reduced by $0.34 per share. As of December 31, 2003, if all outstanding options for which the market price exceeds the exercise price had been exercised, the fund's net asset value would have been reduced by $0.06 per share, assuming the Fund had used the proceeds from the exercise of such options to repurchase shares at the market price pursuant to the treasury stock method.

At December 31, 2004, 2003 and 2002, there were potentially dilutive securities of 157,700, 89,100 and 1,086,800, respectively, excluded from the calculation of Diluted EPS as their exercise prices were greater than the average market price for the respective year.

The following table reflects stock option activity for the three years ended December 31, 2004:

	2004	2003	2002
Options outstanding at the beginning of the year	1,033,800	1,086,800	1,073,600
Options granted during the year	15,400	58,700	13,200
Options exercised during the year	(12,500)	(95,200)	—
Options surrendered during the year	(198,000)	—	—
Options expired during the year	(29,700)	(16,500)	—
Options outstanding at the end of the year	809,000	1,033,800	1,086,800
Options exercisable at the end of the year	779,527	829,338	743,588

(9) Subsequent Events

On January 4, 2005, the Fund received $83,853 in cash for a preferred stock dividend payment from PalletOne, which was shown as a dividend receivable at December 31, 2004.

On January 4, 2005, the Fund received the first of three equal cash payments in the amount of $27,574 from the 86,163 shares of common stock sold to ENG. This amount is shown as an accounts receivable at December 31, 2004.

On January 4, 2005, the Fund issued 150,000 stock options (in the aggregate) to two officers at an exercise price on the date of grant of $7.69.

On January 4, 2005, the Fund sold U.S. Treasury Bills for $23,979,363 and repaid the margin loan.

From January 3, 2005 through February 28, 2005, we sold all 1,033,456 of our remaining shares of common stock of ENG for proceeds of $2,493,240, realizing capital gains of $1,889,185.

In March 2005, the Fund extended our revolving line of credit with The Frost National Bank through April 2006. We paid a commitment fee of $25,000 to extend the line of credit, and reduced the amount that may be borrowed to $5,000,000.

(10) Selected Quarterly Data (Unaudited)

	Year Ended December 31, 2004			
	Quarter Ended March 31, 2004	Quarter Ended June 30, 2004	Quarter Ended September 30, 2004	Quarter Ended December 31, 2004
Total investment income	$ 4,268,515	$ 558,589	$ 496,469	$ 872,194
Net investment income	3,802,418	(281,409)	(409,270)	594,604
Increase (decrease) in Stockholders Equity Resulting From Operations	(1,520,326)	1,386,802	(1,445,725)	2,814,799
Basic earnings (loss) per Common Share	$ (0.23)	$ 0.21	$ (0.23)	$ 0.45
Diluted earnings (loss) per Common Share	$ (0.23)	$ 0.21	$ (0.23)	$ 0.45

	Year Ended December 31, 2003			
	Quarter Ended March 31, 2003	Quarter Ended June 30, 2003	Quarter Ended September 30, 2003	Quarter Ended December 31, 2003
Total investment income	$ 849,366	$ 4,375,103	$ 891,203	$ 1,050,064
Net investment income	127,104	3,187,308	(504,600)	588,221
Increase (decrease) in Stockholders Equity Resulting From Operations	2,737,910	(2,968,851)	219,283	(4,257,727)
Basic earnings (loss) per Common Share	$ 0.44	$ (0.48)	$ 0.04	$ (0.68)
Diluted earnings (loss) per Common Share	$ 0.44	$ (0.48)	$ 0.03	$ (0.68)

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None

Item 9A. Controls and Procedures.

The Fund maintains disclosure controls and other procedures that are designed to ensure that information required to be disclosed by the Fund in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Fund's management, including its Chairman and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

The Fund's management, with the participation of the Fund's Chairman and Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of the design and

operations of the Fund's "disclosure controls and procedures" (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of December 31, 2004. Based on their evaluation, the Fund's Chairman and Chief Executive Officer and Chief Financial Officer concluded that the Fund's disclosure controls and procedures are effective in timely making known to them material information relating to the Fund required to be disclosed in the Fund's reports filed or submitted under the Exchange Act. There has been no change in the Fund's internal control over financial reporting during the quarter ended December 31, 2004, that has materially affected, or is reasonably likely to materially affect, the Fund's internal control over financial reporting.

Item 9B. Other Information

None

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information about the Directors and Executive Officers of the Fund, the Fund's Audit Committee and the Nominating and Corporate Governance Committtee, and Section 16(a) Beneficial Ownership Reporting Compliance is incorporated by reference to the Fund's 2005 Proxy Statement.

The Fund has adopted a code of business conduct and ethics applicable to the Fund's directors, officers (including the Fund's principal executive officer, principal financial officer and controller) and employees, known as the Code of Business Conduct and Ethics. A copy of the Code of Business Conduct and Ethics is available to any person, without charge, upon request addressed to Equus II Incorporated, Attention: Corporate Secretary, 2727 Allen Parkway, 13th Floor, Houston, Tx 77019. In the event that we amend or waive any of the provisions of the Code of Business Conduct and Ethics applicable to our principal executive officer, principal financial officer, or controller, we intend to disclose the same on the Fund's website at www.equuscap.com.

Item 11. Executive Compensation.

Information regarding Executive Compensation is incorporated by reference to the Fund's 2005 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information regarding Security Ownership of Certain Beneficial Owners and Management is incorporated by reference to the Fund's 2005 Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

Information regarding Certain Relationships and Related Transactions is incorporated by reference to the Fund's 2005 Proxy Statement.

Item 14. Principal Accountant Fees and Services.

Information regarding Principal Accountant Fees and Services is incorporated by reference to the Fund's 2005 Proxy Statement.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

All other information required in the financial statement schedules has been incorporated in the financial statements or notes thereto or has been omitted since the information is not applicable or not present in amounts sufficient to require submission of the schedule.

(a)(3)

Exhibits

3.

Articles of Incorporation and by-laws

(a) Restated Certificate of Incorporation of the Fund dated March 4, 1992. [Incorporated by reference to Exhibit 3(a) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1991.]

(b) Certificate of Merger dated June 30, 1993, between the Fund and Equus Investments Incorporated [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1993]

(c) Amended and Restated Bylaws of the Fund. [Incorporated by reference to Exhibit 3(c) to Registrant's Annual Report on Form 10-K for the year ended December 31, 1995.]

10. Material Contracts

(a) Form of Management Agreement between the Fund and Equus Capital Management Corporation. [Incorporated by reference to Exhibit A to the Definitive Proxy Statement dated February 24, 1997.]

(b) 1997 Stock Incentive Plan [Incorporated by reference to Exhibit B to the Registrant's Definitive Proxy Statement dated February 24, 1997.]

(c) Loan Agreement between Equus II Incorporated and The Frost National Bank dated March 15, 2004. [Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]

(d) Pledge and Security Agreement between Equus II Incorporated and The Frost National Bank dated March 15, 2004. [Incorporated by reference to Exhibit 10(o) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]

(e) Revolving Promissory Note between Equus II Incorporated and The Frost National Bank dated March 15, 2004. [Incorporated by reference to Exhibit 10(p) to Registrant's Annual Report on Form 10-K for the year ended December 31, 2004.]

(f) Safekeeping Agreement between Equus II Incorporated and The Frost National Bank dated March 15, 2004.

(g) Form of Indemnification Agreement between Equus II Incorporated and its directors and certain officers.

(h) Form of Release Agreement between Equus II Incorporated and certain of its officers and former officers.

(i) Joint Code of Ethics of Equus II Incorporated and Equus Capital Management Corporation (Rule 17j-1)

14. Code of Business Conduct and Ethics for Members of the Board of Directors, Officers, and Employees.

23. Consent of PricewaterhouseCoopers, LLP, independent registered public accountants.

31. Certification Required by Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934

(1) Certification by Chairman and Chief Executive Officer

(2) Certification by Chief Financial Officer

32. Section 1350 Certification

(1) Certification by Chairman and Chief Executive Officer

(2) Certification by Chief Financial Officer

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has caused this report to be signed by the undersigned, thereunto duly authorized.

EQUUS II INCORPORATED

/s/ Harry O. Nicodemus IV

Date: March 28, 2005

Harry O. Nicodemus IV

Chief Financial Officer

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

Signature	Title	Date
/s/ Gregory J. Flanagan	Director	March 28, 2005
(Gregory J. Flanagan)		
/s/ Robert L. Knauss	Director	March 28, 2005
(Robert L. Knauss)		
/s/ Brad Orvieto	Director	March 28, 2005
(Brad Orvieto)		
/s/ Gary R. Petersen	Director	March 28, 2005
(Gary R. Petersen)		
/s/ John W. Storms	Director	March 28, 2005
(John W. Storms)		
/s/ Francis D. Tuggle	Director	March 28, 2005
(Francis D. Tuggle)		
/s/ Edward E. Williams	Director	March 28, 2005
(Edward E. Williams)		
/s/ Nolan Lehmann	President and Director	March 28, 2005
(Nolan Lehmann)		
/s/ Sam P. Douglass	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	March 28, 2005
(Sam P. Douglass)		
/s/ Harry O. Nicodemus IV	Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 28, 2005
(Harry O. Nicodemus IV)		

SAFEKEEPING AGREEMENT
(CORPORATE — NO FOREIGN SECURITIES)

THIS SAFEKEEPING AGREEMENT (this "**Agreement**") is entered into as of the 15th day of March, 2004, by and between **THE FROST NATIONAL BANK**, a national banking association organized and existing under the laws of the United States of America (the "**Bank**") and **EQUUS II INCORPORATED**, a Delaware corporation (the "**Depositor**"). The Bank and the Depositor agree that all securities and/or other property deposited with and accepted by Bank ("**Security**") shall be governed by the terms and conditions herein set forth, and agree to the following:

W I T N E S S E T H:

The Bank shall establish and maintain a custody account (the "**Account**") for and in the name of the Depositor and hold therein all securities deposited with or collected by the Bank in its capacity as custodian for the Account. The terms "**Security**" or "**Securities**" shall mean any negotiable or non-negotiable investment instrument(s) commonly known as a security or securities in banking custom or practice, and so long as held by the Bank, all income therefrom and all cash deposited by, or for the account of, the Depositor. The Bank agrees to open the Account and hold all Securities and other property, from time to time, deposited with or collected by the Bank for the Account, subject to the terms and conditions of this Agreement, as the same may be amended from time to time.

SECTION 1
ACCEPTANCE OF SECURITIES

(a) The Bank shall accept delivery from and on behalf of the Depositor such Securities as shall, from time to time, be acceptable to it. Any Securities now held by the Bank for the Depositor under a prior custody agreement shall be deemed to have been deposited hereunder. The Bank shall have no responsibility to (i) determine the validity, genuineness or alteration of the Securities or related instruments delivered pursuant to the terms hereof; (ii) review the Securities; or (iii) provide advice to the Depositor relative to the purchase, retention, sale, exchange, disposition, call for redemption of the Securities or related instruments. The parties acknowledge that the Bank is performing the services hereunder merely as an aid to the Depositor, and this does not relieve the Depositor of its duty to manage and keep itself informed of information affecting its own portfolio.

(b) The Bank shall supply to the Depositor from time to time as mutually agreed by the Bank and the Depositor a written statement with respect to all of the Securities held in the Account. In the event that the Depositor does not inform the Bank in writing of any exceptions or objections to such statement within sixty (60) days after receipt of such statement, the Depositor shall be deemed to have approved such statement.

(c) The Bank shall segregate and identify on its books and records as belonging to the Depositor all Securities delivered by or for the account of the Depositor which are held by the Bank in the Account.

(d) The Depositor authorizes the Bank, for any Securities held hereunder, to use the services of any United States central securities depository it deems appropriate and where it may hold any of its own securities, including, but not limited to, the Depository Trust Company and the Federal Reserve Book Entry System. The term "*central securities depository*" shall also include any depository service which acts as a custodian of securities in connection with a system for the central handling of securities whereby all securities of a particular class or series of any issuer deposited within the system are treated as fungible and may be transferred by bookkeeping entry without physical delivery of security certificates. Placement by the Bank of Securities into a central securities depository or safekeeping facility shall neither augment nor diminish the Bank's duties or obligations under any other paragraph of this Agreement, provided that the Bank shall have no liability for the acts or failure to act of any such central securities depository.

(e) The Bank is authorized to re-register the Securities in the name of the Bank or its nominee unless alternative and acceptable registration instructions are promptly furnished by the Depositor.

SECTION 2
COLLECTION OF INCOME

The Bank agrees to collect and receive the dividends, interest and other income from the Securities, as directed by the Depositor, and will credit the Depositor's designated deposit account for such items. Charges, if any, will be charged to the Depositor's deposit account under advice. The Bank will make commercially reasonable efforts to collect and receive such dividends, interest and other income from the Securities but assumes no liability for its inability to do so due to the acts or omissions of Depositor, any issuer of Securities or such issuer's paying agent, or any third party. The Bank shall not be obligated to institute or participate in any legal proceedings relative to any such acts or omissions**.** The Bank is hereby authorized to sign, on the Depositor's behalf, any declarations, affidavits, certificates of ownership, or other documents which are now or may hereafter be required with respect to coupons, registered interest, dividends or other income on Securities. **THE DEPOSITOR HEREBY AGREES TO REIMBURSE, INDEMNIFY, AND HOLD HARMLESS, THE BANK, ITS OFFICERS, DIRECTORS AND EMPLOYEES FROM ANY LIABILITY, CLAIM, LOSS, DAMAGE OR EXPENSE (INCLUDING ATTORNEYS' FEES AND COURT COSTS) THAT MAY ARISE BY REASON OF THE EXECUTION OF ANY SUCH DOCUMENTS BY THE BANK.**

SECTION 3
COLLECTION OF PRINCIPAL

The Bank is authorized to collect, receive and receipt for the principal of all Securities when and as the same may mature, be redeemed, or be sold upon the order of the Depositor. The proceeds of such collections, as well as any other principal payments received for any Securities, will be credited to the Depositor's designated deposit account. The Bank will use commercially reasonable efforts to collect the Securities and other property at maturity and at dates of call for payment, but assumes no responsibility for its inability to do so due to the acts or omissions of Depositor, any issuer of Securities or such issuer's paying agent, or any third party. The Bank shall not be obligated to institute or participate in any legal proceedings relative to any such acts or omissions**.** The Bank will not be liable for the insolvency, or default in the payment of principal or interest or in the performance, of the issuer of any Securities.

SECTION 4
WITHDRAWAL OF SECURITIES

The Securities will be released only upon the Bank's receipt of written instructions from the Depositor. In the event the Depositor is a corporation, limited liability company, or limited partnership, Securities will be released upon the instructions of such officer(s) as are authorized by an appropriate entity resolution ("**Authorized Representative**"), and the Depositor shall furnish the Bank on or before such withdrawal, certified copies of resolutions relating to or changing such authority. The Depositor expressly agrees that the Bank shall not be liable for any loss, damage, or liability resulting from the Bank's actions taken in accordance with instructions given to the Bank by an Authorized Representative. If the Depositor has delivered to the Bank Securities subject to a pledge, such Securities will be released only upon the receipt of (i) a written notice by the Depositor or an Authorized Representative, if requested by Bank, (ii) a written release of the pledgee, and (iii) a certificate of the Depositor certifying that the signature of the pledgee is authorized and authentic.

SECTION 5
STANDARD OF CARE

The Bank shall exercise commercially reasonable care in receiving, holding and handling the Securities. The Bank will exercise the commercially reasonable care expected of a professional custodian for hire with respect to the Securities in its possession or control.

SECTION 6
DEPOSITOR DUTIES

(a) The Depositor shall provide the Bank with a written certificate signed by an Authorized Representative containing the specimen signatures of each person authorized to act and give direction on behalf of the Depositor. The Bank shall be entitled to rely upon such certificate until notified in writing otherwise by the Depositor.

(b) The Bank is further authorized to rely upon any written instructions or instructions received by any other means and identified as having been given or authorized by any person named to the Bank as authorized to give written instructions, regardless of whether such instructions shall in fact have been authorized or given by any of such persons, provided that the Bank and the Depositor shall have agreed in writing upon the means of transmission and the method of identification for such instructions. Instructions received by any other means shall include verbal instructions, provided that any verbal instruction shall be promptly confirmed in writing. In the event verbal instructions are not subsequently confirmed in writing, as provided above, the Depositor agrees to hold the Bank harmless and without liability for any claims or losses in connection with such verbal instructions. Notwithstanding the above, instructions for the withdrawal of securities "*free of payment*" shall be given only in writing, manually signed by any such authorized persons.

(c) The Depositor may appoint one or more investment managers ("**Investment Managers**") with respect to the Account. The Bank is authorized to act upon instructions received from any Investment Manager to the same extent that the Bank would act upon the instructions of the Depositor, provided that the Bank has received copies of the instruments appointing the Investment Manager and written confirmation from the Investment Manager evidencing its acceptance of such appointment, or other evidence satisfactory to the Bank.

(d) If the Depositor should choose to have telecommunication or other means of direct access to the Bank's reporting system for Securities in the Account pursuant to paragraph (e) of Section 7, the Bank is also authorized to rely and act upon any instructions received by it through a terminal device, provided that such instructions are accompanied by code words which the Bank has furnished to the Depositor by any method mutually agreed to by the Bank and the Depositor, and which the Bank shall not have then been notified by the Depositor to cease to recognize regardless whether such instructions shall in fact have been given or authorized by the Depositor or any such person. The Depositor's delegates shall be named by a certificate provided to the Bank from time to time by the Depositor.

(e) In the event that the Bank shall receive conflicting instructions from Depositor regarding any particular transaction, the Bank shall make reasonable efforts to resolve such conflict; provided, however, the Bank may rely upon the instruction first received by the Bank and the Bank is hereby held harmless from all consequences of such reliance.

SECTION 7
BANK DUTIES

(a) The Bank shall receive or deliver, or shall instruct any other entity authorized to hold Securities hereunder to receive or deliver, Securities and credit or debit the Account, in accordance with written instructions from the Depositor. The Bank or such entity shall also receive in custody all stock dividends, rights and similar securities issued in connection with Securities held hereunder, shall surrender for payment, in a timely manner, all items maturing or called for redemption and shall take such other action as the Depositor may direct in properly authorized and timely written instructions to the Bank.

(b) All cash received or held by the Bank as custodian or by any entity authorized to hold the Securities hereunder as interest, dividends, proceeds from transfer, and other payments for or with respect to the Securities shall be (i) held in a cash account, or (ii) in accordance with written instructions received by the Bank, remitted to the Depositor.

(c) If the Bank has in place a system for providing telecommunication or other electronic access or other means of direct access by customers to the Bank's reporting system for Securities in the Account, then upon separate written agreement between the Bank and the Depositor, the Bank shall provide such service to the Depositor.

(d) During the Bank's regular banking hours and upon receipt of reasonable notice from the Depositor, any officer or employee of the Depositor, any independent accountant(s) selected by the Depositor and any person designated by any regulatory authority having jurisdiction over the Depositor shall be entitled to examine on the Bank's premises, the Securities held by the Bank on its premises, but only upon the Depositor's furnishing the Bank with properly authorized instructions to that effect, provided, such examination shall be consistent with the Bank's obligations of confidentiality to other parties. The Bank's reasonable costs and expenses in facilitating such examinations, including but not limited to the cost to the Bank of providing personnel in connection with examinations shall be borne by the Depositor, according to the research fee set forth in the fee schedule attached as **Exhibit A**. The Bank shall also, subject to restrictions under applicable law, seek to obtain from any entity with which the Bank maintains the physical possession of any of the Securities in the Account such records of such entity relating to the Account as may be required by the Depositor or its agents in connection with an internal examination by the Depositor of its own affairs. Upon a reasonable request from the Depositor, the Bank shall use its reasonable efforts to furnish to the Depositor such reports (or portions thereof) of the external auditors of each such entity as related directly to such entity's system of internal accounting controls applicable to its duties under its agreement with the Bank.

(e) The Bank will transmit to the Depositor upon receipt, all financial reports, stockholder communications, notices, proxies and proxy soliciting materials received from issuers of the Securities, and all information relating to exchange or tender offers received from offerors with respect to the Securities. Proxies will be executed by the registered holder if the registered holder is other than the Depositor, but the manner in which the Securities are to be voted will not be indicated. Specific instructions regarding proxies will be provided when necessary. The Bank shall not vote any of the Securities or authorize the voting of any Securities or give any consent or take any other action with respect hereto, except as provided herein. The Bank is authorized to accept and open in the Depositor's behalf all mail or communications received by it or directed to its care.

(f) In the event of tender offers, the Depositor shall mail or fax instructions to the Bank as to the action to be taken with respect thereto or telephone such instructions to the Depositor's account administrator at the Bank, designating such instruction as being related to a tender offer. The Depositor shall deliver to the Bank, by 4:00 p.m., San Antonio, Texas time on the following calendar day, written confirmation. The Depositor shall hold the Bank harmless from any adverse consequences of the Depositor's use of any other method of transmitting instructions relating to a tender offer. The Depositor agrees that if it gives an instruction for the performance of an act on the past permissible date of a period established by the tender offer or for the performance of such act or that it fails to provide next day written confirmation of an oral instruction, the Depositor shall hold the Bank harmless from any adverse consequences of failing to follow said instructions.

(g) The Bank shall not be liable for late submission of any items or information in response to calls for redemption, mergers, tenders, consolidations, reorganizations, recapitalizations, or similar proceedings affecting the Securities when the Depositor has failed to timely instruct the Bank in writing. Should any Security held in a central securities depository be called for a partial redemption by the issuer of such Security, the Bank is authorized, in its sole discretion, to allot the called portion to the respective holders in any manner it deems fair and equitable.

(h) The Bank shall present all maturing bonds and coupons for collection and is authorized to receive payment of income and principal on other items in accordance with their terms. All funds so collected shall be credited to the Account or remitted in accordance with the instructions of the Depositor.

(i) The Bank shall not be liable in damages for any loss or damage beyond it's reasonable control, including, but not limited to acts of God, war or terrorist act, fire, storm, or other catastrophe, interruption of transmission or communication facilities, equipment failure, or electrical or computer failure**.**

SECTION 8
FOREIGN SECURITIES

The Bank shall not hold Securities which are issued by foreign governments or foreign companies or for which the principal trading market is located outside the United States hereunder. Should the Bank elect to hold such securities, such activities shall be governed by a separate agreement between the bank and the Depositor.

SECTION 9
FEES AND EXPENSES

(a) The Depositor agrees to promptly pay upon receipt of an invoice from the Bank the fees and expenses set forth therein. Fees and expenses for the services to be rendered under this Agreement are set forth in **Exhibit A** attached hereto and incorporated herein for all purposes, as such may be amended from time to time, effective upon 30 days' prior written notice by the Bank to the Depositor. In addition, if the Bank advances securities to the Depositor for any purpose or in the event that the Bank or its nominee shall incur or be assessed any taxes, charges, expenses, assessments, claims or liabilities in connection with the performance of its duties hereunder, except such as may arise from or be caused by the Bank's or its nominee's gross negligence or willful misconduct, Depositor shall immediately reimburse the Bank, or its nominee, for such advances, taxes, charges, expenses, assessments, claims or liabilities, or replace such securities.

(b) The Bank may, in its sole discretion, advance funds on behalf of the Depositor which results in an overdraft if the monies held in the Account are insufficient to pay the total amount payable upon purchase of Securities as instructed. Any such overdrafts shall be deemed to be a loan made by the Bank to the Depositor payable promptly upon demand and bearing interest at The Frost National Bank's prime rate plus two percent per annum from the date incurred. Notwithstanding anything contained in this Agreement to the contrary, the Bank shall have no obligation to advance funds on behalf of the Depositor.

(c) The Bank shall have a lien on the Securities in the Account to secure payment of such fees and expenses, taxes, advances and other charges incurred under this Section 9. The Depositor agrees that the Bank's lien shall be a continuing lien and security interest in and on any Securities at any time held by or through it in accordance with this Agreement, for the benefit of the Depositor or in which the Depositor may have an interest which is then in the Bank's possession or control or in possession or control of any third party acting on the Bank's behalf. Upon failure by the Depositor to cure any overdraft amounts, or to reimburse the Bank for fees and expenses, taxes, advances and other charges, within 48 hours after the request for payment, the Bank may dispose of securities to the extent necessary to obtain reimbursement. The parties agree that upon Depositor's receipt of such request for payment,, the Depositor shall not transfer or dispose of any securities except as agreed to by the parties until appropriate reimbursement is made. The Bank shall have all of the rights and remedies of a secured creditor under the Uniform Commercial Code as in effect in State of Texas from time to time with respect to the Securities.

(d) The Bank is hereby authorized to charge the Depositor's deposit account number 490011673 for all fees and charges incurred or assessed hereunder.

SECTION 10
INVESTMENT RESPONSIBILITY

Unless otherwise agreed in writing by the Depositor and the Bank, the Bank is under no duty to (i) advise the Depositor relative to the investment, purchase, retention, sale, or other disposition of any Securities held hereunder; (ii) supervise the Depositor's investments, purchases or sales; (iii) invest, or see to the investment of, any cash proceeds or other cash deposited hereunder and held by the Bank; or (iv) determine whether any investment or sale made for the account of Depositor is made in conformity with Depositor's requirements or understandings. The Bank's duties hereunder are strictly ministerial in nature and are limited to those duties expressly set forth in this Agreement. Nothing in this Agreement shall be construed to impose fiduciary responsibilities on the Bank.

SECTION 11
LIMITATION OF LIABILITY

The Bank undertakes to perform such duties and only such duties as are specifically set forth in this Agreement, it being expressly understood that there are no implied duties hereunder. In addition to other provisions of this Agreement, the Depositor agrees that the Bank (a) will be responsible only for the exercise of reasonable commercial standards of the banking business; (b) will not be liable for any loss or damage to the Securities when such loss or damage is due to any cause other than failure to exercise reasonable commercial standards, and in any event will not be liable for any decline in the market value of the Securities; (c) will not be considered an insurer against risk of loss, damage, destruction or decline in market value of the Securities; and (d) will not have liability to the Depositor with respect to the services rendered by the Bank pursuant to this Agreement until such time as the Securities are actually delivered to the Bank, it being understood and agreed that the Depositor bears the risk of loss with respect to shipment and delivery of the Securities to Bank. **IN NO EVENT SHALL THE BANK BE LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY (I) DAMAGES OR EXPENSES ARISING OUT OF THE SERVICES PROVIDED HEREUNDER OTHER THAN DAMAGES WHICH RESULT FROM BANK'S FAILURE TO ACT IN GOOD FAITH OR IN ACCORDANCE WITH THE REASONABLE COMMERCIAL STANDARDS OF THE BANKING BUSINESS OR (II) SPECIAL OR CONSEQUENTIAL DAMAGES, EVEN IF THE BANK HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.**

In addition to any and all rights of reimbursement, indemnification, subrogation, or any other rights pursuant hereto or under law or equity, the Depositor hereby agrees, to the extent permitted by Texas law, to indemnify and hold harmless the Bank and its officers, directors, and agents (the "**indemnified parties**") from and against any and all claims, damages, losses, liabilities, reasonable costs, or reasonable expenses whatsoever (including attorneys' fees and court costs) which they may incur (or which may be claimed against them by any person or entity whatsoever) by reason of or in connection with (a) any untrue statement or alleged untrue statement of any material fact contained or incorporated by reference in the information supplied by the Depositor to the Bank or its nominee in connection with the performance of their duties under this Agreement or the related documents, or the omission or alleged omission to state in such information a material fact necessary to make such statements, in the light of circumstances under which they are or were made, not misleading; or (b) the execution and delivery of this Agreement. If any proceeding shall be brought or threatened against any indemnified party by reason of or in connection with the events described in clause (a) or (b), such indemnified party shall promptly notify the Depositor in writing and the Depositor shall assume the defense thereof, including the employment of counsel satisfactory to such indemnified party and the payment of all costs of litigation. Notwithstanding the preceding sentence, such indemnified party shall have the right to employ its own counsel and to determine its own defense of such action in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party unless (i) the employment of such counsel shall have been authorized in writing by the Depositor or (ii) the Depositor, after due notice of the action, shall not have employed counsel to have charge of such defense, in either of which events the reasonable fees and expenses of counsel for such indemnified party shall be borne by the Depositor. The Depositor shall not be liable for any settlement of any such action effected without its consent. Nothing under this section is intended to limit the Depositor's payment obligations contained elsewhere in this Agreement. This section shall survive the termination of this Agreement.

SECTION 12
BANK POWER OF ATTORNEY

In addition to other rights granted to the Bank pursuant to the terms of this Agreement, the Bank is authorized and empowered in the name of and on behalf of the Depositor to execute any certificates of ownership or other instruments which are or may hereafter be required by any regulations of the United States or any state or political subdivision thereof, so that the Bank may fulfill its obligations hereunder as required in connection with any Securities.

SECTION 13
AMENDMENTS

Except as otherwise provided hereby, the parties may make amendments to this Agreement from time to time, provided that any such amendment shall be reduced to writing; *provided, however*, the Bank may, at any time, in its sole discretion amend any of the provisions of this Agreement upon thirty (30) days' prior written notice to the Depositor.

SECTION 14
SUCCESSORS AND ASSIGNS

This Agreement shall be binding upon and shall inure to the benefit of the successors and assigns of the respective parties hereto.

SECTION 15
COMPLETENESS OF AGREEMENT

This Agreement, along with a copy of the fee schedule attached hereto as **Exhibit A**, constitutes the full and complete agreement between the Bank and the Depositor, and no other understanding or agreement, whether written or oral shall bind either of the parties hereto. The headings of Sections of this Agreement are for convenience only and have no effect on a party's responsibilities or liabilities.

SECTION 16
GOVERNING LAW

This Agreement shall be governed by the applicable laws of the State of Texas without giving effect to the choice of law principals thereof. This agreement is performable in Bexar County, Texas and venue for all purposes incident to this agreement shall be in Bexar County, Texas. **THE PARTIES HEREBY WAIVE THE RIGHT TO TRIAL BY JURY OF ALL DISPUTES, CONTROVERSIES AND CLAIMS BY, BETWEEN OR AGAINST EITHER THE DEPOSITOR OR THE BANK.**

SECTION 17
TERMINATION

This Agreement may be terminated by either the Depositor or the Bank upon at least ten (10) days prior written notice to the other. However, upon request of Depositor, the Bank shall continue to operate as the holder of securities for the Depositor under the terms and conditions of this Agreement for a period of up to sixty (60) days while the Depositor engages another safekeeping entity. The Depositor shall have a period of thirty (30) days from the date of the last and final accounting provided by the Bank to make any objection or claim, and failure to do so within the thirty (30) day period shall be deemed by the parties hereto to constitute accord and satisfaction. As soon as practicable following termination of this Agreement, the Bank shall deliver all Securities to the Depositor in accordance with the Depositor's written instructions.

SECTION 18
NOTICES

Any notice to be given or to be served upon any party hereto in connection with this Agreement must be in writing and shall be deemed to have been given when personally delivered, when sent by facsimile with receipt confirmed, when delivered by a nationally recognized courier service, or three business days after deposited in the United States mail, first class postage prepaid, return receipt requested. Such notices shall be given to the parties hereto at the following addresses:

If to the Bank:

The Frost National Bank
P.O. Box 1600
San Antonio, Texas 78296
Attention: Custody Services Department
Facsimile No.: (210) 220-5986

If to the Depositor:

Equus II Incorporated
2929 Allen Parkway, Suite 2500
Houston, Texas 77019
Attention: Hank Nicodemus
Facsimile No.: (713) 529-9545

Any notices served by fax shall be deemed to have been given and received only when written confirmation of the receipt of such fax has been received by the sender. Any party hereto may, at any time by giving fifteen (15) days' written notice to the other party hereto, designate any other address in substitution of the foregoing address to which such notice shall be given.

SECTION 19
MISCELLANEOUS

(a) This Agreement may be executed in any number of counterparts; each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

(b) Whenever the context hereof shall so require the singular shall include the plural, the male gender shall include the female gender and the neuter, and vice versa.

(c) In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such invalid, illegal, or unenforceable provision had never been contained herein.

(d) The Addendum to Safekeeping Agreement attached hereto is incorporated herein and made a part hereof for all purposes.

IN WITNESS WHEREOF, the parties thereto executed this Agreement as of the day and year first above-written.

BANK:

THE FROST NATIONAL BANK

By: _____

Name: _____

Title: _____

DEPOSITOR:

EQUUS II INCORPORATED

_____

Dr. Francis D. Tuggle

_____

Robert L. Knauss

_____

Brad Orvieto

_____

John W. Storms

_____

Gregory J. Flanagan

_____

Gary D. Petersen

_____

Dr. Edward E. Williams

EXHIBIT A

SAFEKEEPING FEES

1. Basic Safekeeping Fee:	$10,000 per year (payable annually in advance)
2. Physical Items (delivery or withdrawal):	$75.00 per item
3. Web access:	$50.00 per month

EXHIBIT B

DESIGNATED PERSONS

Name and Title	Signature
1. Nolan Lehmann, President of Depositor	
2. Gary L. Forbes, Vice President of Depositor	
3. Harry O. Nicodemus, IV Vice President of Depositor	
4. Dana Hiller Vice President of Depositor	

ADDENDUM
TO
SAFEKEEPING AGREEMENT

This Addendum to Safekeeping Agreement ("Addendum") is attached to and made a part of that certain Safekeeping Agreement dated March 15, 2004 (the "Agreement")"Agreement") entered into by and between Equus II Incorporated, a Delaware corporation ("Depositor") and The Frost National Bank, a national banking association (the "Bank"). Capitalized terms used herein and not otherwise defined herein shall have the meaning assigned to them in the Agreement.

1. The Bank has been duly designated and appointed by the independent directors of the Depositor, consisting of Dr. Francis D. Tuggle, Robert L. Knauss, Brad Orvieto, John W. Storms, Gregory J. Flanagan, Gary R. Petersen, and Dr. Edward E. Williams (collectively the "Independent Directors"), as the safekeeping agent for Depositor's Securities pursuant to Rule 17f-2 of the rules and regulations of the Securities and Exchange Commission (the "Commission") promulgated under the Investment Company Act of 1940 (the "Investment Company Act").

2. All Securities deposited shall be physically segregated at all time from those of any other person.

3. Notwithstanding Section 1(d) of the Agreement, the Bank may use a central securities depository for the Securities other than the Depository Trust Company or the Federal Reserve Book Entry System only if the Bank requires any intermediary custodian at a minimum to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain financial assets corresponding to the security entitlements of its entitlement holders.

4. Notwithstanding any provision of Section 4 or Section 6 of the Agreement to the contrary:

(a) Any two of the persons, at least one of whom is an officer of Depositor (the "Designated Persons"), named in Exhibit B hereto (as from time to time modified by a majority of the Independent Directors of Depositor) are authorized and permitted to have access to the Securities so deposited, and such access to such Securities shall be had only by two or more of such persons jointly. Exhibit B shall not list more than five persons as Designated Persons.

(b) Access to Securities shall also be permitted to the properly authorized officers and employees of the Bank. Access to Securities shall be permitted, jointly with any two of the Designated Persons or with any officer or employee of the Bank, to an independent public accountant for the purpose of conducting the examinations of Depositor's Securities, as required by Rule 17f-2(f) of the Commission.

(c) Securities shall at all times be subject to inspection by the Commission through its authorized employees or agents, accompanied, unless otherwise directed by order of the Commission, by one or more of the Designated Persons or one or more of the officers or employees of the Bank.

(d) Each Designated Person when depositing Securities in or withdrawing them from the Bank or when ordering their withdrawal or delivery from the safekeeping of the Bank, shall sign a notation in duplicate with respect to such deposit, withdrawal, or order which shall show (1) the date and time of deposit, withdrawal, or order, (2) the title and amount of the Securities deposited, withdrawn, or ordered to be withdrawn, and an identification thereof by certificate numbers or otherwise, (3) the manner of acquisition of the Securities deposited or the purpose for which they have been withdrawn or ordered to be withdrawn, and (4) if withdrawn and delivered to any other person, the name of such person. The Bank shall transmit a copy of such notation promptly to:

John W. Storms
c/o Storms & Critz
1980 Post Oak Blvd., Suite 2110
Houston, Texas 77056,

who shall not be a Designated Person. Such notation shall be on serially numbered forms and shall be preserved for at least one year.

(e) Depositor, through one or more of its Independent Directors, will give the Bank written notice of any change in the Independent Directors of Depositor.

(f) Securities shall be verified by complete examination of an independent public accountant to be retained by Depositor, presently PricewaterhouseCoopers, LLP, at least three times during each fiscal year, at least two of which times shall be chosen by such accountant without prior notice to Depositor. Depositor, through one or more of its Independent Directors, will give the Bank written notice of any change in the accountants retained by Depositor.

5. Section 6(c) of the Agreement shall not apply.

6. Notwithstanding and provision of Section 17 of the Agreement to the contrary, either the Bank or a majority of the Independent Directors may terminate this Agreement upon 90 days prior written notice to the other party of the desire to terminate. After such notice of termination, but until such time as the Bank's successor shall have been appointed by the Independent Directors, the Bank shall continue to serve hereunder upon the same terms and subject to the same conditions as are applicable to the Bank's service in the circumstances set forth in Exhibit A hereto.

7. The Agreement shall be subject and subordinate to the terms and provisions of the Pledge and Security Agreement dated as March 15, 2004, by and between the Depositor and the Bank and in the event of any conflict between the terms and provisions of the Agreement and the Pledge and Security Agreement the terms and provisions of the Pledge and Security Agreement shall control.

In witness whereof, the parties hereto have executed this Agreement as of March 15, 2004.

EQUUS II INCORPORATED

_____

Dr. Francis D. Tuggle

_____

Robert L. Knauss

_____

Brad Orvieto

_____

John W. Storms

_____

Gregory J. Flanagan

_____

Gary R. Petersen

_____

Dr. Edward E. Williams

THE FROST NATIONAL BANK

By: _____

Name:

_____

Title:

_____

FORM OF INDEMNIFICATION AGREEMENT

In accordance with the Instructions to Item 601 of Regulation S-K, the Registrant has omitted filing the Indemnification Agreements between Equus II Incorporated and the following directors and officers as exhibits to this Form 10-K because they are substantially identical to the Form of Indemnification Agreement that follows.

1. Sam P. Douglass
2. Gregory J. Flanagan
3. Gary L. Forbes
5. Robert L. Knauss
6. Nolan Lehmann
7. Gary R. Petersen
8. John W. Storms
9. Francis D. Tuggle
10. Edward E. Williams

FORM OF INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made as of _____, 1997, by and between Equus II Incorporated, a Delaware corporation (the "Company") and _____ ("Indemnitee").

WHEREAS, the certificate of incorporation and bylaws of the Company provide for the indemnification of its directors and executive officers to the maximum extent permitted from time to time under applicable law and, along with the Delaware General Corporation Law, contemplate that the Company may enter into agreements with respect to such indemnification; and

WHEREAS, the Board of Directors of the Company has concluded that it is reasonable, prudent and in the best interests of the Company's stockholders for the Company to contractually obligate itself to indemnify certain of its Authorized Representatives (defined below) so that they will serve or continue to serve with greater certainty that they will be adequately protected.

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and Indemnitee hereby agree as follows:

1. Definitions. For purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following terms shall have the following respective meanings:

"Act" means the Investment Company Act of 1940, as amended.

"Authorized Representative" means (i) a director, officer, employee, agent or fiduciary of the Company and (ii) a person serving at the request of the Company as a director, officer. employee, fiduciary or other representative of another Enterprise.

"Disabling Conduct" means an Indemnitee's willful misfeasance, bad faith, or gross negligence in the performance of his duties or reckless disregard of his obligations and duties involved in the conduct of his office.

"Enterprise" means any corporation, partnership, limited liability company, association, joint venture, trust, employee benefit plan or other entity.

"Expenses" means all expenses, including (without limitation) reasonable fees an expenses of counsel.

"Liabilities" means all liabilities, including (without limitation) the amounts of any judgments, fines, penalties, excise taxes and amounts paid in settlement.

"Proceeding" means any threatened, pending or completed claim, action (including any

action by or in the right of the Company), suit or proceeding (whether formal or informal, or civil, criminal, administrative, legislative, arbitrative or investigative) in respect of which Indemnitee is, was or at any time becomes, or is threatened to be made, a party, witness, subject or target, by reason of the fact that Indemnitee is or was an Authorized Representative or a prospective Authorized Representative.

2. Interpretation. (a) In this Agreement, unless a clear contrary intention appears:

(i) the singular number includes the plural number and vice versa;

(ii) reference to any gender includes each other gender;

(iii) the words "herein," "hereof" and "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision;

(iv) unless the context indicates otherwise, reference to any Section means such Section hereof; and

(v) the words "including" (and with correlative meaning "include") means including, without limiting the generality of any description preceding such term.

(b) The Section headings herein are for convenience only and shall not affect the construction hereof.

(c) No provision of this Agreement shall be interpreted or construed against any party solely because that party or its legal representative drafted such provision.

(d) In the event of any ambiguity, vagueness or other similar matter involving the interpretation or meaning of this Agreement, this Agreement shall be liberally construed so as to provide to Indemnitee the full benefits contemplated hereby.

(e) If the indemnification to which Indemnitee is entitled as respects any aspect of any claim varies between two or more provisions of this Agreement, that provision providing the most comprehensive indemnification shall apply.

3. Limitation on Personal Liability. To the fullest extent permitted by applicable law, Indemnitee shall not be personally liable to the Company or its stockholders for monetary damages for breach of fiduciary duty as a director of the Company, provided that the foregoing shall not eliminate or limit the liability of Indemnitee (i) for any breach of Indemnitee's duty of loyalty to the Company or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law relating to unlawful dividend payments and unlawful stock purchases or redemptions, (iv) for any transaction from which Indemnitee derived an improper personal benefit,

(v) for any breach of fiduciary duty involving personal misconduct in respect of the Company, (vi) for any breach of fiduciary duty with respect to the receipt of compensation for services, or for payments of a material nature, paid by the Company to the Indemnitee, or (vii) for any liability to the Company or its security holders to which the Indemnitee is subject by reason of his Disabling Conduct.

4. Indemnity. (a) Subject to the following provisions of this Agreement, the Company shall hold harmless and indemnify Indemnitee against all Expenses and Liabilities actually incurred by Indemnitee in connection with any Proceeding; provided, however, that no indemnity shall be paid by the Company pursuant to this Agreement:

(i) for amounts actually paid to Indemnitee pursuant to one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company; provided, however, that if it should subsequently be determined that Indemnitee is not entitled to retain any such amount, this clause (i) shall no longer apply to such amount;

(ii) in respect of remuneration paid to Indemnitee if it shall be determined by a final judgment or other final adjudication that payment of such remuneration was in violation of applicable law;

(iii) on account of Indemnitee's conduct which is finally adjudged to constitute willful misconduct or to have been knowingly fraudulent, deliberately dishonest or from which the Indemnitee derives an improper personal benefit;

(iv) on account of any suit in which final judgment is rendered against Indemnitee for an accounting of profits made from the sale or purchase by Indemnitee of securities of the Company pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934, as amended; or

(v) on account of any liability, whether or not there is an adjudication of liability, arising by reason of Indemnitee's Disabling Conduct.

(b) If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for only a portion (but not, however, for the total amount) of any Expenses or Liabilities actually incurred by Indemnitee in connection with any Proceeding, the Company shall nevertheless indemnify Indemnitee for the portion of such Expenses and Liabilities to which Indemnitee is entitled. If the indemnification provided for herein in respect of any Expenses or Liabilities actually incurred by Indemnitee in connection with any Proceeding is finally determined by a court of competent jurisdiction to be prohibited by applicable law, then the Company, in lieu of indemnifying Indemnitee and to the extent permitted under Section 17(h) of the Act, shall contribute to the amount paid or payable by Indemnitee as a result of such Expenses and Liabilities in such proportion as is appropriate to reflect (i) the relative benefits received by the Company on

the one hand and Indemnitee on the other hand from the events, circumstances, conditions, happenings, actions or transactions from which such Proceeding arose, (ii) the relative fault of the Company (including its other Authorized Representatives) on the one hand and of Indemnitee on the other hand in connection with the events, circumstances and happenings which resulted in such Expenses and Liabilities, such relative fault to be determined by reference to, among other things, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent the events, circumstances and/or happenings resulting in such Expenses and liabilities, and (iii) any other relevant equitable considerations, it being agreed that it would not be just and equitable if such contribution were determined by pro rata or other method of allocation which does not take into account the foregoing equitable considerations.

(c) The indemnification provided herein shall be applicable only to Proceedings commenced after the date hereof, regardless, however, of whether they arise from acts, omissions, facts or circumstances occurring before or after the date hereof.

(d) The indemnification provided herein shall be applicable whether or not negligence of Indemnitee is alleged or proved, and regardless of whether such negligence be contributory or sole.

(e) Amounts paid by the Company to Indemnitee under this Section 4 are subject to refund by Indemnitee as provided in Section 8.

5. Notification and Defense of Claims. (a) Promptly after the receipt by Indemnitee of notice of the commencement of any Proceeding, Indemnitee will, if a claim in respect thereof is to be made against the Company under this Agreement, notify the Company of the commencement of such Proceeding; provided, however, that the omission to so notify the Company will not relieve the Company (i) from any liability which it may have to Indemnitee under this Agreement unless, and then only to the extent that, such omission results in insufficient time being available to permit the Company or its counsel to effectively defend against or make timely response to any loss, claim, damage, liability or expense resulting from such Proceeding or otherwise has a material adverse effect on the Company's ability to promptly deal with such loss, claim, damage, liability or expense or (ii) from any liability which it may have to Indemnitee otherwise than under this Agreement.

(b) The following provisions shall apply with respect to any such Proceeding as to which Indemnitee notifies the Company of the commencement thereof:

(i) The Company shall be entitled to participate therein at its own expense.

(ii) Except as otherwise provided below, to the extent it may elect to do so, the Company (jointly with any other indemnifying party similarly notified) will be entitled to assume the defense thereof, with counsel of its own selection reasonably satisfactory to Indemnitee. After notice from the Company to Indemnitee of its election so to assume the defense

thereof, the Company will not be liable to Indemnitee under this Agreement for any Expenses subsequently incurred by Indemnitee in connection with the defense of such Proceeding other than reasonable costs of investigation or as otherwise provided below. Indemnitee shall have the right to employ separate counsel in such Proceeding but the fees and expenses of such counsel incurred after notice from the Company of its assumption of the defense thereof shall be at the expense of Indemnitee unless (1) the employment of separate counsel by Indemnitee has been authorized by the Company; (2) Indemnitee shall have reasonably concluded that there may be a conflict of interest between the Company and Indemnitee in the conduct of the defense of such Proceeding; or (3) the Company shall not in fact have employed counsel to assume the defense of such Proceeding, in each of which cases the reasonable fees and expenses of Indemnitee's counsel shall be borne by the Company. The Company shall not be entitled to assume the defense of any Proceeding brought by or on behalf of the Company or as to which Indemnitee shall have made the conclusion provided for in (2) above. Nothing in this paragraph (ii) shall affect the obligation of the Company to indemnify Indemnitee against Expenses and Liabilities paid in settlement for which it is otherwise obligated hereunder.

(iii) The Company shall not be liable to indemnify Indemnitee under this Agreement for any amounts paid in settlement of any Proceedings or claims effected without its prior written consent. The Company shall not settle any Proceeding or claim in any manner which would impose any penalty or limitation on Indemnitee without Indemnitee's prior written consent. Neither the Company nor Indemnitee will unreasonably withhold or delay its consent to any proposed settlement.

6. Advancement of Expenses, etc. If requested to do so by Indemnitee with respect to any Proceeding, the Company shall advance to or for the benefit of Indemnitee, prior to the final disposition of such Proceeding, the Expenses actually incurred by Indemnitee in investigating, defending or appealing such Proceeding; provided, however, as a condition to any advance (a) the Indemnitee shall provide a security for his undertaking provided in Section 8, (b) the Company shall be insured against losses arising by reason of any lawful advance, or (c) a majority of a quorum of the disinterested, non-party directors of the Company, or an independent legal counsel in a written opinion, shall determine, based on a review of readily available facts (as opposed to a trial-type inquiry), that there is reason to believe that the Indemnitee ultimately will be found entitled to indemnification under Section 4. Any judgments, fines or amounts to be paid in settlement of any Proceeding shall also be advanced by the Company upon request by Indemnitee. Advances made by the Company under this Section 6 are subject to refund by Indemnitee as provided in Section 8.

7. Right of Indemnitee to Bring Suit. (a) If a claim for indemnification or a claim for an advance under this Agreement is not paid in full by the Company within 30 days after receipt by the Company from Indemnitee of a written request or demand therefor, Indemnitee may bring suit against the Company to recover the unpaid amount of the claim. If, in any such action, Indemnitee makes a prima facie showing of entitlement to indemnification under this Agreement, the Company

shall have the burden of proving that indemnification is not required under this Agreement. The only defense to any such action shall be that indemnification is not required by this Agreement.

(b) In the event that any action is instituted by Indemnitee to enforce Indemnitee's rights or to collect monies due to Indemnitee under this Agreement and if Indemnitee is successful in such action, the Company shall reimburse Indemnitee for all Expenses incurred by Indemnitee with respect to such action.

8. Repayment Obligation of Indemnitee. If the Company advances or pays any amount to Indemnitee under Section 4, 6, or 7 and if it shall thereafter be determined by the Company as provided in this Section 8 that Indemnitee was not entitled to be indemnified hereunder for all or any portion of such amount, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company. If the Company advances or pays any amount to Indemnitee under Section 4, 6, or 7 and if Indemnitee shall thereafter receive all or a portion of such amount under one or more policies of directors and officers liability insurance maintained by the Company or pursuant to a trust fund, letter of credit or other security or funding arrangement provided by the Company, Indemnitee shall promptly repay such amount or such portion thereof, as the case may be, to the Company. The Indemnitee agrees that the means for determining whether an Indemnitee is entitled to indemnification under Sections 4, 6, or 7, shall include (1) a final decision on the merits by a court or other body before whom a Proceeding was brought that the Indemnitee was not liable by reason of Disabling Conduct or (2) a reasonable determination, based upon a review of the facts, that the Indemnitee was not liable by reason of Disabling Conduct, by (a) the vote of a majority of a quorum of directors of the Company who are neither "interested persons" of the Company as defined in Section 2(a)(19) of the Act nor parties to such action, suit, or proceeding or (b) an independent legal counsel in a written opinion. The foregoing determination of whether indemnification should be made may be made by the Company at any time and shall be made by the Company upon conclusion of any Proceeding.

9. Changes in Law. If any change after the date of this Agreement in any applicable law, statute or rule expands the power of the Company to indemnify Authorized Representatives, such change shall be within the purview of Indemnitee's rights and the Company's obligations under this Agreement. If any change after the date of this Agreement in any applicable law, statute or rule narrows the right of the Company to indemnify an Authorized Representative, such change shall, to the fullest extent permitted by applicable law, leave this Agreement and the parties' rights and obligations hereunder unaffected.

10. Continuation of Indemnity. All agreements and obligations of the company hereunder shall continue during the period Indemnitee is an Authorized Representative, and shall continue after Indemnitee has ceased to occupy such position or have such relationship so long as Indemnitee shall be subject to any possible Proceeding.

11. Nonexclusivity. The indemnification and other rights provided by any provision of this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may be

entitled under (i) any statutory or common law, (ii) the Company's certificate of incorporation, (iii) the Company's bylaws, (iv) any other agreement or (v) any vote of stockholders or disinterested directors or otherwise, both as to action in Indemnitee's official capacity and as to action in another capacity while occupying any of the positions or having any of the relationships referred to in this Agreement. Nothing in this Agreement shall in any manner affect, impair or compromise any indemnification Indemnitee has or may have by virtue of any agreement previously entered into between Indemnitee and the Company or between Indemnitee and Chambers.

12. Severability. If any provision of this Agreement shall be held to be invalid, illegal or unenforceable (i) the validity, legality or enforceability of the remaining provisions of this Agreement shall not be in any way affected or impaired thereby and (ii) to the fullest extent possible, the provisions of this Agreement shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable. Each provision of this Agreement is a separate and independent portion of this Agreement.

13. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties. No waiver of any of the provisions of this Agreement shall be binding unless executed in writing by the person making the waiver nor shall such waiver constitute a continuing waiver.

14. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be addressed (i) if to the Company, at its principal office address as shown on the signature page hereof or such other address as it may have designated by written notice to Indemnitee for purposes hereof, directed to the attention of the Secretary and (ii) if to Indemnitee, at Indemnitee's address as shown on the signature page hereof or to such other address as Indemnitee may have designated by written notice to the Company for purposes hereof. Each such notice or other communication shall be deemed to have been duly given if (a) delivered by hand and receipted for by the party to whom said notice or other communication shall have been directed, (b) transmitted by facsimile transmission, at the time that receipt of such transmission is confirmed, or (c) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed.

15. Governing Law. This Agreement shall be deemed to be a contract made under, and shall be governed by and construed and enforced in accordance with, the internal laws of the State of Delaware without regard to principles of conflicts of law.

16. Heirs, Successors and Assigns. (a) This Agreement shall be binding upon, inure to the benefit of and be enforceable by (i) Indemnitee and Indemnitee's personal or legal representatives, executors, administrators, heirs, devisees and legatees and (ii) the Company and its successors and assigns. This Agreement shall not inure to the benefit of any other person or Enterprise.

(b) The Company agrees to require any successor (whether direct or indirect, by purchase,

merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used herein, the term "Company" shall include any successor to its business and/or assets as aforesaid which executes and delivers the assumption and agreement provided for in this Section 16 or which otherwise becomes bound by all terms and provisions of this Agreement by operation of law.

ENTERED into on the day and year first above written.

THE COMPANY:

EQUUS II INCORPORATED

By: _____

Address:

2929 Allen Parkway, Suite 2500
Houston, Texas 77019

Telecopier:

(713) 529-9545

INDEMNITEE:

_____

Address:

_____

_____

Telecopier:

_____

FORM OF RELEASE AGREEMENT

As discussed in Item 1. Business – Regulation, the Registrant has entered into Release Agreements with certain of its officers and former officers in connection with the unwinding of certain loan transactions with respect to loans extended by the Registrant in 1999 to such officers to enable them to exercise stock options previously granted by the Registrant, which loans were cancelled in 2001. In accordance with the Instructions to Item 601 of Regulation S-K, the Registrant has omitted filing the Release Agreements between Equus II Incorporated and the following officers and former officers as exhibits to this Form 10-K because they are substantially identical to the Form of Release Agreement, which follows, except for the date of the agreement and the amount paid to the Registrant.

Name of Officer or Former Officer	Amount Paid	Date
Sam P. Douglass	$188,692	November 12, 2004
Nolan Lehmann	294,950	November 12, 2004
Gary L. Forbes	118,568	November 12, 2004
Tracy H. Cohen	27,575	December 16, 2004
Randall B. Hale	*	December 3, 2004
Patrick M. Cahill	23,475	March 24, 2005

* Mr. Hale returned options to purchase 198,000 shares of the Registrant's common stock.

FORM OF RELEASE AGREEMENT

This Release Agreement ("Agreement") is entered into by and between (i) _____ ("Officer") and (ii) Equus II Incorporated ("Fund") on behalf of and for the benefit of the Fund and its affiliates, subsidiaries, entities under common control, predecessors, board of directors, agents, employees, successors, and assigns (each a "Fund Party" and collectively, the "Fund Parties"), as of the date indicated below.

WHEREAS, Officer is an officer of the Fund;

WHEREAS, Officer was a participant in the Fund's 1997 Stock Incentive Plan ("Plan");

WHEREAS, Officer executed a Promissory Note and Security Agreement – Pledge dated September 30, 1999, in favor of the Fund ("Note");

WHEREAS, Officer purchased shares of Fund stock ("Shares") pursuant to the Plan using the proceeds of the Note;

WHEREAS, the Note was collateralized by those Shares;

WHEREAS, during 2001, the Fund accepted return of certain of those Shares in satisfaction of the Note ("Repayment") (collectively, the Plan, the Note and the Repayment shall be referred to herein as the "Transactions"); and

WHEREAS, Officer has retained certain of those Shares, as well as proceeds from cash and stock dividends paid on such Shares;

WHEREAS, Officer has agreed to (i) make a cash payment to the Fund in an amount equal to the value of the Shares retained and any proceeds from cash or stock dividends paid on those Shares and (ii) waive the right to indemnification from the Fund to which he is entitled by reason of his status as an officer of the Fund and having met the requisite standards of conduct

with respect to his actions, in exchange for the execution and delivery of this Release Agreement on behalf of the Fund in order to settle and resolve any and all potential claims that any Fund Party may have against Officer arising out of the Transactions;

WHEREAS, Officer has tendered such amount to the Fund (the "Tender") and waived his rights to indemnification (the "Waiver");

WHEREAS, the Fund Parties have agreed, upon the receipt by the Fund of such amount, to release any and all claims, causes of action and/or disputes which the Fund Parties, or any of them has, had or may have had against Officer arising from or relating to the Transactions, whether or not described specifically herein;

WHEREAS, the Fund Parties have agreed, upon receipt by the Fund of such amount, as specified herein, to refrain from assisting any individual or entity who attempts to bring any claim or cause of action against Officer arising from or related to the Transactions; and

WHEREAS, the Board has authorized the Chairman of the Special Committee of the Fund's Board of Directors to execute this Agreement on behalf of the Fund Parties in recognition of such Tender and Waiver;

NOW, THEREFORE, in consideration of the mutual covenants and promises set forth in this Agreement, Officer and the Fund Parties agree as follows:

1. Officer hereby tenders to the Fund the amount of $_____, and waives the right to indemnification for any expenses, including attorneys' fees, paid or incurred in settlement of the Fund's claims arising out of the Transactions to which he is entitled by reason of his status as an officer of the Fund and having met the requisite standard of conduct with respect to his actions.

2. In return for the consideration described in paragraph 1 of this Agreement, the Fund, on behalf of all Fund Parties and any successors, assigns, or representatives of any Fund Party, does hereby, release and discharge Officer from any and all claims, debts, and causes of action of any kind or description whatsoever, relating in any way to the Transactions, that any

Fund Party has, had or may have had as of the date of the execution of this Agreement, including without limitation all rights and claims, whether in law or equity, arising from or under: (a) the United States Federal Securities Laws (as defined by Rule 38a-1 under the Investment Company Act of 1940, as amended, or otherwise); (b) the Internal Revenue Code of 1986, as amended; (c) the securities laws of any U.S. state, commonwealth or territory (including the District of Columbia) (*i.e.*, Blue Sky Laws), including specifically, New York's Martin Act and any similar act or statute under the laws of the States of Texas or Delaware; and (d) any other state or federal statute or common law principle.

3. Officer does not waive the right to any indemnification to which he is entitled with respect to any future action, suit or proceeding, whether civil, criminal, administrative or investigative arising out of the Transactions.

4. The Fund warrants and represents that, to its knowledge, no individual, entity, governmental agency or office has asserted or indicated an intention to assert any claim or institute any investigation based on or arising out of the Transactions, any action taken or any omission by Officer with respect thereto.

5. Except as required by law, the Fund Parties shall refrain from assisting in any manner (both directly and indirectly) any individual or entity, including without limitation, any stockholder of the Fund, who attempts to assert any claim against Officer which is similar to, or based upon the same general facts as, the potential claims discussed herein and the Fund Parties agree that this Agreement is, will constitute and may be pleaded as, a bar to any claim, cause of action or proceeding brought by any such individual or entity.

6. Officer and the Fund Parties shall not disclose the terms of or the basis for this Agreement to any other entity or person, with the exception of Officer's spouse and accountant for the purpose of preparing tax returns or pursuant to valid legal process or: (a) to the extent that such disclosure is requested by a regulatory entity, including but not limited to, in connection with any governmental request or investigation or judicial or administrative action; (b) in conjunction with obtaining legal representation; or (c) as may be required by law, rule or regulation, including, but not limited to, pursuant to any disclosure or filing requirements established by the U.S. Securities and Exchange Commission. To the extent that such public disclosure is determined to be made on Form 8-K or otherwise, Officer will be given an opportunity to review and comment on such disclosure before it is released.

7. No provision of or act required by this Agreement shall be construed as an admission of any obligation, liability, or wrongdoing on the part of Officer.

8. Except to the extent necessary to enforce this Agreement or only to the extent legally required by a regulatory entity in connection with any government investigation or judicial action, neither this Agreement nor any part of this Agreement is to be used or admitted into evidence in any judicial, administrative, or other proceeding now pending or subsequently instituted against any party to this Agreement.

9. Officer and the Fund Parties shall do everything within their power to effectuate the spirit and intent of this Agreement and shall cooperate in carrying out the terms of this

Agreement. If a party breaches any provision of this Agreement, legal proceedings may be instituted against that party for breach of contract. The party who prevails in any such action shall be entitled to recover the reasonable attorneys' fees and litigation expenses incurred in that litigation.

10. In the event that a provision contained herein shall for any reason be held or deemed to be invalid by a court of law, such provision shall be severable and this Agreement shall remain in force.

11. This Agreement may be executed in counterparts with the same force and effect as if a single original document had been executed by the parties.

12. The Fund Parties have advised Officer to confer with his attorney and Officer has done so or has had an adequate opportunity to do so before executing this Agreement.

13. The only consideration that Officer shall receive for the execution of this Agreement shall be the release described in Section 2 of this Agreement. No other promise, inducement, threat, agreement, or understanding of any kind or description whatsoever has been made with or to Officer by any person or entity to cause Officer to execute this Agreement. Officer and the Fund Parties fully understand the meaning, intent, and final and binding effect of this Agreement.

14. This Agreement constitutes the entire agreement between Officer and the Fund Parties regarding the subject matter of this Agreement and, except as otherwise expressly provided in this Agreement, supersedes and cancels all previous negotiations, agreements, commitments, and writings regarding that subject.

15. This Agreement binds and inures to the benefit of Officer and the Fund Parties and their respective successors, assigns, affiliates, heirs, legatees, executors, administrators, and representatives.

16. This Agreement shall be interpreted and enforced in accordance with the law of the State of Delaware, without regard to any conflict of laws rules.

17. OFFICER AND THE FUND HAVE FREELY AND VOLUNTARILY ENTERED INTO THIS AGREEMENT AFTER HAVING A REASONABLE TIME TO REVIEW THE TERMS OF THIS AGREEMENT AND HAVING AN OPPORTUNITY TO DISCUSS THE TERMS OF THIS AGREEMENT WITH WHOMEVER THEY WISHED, INCLUDING LEGAL COUNSEL OF THEIR OWN CHOICE.

IN WITNESS HEREOF, the parties have duly executed this Agreement.

Named Officer

[Date]

Equus II Incorporated

By:

Name and title: Robert Knauss,

Chairman of the Special Committee

[Date]

EQUUS II INCORPORATED
EQUUS CAPITAL MANAGEMENT CORPORATION

JOINT CODE OF ETHICS

1. Applicability

This Code of Ethics (the "Code") has been adopted by the Board of Directors, including a majority of the Directors who are not interested persons, of Equus II Incorporated ("EQS" or the "Fund") and Equus Capital Management Corporation (the "Adviser") in order to satisfy the requirements of Rule 17j-1 under the Investment Company Act of 1940 (the "1940 Act") and Section 204A of the Investment Advisers Act of 1940 (the "Advisers Act").

As it relates to Rule 17j-1 of the 1940 Act, the purpose of the Code is to establish standards and procedures that are reasonably designed for the detection and prevention of activities by which persons having knowledge of the investments and investment intentions of the Fund may abuse their fiduciary duties to the Fund and otherwise deal with the types of conflicts of interest situations to which Rule 17j-1 is addressed. As it relates to Section 204A of the Advisers Act, the purpose of this Code is to establish procedures that, taking into consideration the nature of the Adviser's business, are reasonably designed to prevent the misuse of material non-public information in violation of the federal securities laws by persons associated with the Adviser.

1. Definitions

1.1. "Access Person" means (a) the Adviser, (b) any Board Member or Advisory Person, and (c) any director, partner, or officer of the Fund or the Adviser who, with respect to the Fund, makes any recommendation, participates in the determination of which recommendation will be made, or whose principal functions or duties relate to the determination of which recommendation will be made, or who, in connection with his or her duties, obtains any information concerning recommendations of securities being made by the Adviser to the Fund. A person does not become an Access Person solely by reason of (a) normally assisting in the preparation of public reports or receiving public reports, but not receiving information about current recommendations or trading activity or (b) a single instance of obtaining knowledge of current recommendations or trading activity, or infrequently and inadvertently obtaining such knowledge.

1.2. "Advisory Person" means any (a) employee of the Fund or the Adviser who, in connection with his or her regular functions or duties, makes, participates in, or obtains current information regarding the purchase or sale of any security by the Fund, or which functions relate to the making of any recommendation concerning any security held or to be purchased or sold by the Fund, and (b) any natural person in a Control relationship to the Fund or the Adviser who obtains current information concerning recommendations made to the Fund with regard to the purchase of sale of any Security.

1.3 "Annual Certification" means an Annual Certification of Compliance with Code of Ethics, in the form attached as Schedule F.

1.4 "Beneficial Ownership" has the meaning set forth in paragraph (a)(2) of Rule 16a-1 under the Securities Exchange Act of 1934, and for purposes of this Code includes any interest by which an Access Person or any Immediate Family Member of an Access Person can directly or indirectly derive monetary or other economic benefit from the purchase, sale (or other acquisition or disposition), or ownership of a security, including any such interest that arises as a result of: a general partnership interest in a general or limited partnership, an interest in a trust, a right to dividends that is separated or separate from the underlying security, a right to acquire equity securities through the exercise or conversion of a derivative security (whether or not presently exercisable), and a performance related advisory fee (other than an asset based fee).

1.5 "Board Member" means each individual who serves as an director of the Fund.

1.6 "Committee of Independent Directors" means a committee comprised of all of the directors who are not "interested persons" of the Fund as defined in Section 2(a)(19) of the 1940 Act acting as a committee of the whole.

1.7 "Compliance Officer" means the person designated by the Adviser to serve as the chief compliance officer of the Adviser.

1.8 "Control" has the meaning set forth in Section 2(a)(9) of the 1940 Act, and includes the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with the company. Control shall be presumed to exist where a person owns beneficially, either directly or through one or more companies, more than 25% of the voting securities of a company.

1.9 "Fund Employee" means any person who: (1) is an Access Person or (2) is a director, officer, or employee of the Adviser and provides services to the Fund or in the course of his or her duties obtains information regarding investment recommendations made to the Fund or the Fund's investment transactions.

1.10 "Immediate Family Member" means a person who shares the same household as the Access Person and is related to the Access Person by blood, marriage, or adoption.

1.11 "Independent Board Member" means each individual who serves as an director of a Fund who is not an "interested person," as defined in Section 2(a)(19) of the 1940 Act, of a Fund.

1.12 "Initial Certification" means an Initial Certification of Compliance with Code of Ethics, in the form attached as Schedule E.

1.13 "Initial Public Offering" means an offering of securities registered under the Securities Act of 1933, the issuer of which, immediately before the registration was not subject to the reporting requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934.

1.14 "Limited Offering" means an offering that is exempt from registration pursuant to Section 4(2) of Section 4(6) of the Securities Act of 1933 or Rule 504, 505, or 506 thereunder.

1.15 "Security" has the meaning set forth in Section 2(a)(36) of the 1940 Act and includes any and all stock, debt obligations, and similar instruments of whatever kind, including any right or warrant to purchase a security, or option to acquire or sell a security, a group or index of securities. References to a security in this Code shall be deemed to refer to and include any warrant for, option in, or security immediately convertible into that security, and shall also include any financial instrument that has an investment return or value that is based, in whole or in part, on that security (collectively "derivatives").

A security is "being considered for purchase or sale" when a recommendation to purchase or sell the security has been made or communicated and, with respect to the person making the recommendation, when such person seriously considers making such a recommendation.

1.16 "Securities that are not eligible for purchase by the Fund" unless the Fund otherwise notifies any Access Person to the contrary, include (a) any security issued by an investment company; (b) any security that is registered on a national securities exchange; (c) any security that has unlisted trading privileges on a national securities exchange; (d) any OTC margin stock or bond as defined in Regulation T issued by the Board of Governors of the Federal Reserve System pursuant to the Securities Exchange Act of 1934 ("Regulation T"); (d) any other margin security as defined in Regulation T; (e) the purchase and sale of commodities or commodities contracts; (f) any put, call, straddle, option, or privilege related to any of the foregoing and (f) any other security other than common or preferred stock or notes, bonds or debentures convertible into common or preferred stock or notes, bonds, or debentures combined with warrants, options, or other rights to acquire common or preferred stock.

The Compliance Officer shall maintain a list (the "Ineligible Security List") of securities that fall within the foregoing categories but are being considered for purchase or sale by the Fund or are held by the Fund. The Ineligible Security List shall be provided to each Access Person.

2. Statement of General Principles

The general fiduciary principles that govern the trading activities by an Access Person are as follows:

2.1 The duty at all times to place the interests of the stockholders of the Fund first.

2.2 The requirement that all personal securities transactions be conducted in a manner that does not interfere with the Fund's portfolio transactions so as to avoid any actual or potential conflict of interest or any abuse of an individual's position of trust and responsibility.

2.3 The fundamental standard that Access Persons should not take inappropriate or unfair advantage of their relationship with the Fund or the Adviser.

Covered Persons must adhere to these general principles as well as comply with the Code's specific provisions.

3. Prohibited Purchases and Sales.

3.1 Except as permitted pursuant to Section 4 or 5 below, no Access Person shall purchase or sell, directly or indirectly, any security in which he or she has, or by reason of such transaction acquires, any direct or indirect beneficial ownership and which he or she knows or should know at the time of such purchase or sale: (a) has been purchased or sold by the Fund within the last 15 calendar days or held by the Fund for less than 60 calendar days, (b) is currently being purchased or sold by the Fund, or (c) is being, or within the most recent 15 calendar days has been, considered for purchase or sale by either Fund. These prohibitions shall continue until the time that the Adviser or any such Access Person decides not to recommend such purchase or sale, or if such recommendation is made, until the time that the Fund decides not to enter into, or completes, such recommended purchase or sale.

3.2 No Access Person shall recommend any securities transaction by the Fund without having disclosed his interest, if any, in such securities or the issuer of the securities, including without limitation: (a) his or her direct or indirect beneficial ownership of any securities of any such issuer, (b) any contemplated transaction by such person in such securities, (c) any position with such issuer or its affiliates, or (d) any present or proposed business relationship between such issuer or its affiliates and such person or any party in which such person has a significant interest.

3.3 No Access Person shall, directly or indirectly in connection with the purchase or sale of any securities held or to be acquired by the Fund: (a) employ any device, scheme, or artifice to defraud the Fund, (b) make to the Fund any untrue statement of a material fact or omit to state to the Fund a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading, (c) engage in any act, practice, or course of business that

operates or would operate as a fraud or deceit upon either Fund, or (d) engage in any manipulative practice with respect to the Fund.

3.4 No Access Person shall: (a) purchase, directly or indirectly, or by reason of such transaction acquire, any direct or indirect beneficial ownership of any securities in an Initial Public Offering or a Limited Offering eligible for purchase by the Fund without prior approval in accordance with this Code or (b) accept any gift or other thing of more than de minimus value from any person or entity that does business with or on behalf of the Fund.

4. Exempt Purchases and Sales.

The prohibitions in Section 3 of this Code shall not apply to:

(a) purchases or sales effected in any account over which an Access Person has no direct or indirect influence or control;

(b) purchases or sales of securities that are not eligible for purchase by the Fund, except any such securities that are listed on the Ineligible Security List;

(c) purchases or sales of securities that are U.S. Treasury obligations, commercial paper and high quality debt instruments (including repurchase agreements) with a stated maturity of 12 months or less, bankers' acceptances, and bank certificates of deposit;

(d) purchases and redemptions of shares of registered open-end investment companies (mutual funds);

(e) purchases effected upon exercise of rights issued by an issuer pro rata to all holders of a class of its securities to the extent such rights were acquired from such issuer, and sales of such rights to be acquired;

(f) involuntary (i.e., non-volitional) purchases and sales of securities;

(g) any securities transaction, or series of related transaction, involving 500 shares or less in the aggregate, if the issuer has a market capitalization (outstanding shares multiplied by the current price per share) greater than $1 billion;

(h) purchases that are part of an automatic dividend reinvestment plan;

(g) joint investments permitted pursuant to an exemptive order issued by the Securities and Exchange Commission; or

(h) purchases or sales for which the Access Person has received prior approval from the Compliance Officer in accordance with this Code.

5. Prior Clearance of Transactions.

No Access Person other than Independent Board Members (unless they have actual knowledge of the matters described in Paragraph 3.1) shall effect a purchase or sale directly or indirectly, of any security in which he has, or by reason of such transaction acquires, any direct or indirect beneficial ownership, other than purchases or sales permitted under Section 4 of this Code, without obtaining prior written clearance from the Compliance Officer or a person designated by the Compliance Officer to pre-clear transactions. The Compliance Officer and these designated persons are referred to as a "Clearing Officer." A Clearing Officer seeking pre-clearance with respect to his or her own transaction shall obtain such clearance from another Clearing Officer.

Any Access Person who effects a purchase or sale after obtaining such prior written clearance shall be deemed not to be in violation of Section 3 of this Code by reason of such purchase or sale. Upon written request from an Access Person as provided in Paragraph 5.1 below, a Clearing Officer shall have the sole discretion to pre-approve a personal securities transaction, and thereby exempt such transaction from the restrictions of this Code. The Clearing Officer shall make such determination in accordance with the following:

5.1 Prior approval shall be granted only if a purchase or sale of securities is consistent with the purposes of this Code and Section 17(j) of the 1940 Act. To illustrate, a purchase or sale shall be considered consistent with those purposes if such purchase or sale is only remotely potentially harmful to either Fund or the Adviser because such purchase or sale would be unlikely to affect a highly institutional market, or because such purchase or sale is clearly not related economically to the securities held, purchased, or sold by the Fund.

5.2 Prior approval shall take into account, among other factors:

(a) whether the investment opportunity should be reserved for the Fund and whether the opportunity is being offered to the Access Person by virtue of the Access Person's position with the Fund or the Adviser;

(b) whether the amount or nature of the transaction or person making it is likely to affect the price or market for the security;

(c) whether the Access Person making the proposed purchase or sale is likely to benefit from purchases or sales being made or being considered by the Fund;

(d) whether the security proposed to be purchased or sold is one that would qualify for purchase or sale by the Fund;

(e) whether the transaction is non-volitional on the part of the individual, such as receipt of a stock dividend or a sinking fund call;

(f) whether the chance of a conflict of interest is remote; and

(g) whether the transaction is likely to effect the Fund adversely.

5.3 Access Persons must submit in writing a completed and executed Request for Permission to Engage in a Personal Securities Transaction (a form of which is attached hereto as Schedule A), which shall set forth the details of the proposed transaction. Approval of the transaction as described on such form shall be evidenced by the signature of the Clearing Officer thereon. A copy of all prior approval forms, with all required signatures, shall be retained by the Compliance Officer.

5.4 If approval is given to the Access Person in accordance with this Code to engage in a securities transaction, the Access Person is under an affirmative obligation to disclose that position if such Access Person plays a material role in a Fund's subsequent investment decision regarding the same issuer. In such circumstances, an independent review of the Fund's investment decision to purchase securities of the issuer by investment personnel with no personal interest in the issuer shall be conducted.

5.5 Approval granted to the Covered Person in accordance with this Code is only effective for seven days from the date of such approval; provided, however, that a pre-clearance expires upon the Access Person receiving pre-clearance becoming aware of facts or circumstances that would prevent a proposed trade from being pre-cleared were such facts or circumstances made known to a Clearing Officer. Accordingly, if an Access Person becomes aware of new or changed facts or circumstances that give rise to a question as to whether pre-clearance could be obtained if a Clearing Officer was aware of such facts or circumstances, the Access Person shall be required to so advise a Clearing Officer and obtain a new pre-clearance before proceeding with such transaction.

6. Reporting.

6.1 Every Access Person must submit an Initial Holdings Report, Quarterly Transactions Reports and Annual Holdings Reports on such dates as shall be determined by the Compliance Officer containing the information set forth below about each transaction, if any, by which the Access Person acquires any direct or indirect beneficial ownership of a security; provided, however, that:

(a) an Access Person shall not be required to include in such reports any transaction effected for any account over which such Access Person does not have any direct or indirect influence or control; and

(b)

Independent Board Members of a Fund shall not be required to submit an Initial Holdings Report or Annual Holdings Reports, and shall be required to submit a Quarterly Transaction Report of a transaction only if such person, at the time of that transaction, knew, or in the ordinary course of fulfilling his official duties as a director or individual general partner of

such Fund should have known, that during the 15-day period immediately preceding or after the date of the transaction by such person, the security such person purchased or sold is or was purchased or sold by the Fund or was being considered for purchase or sale by the Fund or the Adviser.

6.2 Each Access Person within ten days of the date that he or she becomes an Access Person shall furnish to the Compliance Officer an Initial Holdings Report in the form attached as Schedule B containing the following information: (a) the title, number of shares, and principal amount of all securities that he or she beneficially owns, directly or indirectly, except securities specified in Section 4(a) and (c) of this Code, (b) the name of any broker, dealer, or bank with whom the Access Person maintained an account in which any securities held, purchased, or sold ("personal securities account") for the direct or indirect benefit of the Access Person as of the date the person became an Access Person, and (c) the date the report is submitted by the Access Person.

Timely submission of an Initial Holdings Report, along with a copy of the most recent monthly statement for each personal securities account and copies of all confirmation of transactions effected after the date of such statement, shall satisfy the requirements of this Section 6.2 regarding submission of an Initial Holdings Report.

6.3 An Access Person must submit (a) no later than ten days after the end of each calendar quarter to the Compliance Officer a report containing the name of any broker, dealer or bank with whom the Access Person established an account in which any securities were held during the quarter for such person's direct or indirect benefit, the date the account was established and the date the report is submitted, and (b) a Quarterly Transactions Report in the form attached as Schedule C to the Compliance Officer no later than ten days after the end of each calendar quarter containing the following information with respect to any transaction during the quarter in a security in which the Access Person had any direct or indirect beneficial ownership except purchases and sales specified in Section 4(a) and (c) of this Code:

(1) the date of the transaction, the title, the interest rate and maturity date (if applicable) and the number of shares, and the principal amount of each security involved;

(2) the nature of the transaction (i.e., purchase, sale or other acquisition or disposition);

(3) the price at which the transaction was effected;

(4) the name of the broker, dealer or bank with or through whom the transaction was effected; and

(5) the date that the report is submitted by the Access Person.

An Access Person need not file a Quarterly Transaction Report for a calendar quarter if the Compliance Officer is being furnished with (a) confirmations and statements for all personal securities accounts of such Access Person, (b) duplicate monthly brokerage statements for all personal securities accounts on all transactions required to be reported hereunder, or (c) the requisite information on all transactions required to be reported hereunder through a transaction monitoring system, which may or may not be automated, in a manner acceptable to the Compliance Officer, provided that the Access Person has no reportable transactions other than those reflected in the confirmations and statements for such accounts.

6.4 Every Access Person must submit an Annual Holdings Report in the form attached as Schedule D to the Compliance Officer, which information must be current as of a date no more than 30 days before the report is submitted containing the following information:

(a) the title and the number of shares, and the principal amount of each security in which the Access Person had any direct or indirect beneficial ownership;

(b) the name of any broker, dealer or bank with whom the Access Person maintains an account; and

(c) the date that the report is submitted by the Access Person.

Submission of the Annual Holdings Report, along with copies of the most recent monthly statement for each person's securities account, shall satisfy the requirements of this Section 6.4 regarding submission of an Annual Holdings Report.

6.5 Any report may also contain a statement declaring that the reporting or recording of any such transaction shall not be construed as an admission that the Access Person making the report has any direct or indirect beneficial ownership in the security to which the report relates.

7. Administration and Procedural Matters

7.1 The Compliance Officer shall:

(a) maintain a current list of the names of all Access Persons, with an appropriate description in each case of the titles or employment of such persons, including a notation of any directorships held by Access Persons, and the date each such person became an Access Person.

(b) on an annual basis, furnish a copy of this Code to each Access Person;

(c) notify each Access Person of his or her obligation to file reports as provided by this Code;

(d) obtain Initial and Annual Holdings Reports from Access Persons and review Initial and Annual Holdings Reports;

(e) report to the Board Members of a Fund the facts contained in any reports filed with the Compliance Officer pursuant to this Code when any such report indicates that an Access Person purchased or sold a security held or to be acquired by such Fund;

(f) supervise the implementation of this Code by the Adviser and the enforcement of the terms hereof by the Adviser;

(g) determine whether any particular securities transaction should be exempted pursuant to the provisions of this Code;

(h) issue either personally or with the assistance of counsel as may be appropriate, any interpretation of this Code that may appear consistent with the objectives of Rule 17j-1 and this Code;

(i) conduct such inspections or investigations as shall reasonably be required to detect and report any apparent violations of this Code to the Board Members of the Fund;

(j) review reports submitted pursuant to this Code;

(k) maintain and cause to be maintained in an easily accessible place, the following records:

(1) a copy of any Code adopted pursuant to Rule 17j-1 which has been in effect during the past five years;

(2) a record of any violation of any such Code and of any action taken as a result of such violation;

(3) a copy of each report made by the Compliance Officer during the past five years;

(4) a list of all persons who are, or within the past five years have been, required to make reports pursuant to Rule 17j-1, or who are or were responsible for reviewing these reports, with an appropriate description of their title or employment;

(5) a copy of each report made by an Access Person as required by Section 6 of the Code, including any information provided in lieu of the reports under Section 6 of the Code, during the past five years; and

(6) a copy of each report to the Board Members of a Fund required by Section 7.1(e) during the past five years; and.

(l) perform such other duties as are set forth in this Code.

7.2 This Code may not be amended or modified except in a written form that is specifically approved by the Board Members of the Fund, including a majority of the Independent Board Members, within six months after such amendment or modification.

In connection with any such amendment or modification the Board Members must receive a certification from the Compliance Officer certifying the procedures reasonably necessary to prevent Access Persons from violating the Code, as proposed to be amended or modified, have been adopted.

7.3 The Compliance Officer may delegate to one or more other officers of the Adviser such responsibilities of the Compliance Officer as he or she may deem appropriate; provided, that: (a) any such delegation shall be set forth in writing and retained as part of the records of the applicable Fund and the Adviser and (b) it shall be the responsibility of the Compliance Officer to supervise the performance by such persons of the responsibilities that have been delegated to them.

8. Prohibition Against Insider Trading.

This Section is intended to satisfy the requirements of Section 204A of the Advisers Act, which is applicable to the Adviser and requires that the Adviser establish and enforce procedures designed to prevent the misuse of material, non-public information by its associated persons. It applies to all Fund Employees. Trading securities while in possession of material, non-public information, or improperly communicating that information to others, may expose a Fund Employee to severe penalties. Criminal sanctions may include a fine of up to $1,000,000 and/or ten years imprisonment. The SEC can recover the profits gained or losses avoided through the violative trading, a penalty of up to three times the illicit windfall, and an order permanently barring a Fund Employee from the securities industry. Finally, a Fund Employee may be sued by investors seeking to recover damages for insider trading violations.

8.1 No Fund Employee may trade a security, either personally or on behalf of any other person or account (including any Fund), while in possession of material, non-public information concerning that security or the issuer thereof, nor may any Fund Employee communicate material, non-public information to others in violation of the law.

8.2 Information is "material" where there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decisions. Generally, this includes any information the disclosure of which will have a substantial effect on the price of a security. No simple test exists to determine when information is material; assessments of materiality involve a highly fact specific inquiry. For this reason, Fund Employees should direct any questions about whether information is material to the Compliance Officer. Material information often relates to a company's results and operations, including, for example, dividend changes, earnings results, changes in previously released earnings estimates, significant merger or acquisition proposals or agreements, major litigation, liquidation problems, and extraordinary management developments. Material information may also relate to the market for a company's securities. Information about a significant order to purchase or sell Securities may, in some contexts, be material. Pre-publication information regarding reports in the financial press may also be material.

8.3 Information is "public" when it has been disseminated broadly to investors in the marketplace. For example, information is public after it has become available to the general public through a public filing with the SEC or some other government agency, the Dow Jones "tape" or *The Wall Street Journa*l or some other publication of general circulation, and after sufficient time has passed so that the information has been disseminated widely.

8.4 A Fund Employee, before executing any trade for himself or herself, or others, including a Fund or other accounts managed by the Adviser or by a stockholder of the Adviser, or any affiliate of the stockholder ("Client Accounts"), must determine whether he or she has material, non-public information. A Fund Employee who believes he or she is in possession of material, non-public information must take the following steps:

$ Report the information and proposed trade immediately to the Compliance Officer.

$ Do not purchase or sell the securities on behalf of anyone, including Client Accounts.

$ Do not communicate the information to any person, other than to the Compliance Officer.

After the Compliance Officer has reviewed the issue, the Adviser will determine whether the information is material and non-public and, if so, what action the Adviser and the Fund Employee should take. Fund Employees must consult with the Compliance Officer before taking any action. This degree of caution will protect Fund Employees, clients and the Advisers.

8.5

Contacts with public companies will sometimes be a part of an Adviser's research efforts. Persons providing investment advisory services to a Fund may make

investment decisions on the basis of conclusions formed through such contacts and analysis of publicly available information. Difficult legal issues arise, however, when, in the course of these contacts, a Fund Employee becomes aware of material, non-public information. This could happen, for example, if a company's chief financial officer prematurely discloses quarterly results to an analyst, or an investor relations representative makes selective disclosure of adverse news to a handful of investors. In such situations, the Adviser must make a judgment as to its further conduct. To protect yourself, clients and the Adviser, you should contact the Compliance Officer immediately if you believe that you may have received material, non-public information.

9. Sanctions.

Any violation of this Code shall be subject to the imposition of such sanctions by the Fund and the Adviser as may be deemed appropriate under the circumstances to achieve the purposes of Rule 17j-1 and this Code. Any sanctions to be imposed by the Fund shall be determined by the Committee of Independent Directors of the Fund. Any sanctions to be imposed by the Adviser shall be designated by the Adviser. Sanctions may include, but are not limited to, suspension or termination of employment, a letter of censure and/or restitution of an amount equal to the difference between the price paid or received by the Fund and the more advantageous price paid or received by the offending person.

10. Review of Reports.

The Compliance Officer shall be responsible for reviewing all reports filed with the Fund or the Adviser pursuant to Section 6 of this Code. Such officer shall indicate on each report the date of his review and shall sign each report to indicate that it has been reviewed. Such officer shall report to the Committee of the Independent Directors of each Fund any violations of this Code that come to his or her attention in such review.

11. Investment Advisers.

Prior to retaining the services of an investment adviser or principal underwriter for the Fund, the Board of Directors of a Fund shall review the Code of Ethics adopted pursuant to paragraph (b)(1)(i) of Rule 17j-1 under the 1940 Act by such investment adviser or principal underwriter, and shall receive a certification from such investment adviser or principal underwriter that it has adopted such procedures as are necessary to prevent Access Persons from violating such code.

12. Periodic Review.

The Board of Directors (including a majority of the Independent Directors) of each Fund shall review and evaluate this Code and the Reports filed by Access Persons at least once a year to determine that each Access Person is complying with the requirements of the Code and to determine that this Code contains such provisions as are reasonably necessary to prevent Access

Persons from engaging in any act, practice, or course of business prohibited by paragraph (a) of Rule 17j-1.

No less frequently than annually, the Compliance Officer shall furnish the Board of Directors of each Fund a report:

(a) Describing issues arising under this Code of Ethics since the last report to the Board, including but not limited to, information about material violations of the Code, sanctions imposed in response to such violations, changes made to the Code or procedures, and any proposed or recommended changes to the Code or procedures, and

(b) Certifying that the Fund and the Adviser each have adopted such procedures as are reasonably necessary to prevent Access Persons from violating the Code.

13. Confidentiality.

All information obtained from any Access Person hereunder shall be kept in strict confidence, except that reports of securities transactions hereunder will be made available to the SEC or any other regulatory or self-regulatory organization only to the extent required by law or regulation.

14. Other Laws, Rules, and Statements of Policy.

Nothing contained in this Code shall be interpreted as relieving any Access Person from acting in accordance with the provisions of any applicable law, rule or regulation or any other statement of policy or procedure governing the conduct of such person adopted by a Fund or the Adviser.

15. Further Information.

If any person has any question with regard to the applicability of the provisions of this Code generally or with regard to any securities transaction or transactions, he or she should consult the Compliance Officer. As of the date hereof, the Compliance Officer is Hank Nicodemus or such person or persons to whom he shall delegate such duty from time to time.

16. Certification by Access Persons.

All Access Persons of the Company must submit a certificate (a form of which is attached as Schedule E) that they have read and understand this Code and recognize that as an Access Person they are subject to the terms of this Code. All Access Persons of either Fund or the Adviser shall agree to certify on an annual basis (a form of which is attached as Schedule F) that they have complied with the requirements of this Code and that they have disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of this Code.

SCHEDULE A

EQUUS II INCORPORATED
EQUUS CAPITAL MANAGEMENT CORPORATION

REQUEST FOR PERMISSION TO
ENGAGE IN PERSONAL SECURITIES TRANSACTION

To the Clearing Officer:

On each of the dates proposed below, I hereby request permission to effect a transaction in securities as indicated below on behalf of myself, my family (spouse, minor children, or adults living in my household), trusts of which I am trustee of or other accounts in which I have a beneficial ownership interest or legal title.

(Use approximate dates and amounts of proposed transactions)

Name of Security	Proposed Date of Transaction	No. of Shares or Principal Amount	Dollar Amount of Transaction	Nature of Transaction (Purchase, Sale, Other)	Broker/ Dealer or Bank	Share Price

Name: _____

Position with Company: _____

Date: _____ Signature: _____

Permission Granted

Permission Denied

Date: _____ Signature: _____

Clearing Officer

SCHEDULE B

EQUUS II INCORPORATED
EQUUS CAPITAL MANAGEMENT CORPORATION

INITIAL REPORT OF SECURITIES

To the Compliance Officer:

On the date indicated, the following are securities of which I, my family (spouse, minor children, or adults living in my household) or trusts of which I am trustee, possessed direct or indirect "beneficial ownership." If there were no such securities, I have so indicated by typing or printing "NONE." I certify that all my personal securities accounts are listed below. I further certify that, other than those securities listed below, I hold no securities in which I may be deemed to have beneficial ownership other than in the personal securities accounts listed.*

Name of Security	No. of Shares or Principal Amount	Broker/Dealer or Bank	Account No.

This report (i) excludes transactions with respect to which I had no direct or indirect influence or control, (ii) any other transactions not required to be reported under the Code and (iii) is not an admission that I have or had any direct or indirect beneficial ownership in the securities listed above.

Date: _____

Signature: _____
Printed

Name: _____

Company: _____

Position with Company: _____

* Information may be provided by attaching the most recent monthly statement for each account, along with confirmations of any transactions effected since the date of such statements.

SCHEDULE C

EQUUS II INCORPORATED
EQUUS CAPITAL MANAGEMENT CORPORATION.

QUARTERLY REPORT OF SECURITIES TRANSACTIONS

To the Compliance Officer:

I certify that this report, together with the confirmations and statements for any personal securities accounts as to which I have arranged for the Compliance Officer to receive duplicate confirmations and statements, identifies all transactions, if any, during the calendar quarter which were effected in securities of which I, my family (spouse, minor children, or adults living in my household), or trusts of which I am trustee, participated or acquired or disposed of, direct or indirect "beneficial ownership." If no such transactions were effected, I have so indicated by typing or printing "NONE." Use reverse side if additional space is needed.

Name of Security	Date	No. of Shares and Principal Amount	Dollar Amount of Transaction	Nature of Transaction (Purchase, Sale, Other)	Account	Executing Broker

This report (i) excludes transactions with respect to which I had no direct or indirect influence or control, (ii) any other transactions not required to be reported under the Code and (iii) is not an admission that I have or had any direct or indirect beneficial ownership in the securities listed above.

Date: _____

Signature: _____

Print Name: _____

Company: _____

Position with Company: _____

SCHEDULE D

EQUUS II INCORPORATED
EQUUS CAPITAL MANAGEMENT CORPORATION

ANNUAL REPORT OF SECURITIES

To the Compliance Officer:

On the date indicated, the following are securities of which I, my family (spouse, minor children, or adults living in my household) or trusts of which I am trustee, possessed direct or indirect "beneficial ownership." If there were no such securities, I have so indicated by typing or printing "NONE." I certify that all my personal securities accounts are listed below. I further certify that, other than those securities listed below, I hold no securities in which I may be deemed to have beneficial ownership other than in the personal securities accounts listed.*

Name of Security	No. of Shares or Principal Amount	Broker/Dealer or Bank	Account No.

This report (i) excludes transactions with respect to which I had no direct or indirect influence or control, (ii) any other transactions not required to be reported under the Code and (iii) is not an admission that I have or had any direct or indirect beneficial ownership in the securities listed above.

Date: _____ Signature: _____

Printed Name: _____

Company: _____

Position with Company: _____

* Information may be provided by attaching the most recent monthly statement for each account, along with confirmations of any transactions effected since the date of such statements

SCHEDULE E

CERTIFICATION OF COMPLIANCE WITH CODE OF ETHICS

Attention: Compliance Officer

I certify that I have read and understand the Code of Ethics of Equus II Incorporated and Equus Capital Management Corporation (the "Code"), a copy of which has been provided to me., I recognize that the provisions of the Code apply to me and agree to comply in all respects with the procedures described therein.

I hereby agree to certify on an annual basis that I have complied with the requirements of the Code and I have disclosed or reported all personal securities transactions required to be disclosed or reported pursuant to the requirements of the Code.

I am a director of the following public and private companies: _____

_____

_____

IN WITNESS WHEREOF, the undersigned has caused this Certification to be executed and delivered as of the date hereof.

_____

Name: _____

Title: _____

Dated: _____

SCHEDULE F

ANNUAL CERTIFICATION OF COMPLIANCE WITH CODE OF ETHICS

Attention:Compliance Officer

I certify that I have read and understand the Code of Ethics of Equus II Incorporated and Equus Capital Management Corporation (the "Code"), a copy of which has been provided to me., I recognize that the provisions of the Code apply to me and agree to comply in all respects with the procedures described therein.

I certify that I have complied in all respects with the requirements of the Code as in effect during the past year. I also certify that all transactions during the past year that were required to be reported by me pursuant to the Code have been reported in Quarterly Transaction Reports that I have filed or in confirmations and statements for my personal securities accounts that have been sent to you.

I am a director of the following public and private companies: _____

_____

_____

IN WITNESS WHEREOF, the undersigned has caused this Certification to be executed and delivered as of the date hereof.

_____

Name: _____

Title: _____

Dated: _____

EQUUS II INCORPORATED

CODE OF BUSINESS CONDUCT AND ETHICS
FOR MEMBERS OF THE BOARD OF DIRECTORS,
OFFICERS AND EMPLOYEES

Adopted by the Board of Directors on May 6, 2004

The Board of Directors (the "Board") of Equus II Incorporated (the "Fund") has adopted the following Code of Business Conduct and Ethics for members of the Board, officers, and employees of the Fund (this "Code"). This Code is intended to focus the Board, each Director, Officer, and employee on areas of ethical risk, provide guidance to Directors, Officers, and employees to help them recognize and deal with ethical issues, provide mechanisms to report unethical conduct, and help foster a culture of honesty and accountability. Each Director, Officer, and employee must comply with the letter and spirit of this Code.

No code or policy can anticipate every situation that may arise. Accordingly, this Code is intended to serve as a source of guiding principles for Directors, Officers, and employees. Directors, Officers, and employees are encouraged to bring questions about particular circumstances that may implicate one or more of the provisions of this Code to the attention of the Chair of the Audit Committee, who may consult with legal counsel as appropriate.

Directors, Officers, and employees of the Fund should read and comply with this Code in conjunction with the Fund's Code of Ethics and Insider Trading Policy.

1. Conflict of Interest

A "conflict of interest" occurs when a Director's, Officer's, or employee's private interest interferes in any way, or appears to interfere, with the interests of the Fund as a whole. Conflicts of interest arise when a Director, Officer, Employee or a member of his or her immediate family, receives improper personal benefits as a result of his or her position as a Director, Officer, or employee of the Fund or of Equus Capital Management Corporation, the Fund's Investment Advisor ("ECMC"). Loans or guarantees of obligations may create conflicts of interest. Therefore, the Fund shall not make any personal loans or extensions of credit to nor become contingently liable for any indebtedness of Directors or Officers or any members of their families.

Directors, Officers, and employees must avoid conflicts of interest with the Fund. Any situation that involves, or may reasonably be expected to involve, a conflict of interest with the Fund must be disclosed immediately to the Chair of the Audit Committee or to the attending of the individual designated in Section II below.

This Code does not attempt to describe all possible conflicts of interest which could develop. Some of the more common conflicts from which Directors, Officers, and employees must refrain, however, are set out below:

- *Relationship of Fund with third parties*. Directors, Officers, and employees may not engage in any conduct or activities that are inconsistent with the Fund's best interests or that disrupt or impair the Fund's relationship with any person or entity with which the Fund has or proposes to enter into an investment, business or contractual relationship.

- *Compensation from non-Fund sources*. Directors, Officers, and employees may not accept compensation, in any form, for services performed for the Fund from any source other than the Fund. Notwithstanding, Directors and Officers may accept board fees and non-employee director stock options from portfolio companies, if such fees and options are offered by the portfolio company to all non-employee directors and disclosed to the Fund and its Audit Committee.

- *Gifts*. Directors, Officers, employees and members of their families may not offer, give or receive gifts from persons or entities who deal with the Fund or its portfolio companies, in those cases where any such gift is being made in order to influence the Directors' or Officers' actions as members of the Board and senior management of the Fund or its portfolio companies, or where acceptance of the gifts could create the appearance of a conflict of interest.

2. Insider Trading

Officers, Directors, and employees who have access to confidential information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business. All non-public information about the Fund and its portfolio companies should be considered confidential information. To use non-public information for personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also illegal. Please consult the Fund's policy on insider trading for additional policies related hereto.

3. Corporate Opportunities

Directors, Officers, and employees owe a duty to the Fund to advance its legitimate interests when the opportunity to do so arises. When an opportunity that relates to the Fund's business has been presented to the Directors solely by the Fund, ECMC or their agents, Officers and Directors are prohibited from: (a) taking for themselves personally opportunities that are discovered through the use of the Fund's property or information, or the Director's, Officer's, and employee's position with the Fund or ECMC; (b) using the Fund's property, information, or position for personal gain; or (c) personally competing with the Fund, directly or indirectly, for business opportunities. However, if it has been determined that the Fund will not pursue an opportunity presented to the Fund, a Director, Officer, or employee may pursue such opportunity

if such involvement is fully disclosed to the Fund and its Audit Committee and does not interfere with the fulfillment of the Director's, Officer's, and employee's responsibility to the Fund.

4. Record-Keeping

The Fund requires honest and accurate recording and reporting of information in order to make responsible business decisions. All of the Fund's books, records, accounts and financial statements must be maintained in reasonable detail, must appropriately reflect the Fund's transactions and must conform both to applicable legal requirements and to the Fund's system of internal controls. Periodic and other reports (financial and otherwise) to federal, state, and local government agencies must present a full, fair, accurate, timely, and understandable disclosure of the Fund. Business records and communications should avoid exaggeration, derogatory remarks, guesswork, or inappropriate characterizations of people and companies. This applies equally to e-mail, internal memos, and formal reports. Records should always be retained or destroyed according to the Fund's record retention policies.

5. Confidentiality

Directors, Officers, and employees must maintain the confidentiality of information entrusted to them by the Fund or its portfolio companies, and any other confidential information about the Fund or its portfolio companies that comes to them, from whatever source, in their capacity as Director, Officer, or employee except when disclosure is authorized or required by laws or regulations. Confidential information includes all non-public information that might be of use to competitors, or harmful to the Fund or its portfolio companies, if disclosed.

6. Protection and Proper Use of Fund Assets

Theft, carelessness and waste of assets have a direct impact on the Fund's profitability. Directors, Officers, and employees shall protect the Fund's assets and ensure their efficient use. All Fund assets shall be used only for legitimate business purposes, and any suspected incident of fraud or theft should be immediately reported for investigation.

7. Fair Dealing

The conduct required by fair dealing requires honesty in fact and the observance of reasonable commercial standards of fair dealing. Directors, Officers, and employees shall deal fairly and honestly with the Fund's other Directors, Officers, and employees, portfolio companies (including the members of management thereof) vendors and co-investors. No Director, Officer, or employee should do anything that could be interpreted as dishonest or outside reasonable commercial standards of fair dealing. Directors, Officers, and employees should act at all times in good faith, responsibly, with due care, competence and diligence, and without misrepresentation of any material facts.

8. Compliance with Laws, Rules and Regulations

Directors, Officers, and employees shall comply, and oversee compliance by other Directors, Officers, and employees with all laws, rules and regulations applicable to the Fund.

9. Waivers of this Code of Business Conduct and Ethics

Changes in or waivers of this Code may be made only by the Board of Directors of the Fund or, in the case of any change in or waiver of this Code for any of the Officers, only by the independent directors on the Board of Directors of the Fund. All changes in or waivers of this Code for Officers will be promptly disclosed as required by law or stock exchange regulations.

10. Encouraging the Reporting of any Illegal or Unethical Behavior

Directors, Officers, and employees should promote ethical behavior and take steps to create a working environment at the Fund and ECMC that: (a) encourages employees to talk to supervisors, managers and other appropriate personnel when in doubt about the best course of action in a particular situation; (b) encourages employees to report violations of laws, rules, regulations or this Code to appropriate personnel; and (c) fosters the understanding among employees that the Fund and ECMC will not permit retaliation for reports made in good faith.

11. Failure to Comply; Compliance Procedures

A failure by any Director, Officer, or employee to comply with the laws or regulations governing the Fund's business, this Code or any other Fund policy or requirement may result in disciplinary action, and, if warranted, legal proceedings. Directors, Officers, or employees should communicate any suspected violations of this Code promptly to the Chair of the Audit Committee of the Board. Please call the Fund's outside general counsel, John T. Unger at Thompson & Knight, LLP at 713-853-8811 for contact information. If you prefer to write, address your concerns to: Chair of the Audit Committee, Equus II incorporated, c/o John T. Unger, Thompson & Knight, LLP, 333 Clay Street, Suite 3300, Houston, Texas 77002. Violations will be investigated by the Audit Committee or by a person or persons designated by the Audit Committee and appropriate action will be taken in the event of any violations of this Code.

12. Annual Review

Annually, each Director, Officer, and employee shall provide written certification that he or she has read and understands this Code and its contents and that he or she has not violated, and is not aware that any other Director, Officer, or employee has violated, this Code.

EQUUS II INCORPORATED

CODE OF BUSINESS CONDUCT AND ETHICS FOR MEMBERS OF THE BOARD OF DIRECTORS AND OFFICERS

ACKNOWLEDGEMENT FORM

I have received and read the Code of Business Conduct and Ethics for the Board of Directors and Officers of Equus II Incorporated (the "Fund"), and I understand its contents. I agree to comply fully with the standard contained in the Code and the Fund's related policies, procedures and guidelines. I understand that I have an obligation to report any suspected violations of the code that I become aware of.

_____

Printed Name

_____

Signature

_____

Date

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statement on Form S-8 (No. 333-40221) of Equus II Incorporated of our report dated March 21, 2005, relating to the financial statements which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
Houston, Texas
March 28, 2005

EXHIBIT 31.1

Form of Annual Certification Required
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Sam P. Douglass, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus II Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
    a. Designed such disclosure controls and procedures. or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. [Reserved]
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    a.
    All significant deficiencies and material weaknesses in the design or operation of

internal controls over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 28, 2005

/s/ Sam P. Douglass

Sam P. Douglass

Chairman

Chief Executive Officer

EXHIBIT 31.2

Form of Annual Certification Required
by Rules 13a-14 and 15d-14 under the Securities Exchange Act of 1934

I, Harry O. Nicodemus, IV, certify that:

1. I have reviewed this Annual Report on Form 10-K of Equus II Incorporated;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
    a. Designed such disclosure controls and procedures. or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
    b. [Reserved]
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation;
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting, and;
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of the internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
    a.
    All significant deficiencies and material weaknesses in the design or operation of

internal controls over financial reporting, which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls.

Date: March 28, 2005

/s/ Harry O. Nicodemus IV

Harry O. Nicodemus IV

Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of Equus II Incorporated (the "Company") on Form 10-K for the period ended December 31, 2004 (the "Report"), I, Sam P. Douglass, Chairman and Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2005

/s/ Sam P. Douglass

Sam P. Douglass

Chairman

Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the accompanying Annual Report of Equus II Incorporated (the "Company") on Form 10-K for the period ended December 31, 2004 (the "Report"), I, Harry O. Nicodemus IV, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) To my knowledge, the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: March 28, 2005

/s/ Harry O. Nicodemus IV

Harry O. Nicodemus IV

Chief Financial Officer