

EQUUS II INC
Form DEF 14A
May 27, 2005

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant Filed by Party other than the Registrant

Check the appropriate box:

Preliminary proxy statement

Confidential, for use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive proxy statement

Definitive additional materials

Soliciting materials pursuant to Rule 14a-11(c) or Rule 14a-12

EQUUS II INCORPORATED

(Name of Registrant as Specified in Its Charter)

Hank Nicodemus, 2727 Allen Parkway, 13th Floor, Houston, TX 77019

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(Name of Person(s) Filing Proxy Statement)

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No fee required.

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(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

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(3) Filing Party:

(4) Date Filed:

EQUUS II INCORPORATED

Notice of the 2005

Annual Meeting of Stockholders

Meeting Date: June 14, 2005
Meeting Time: 9:00 a.m., CDT
Location: Meeting Room No. 1, Ground Level,
Wortham Tower
2727 Allen Parkway
Houston, Texas 77019

Agenda

To approve a new management agreement between Moore, Clayton Capital Advisors, Inc and the Fund;

To elect 10 directors, each for a term of one year;

To ratify the appointment of the Fund's independent auditor for fiscal 2005; and

To transact such other business as may properly come before the annual meeting.

Voting

All holders of record of shares of the Fund's common stock (NYSE: EQS) at the close of business on May 2, 2005 (the Record Date), or their legal proxy holders, are entitled to vote at the meeting and any postponements or adjournments of the meeting.

Please submit a proxy as soon as possible so that your shares can be voted at the meeting in accordance with your instructions. You may submit your proxy by mail. For specific instructions, please refer to the Questions and Answers, beginning on page 2 of this proxy statement and the instructions on the proxy card.

We are distributing this proxy statement and proxy form to stockholders on or about May 31, 2005.

By order of the Board of Directors,

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HARRY O. NICODEMUS IV

Secretary

May 27, 2005

Houston, Texas

EQUUS II INCORPORATED

2727 Allen Parkway, 13th Floor

Houston, Texas 77019

PROXY STATEMENT

This proxy statement contains information relating to the annual meeting of Equus II Incorporated (*EQS* or the *Fund*) to be held on Tuesday, June 14, 2005, beginning at 9:00 a.m., local time, at Meeting Room No. 1, Ground Level, Wortham Tower, 2727 Allen Parkway, Houston, Texas 77019, and at any postponements or adjournments thereof, and is furnished in connection with the solicitation of proxies by our Board of Directors to be voted at the annual meeting. This proxy statement is being mailed to stockholders on or about May 31, 2005.

ABOUT THE MEETING

What is the purpose of the annual meeting?

At our annual meeting, stockholders will act upon the matters outlined in the notice of meeting on the cover page of this proxy statement, including the approval of a new management agreement between the Fund and Moore, Clayton Capital Advisors, Inc. (*MCCA* or the *Proposed New Adviser*) (see Item 1), the election of directors (see Item 2), and the ratification of the Fund's independent auditor (see Item 3). In addition, the Fund's management will report on the performance of the Fund during 2004 and respond to questions from stockholders.

What are the Board's recommendations?

Unless you give other instructions on your proxy card, the persons named as proxy holders on the proxy card will vote in accordance with the recommendations of the Board. The Board's recommendation is set forth together with the description of each item in this proxy statement. In summary, the Board recommends a vote:

for approval of the new management agreement (see Item 1);

for election of the nominated slate of directors (see Item 2); and

for ratification of the appointment of PricewaterhouseCoopers LLP as the Fund's independent auditor (see Item 3).

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With respect to any other matter that properly comes before the meeting, the proxy holders will vote as recommended by the Board or, if no recommendation is given, in their own discretion.

What vote is required to approve each item?

Election of Directors. The affirmative vote of a plurality of the votes cast at the meeting is required for the election of directors. A properly executed proxy marked "Withheld" with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for purposes of determining whether there is a quorum. The ten persons receiving the highest number of "For" votes will be elected.

Approval of Proposed Management Agreement. The affirmative vote of the lesser of 67% or more of the votes cast at the meeting or 50% of the outstanding shares of the Fund is required to approve the new management agreement. A properly executed proxy marked *Abstain* with respect to this proposal will not be voted in favor of or against the proposal although it will be counted as voted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

Other Items. For each other item, the affirmative vote of the holders of a majority of the shares represented in person or by proxy and entitled to vote on the item will be required for approval. A properly executed proxy marked *Abstain* with respect to any such matter will not be voted in favor of or against such matter, although it will be counted as voted for purposes of determining whether there is a quorum. Accordingly, an abstention will have the effect of a negative vote.

If you hold shares in *street name* through a broker, bank, or other nominee, your broker, bank, or nominee may not be permitted to exercise voting discretion with respect to some of the matters to be acted upon. Thus, if you do not give your broker or nominee specific instructions, your shares may not be voted on those matters and will not be counted in determining the number of shares necessary for approval. Shares represented by such *broker non-votes* will, however, be counted in determining whether there is a quorum.

How are votes counted?

In the election of directors, you may vote *For* all of the nominees or your vote may be *Withheld* with respect to one or more of the nominees. For the other proposals, you may vote *For*, *Against*, or *Abstain*. If you *Abstain*, it has the same effect as a vote *Against*. If you sign your proxy card or broker voting instruction card with no further instructions, your shares will be voted in accordance with the recommendations of the Board.

Am I required to approve or reject all of the proposals as a group, or can I vote Yes for some proposals and No for others?

Each of the proposals discussed in this proxy statement is subject to a separate vote, and you should accept or reject each proposal on its own merits.

What will the Board do if either proposal 1 or 2 is approved, but both proposals are not approved?

The election of directors is expressly conditioned upon the approval of the proposed management agreement and other conditions necessary to close the sale of the Fund's current investment adviser to MCCA. In other words, if the ten director nominees receive a sufficient number of votes, but the proposed management agreement does not and the sale does not close, the director nominees will not take office and the current management agreement will remain in effect. The current directors will remain the directors of the Fund and the Board will consider such alternative actions, if any, as are in the best interests of the Fund.

Who is entitled to vote at the meeting?

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If you owned shares of the Fund on the Record Date, you are entitled to receive notice of and to participate in the annual meeting. A list of stockholders on the Record Date will be available for inspection at the Fund's office at 2727 Allen Parkway, 15th Floor, Houston, Texas for ten days before the meeting.

What are the voting rights of holders of the Fund's common stock?

You may cast one vote per share of the Fund's common stock that you held on the Record Date on each proposal considered at the annual meeting. These shares include shares that are: (1) held directly

in your name as the stockholder of record and (2) held for you as the beneficial owner through a stockbroker, bank, or other nominee.

Who can attend the meeting?

All stockholders as of the Record Date, or their duly appointed proxies, may attend the meeting. Each stockholder may be asked to present valid identification. Cameras, recording devices, and other electronic devices will not be permitted at the meeting.

Please note that if you hold your shares in street name (that is, through a broker, bank, or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the Record Date.

Parking is available at local garages; the fee for parking is \$0.75 per hour.

What constitutes a quorum?

The presence at the meeting, in person or by proxy, of the holders of a majority of the shares of common stock outstanding on the Record Date will constitute a quorum, permitting the meeting to conduct its business. As of the Record Date, 6,506,692 shares of the Fund's common stock, representing the same number of votes, were outstanding. Thus, the presence of holders of the Fund's common stock representing at least 3,253,346 votes will be required to establish a quorum.

Proxies received but marked as abstentions and broker non-votes that are voted on any matter will be included in the calculation of the number of shares considered to be present at the meeting.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

Many stockholders of the Fund hold their shares through a stockbroker, bank or, other nominee rather than directly in their own name. As summarized below, there are some distinctions between shares held of record and those owned beneficially.

Stockholder of Record. If your shares are registered directly in your name with the Fund's transfer agent, American Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record, and these proxy materials are being sent directly to you by the Fund. As the stockholder of record, you have the right to grant your voting proxy directly to the Fund or to vote in person at the annual meeting. We have enclosed a proxy card for you to use.

Beneficial Owner. If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name, and these proxy materials are being forwarded to you by your broker or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker on how to vote and are also invited to

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attend the annual meeting. However, since you are not the stockholder of record, you may not vote these shares in person at the annual meeting. Your broker or nominee has enclosed a voting instruction card for you to use in directing the broker or nominee regarding how to vote your shares.

How can I vote my shares in person at the annual meeting?

Shares held directly in your name as the stockholder of record may be voted in person at the annual meeting. If you choose to do so, please bring the enclosed proxy card or proof of identification.

Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting. Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

How can I vote my shares without attending the annual meeting?

Whether you hold shares directly as the stockholder of record or beneficially in street name, you may direct your vote without attending the annual meeting by completing and mailing your proxy card or voting instruction card in the enclosed pre-paid envelope. Please refer to the enclosed materials for details.

Can I change my vote after I return my proxy card?

Yes. You may change your proxy instructions at any time prior to the vote at the annual meeting. You may accomplish this by granting a new proxy card or new voting instruction card bearing a later date (which automatically revokes the earlier proxy instructions) or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request.

What does it mean if I receive more than one proxy or voting instruction card?

It means your shares are registered differently or are in more than one account. Please provide voting instructions for all proxy and voting instruction cards you receive.

Where can I find the voting results of the annual meeting?

We will announce preliminary voting results at the annual meeting and publish the final results in our quarterly report on Form 10-Q for the quarter ended June 30, 2005.

Who can I call if I have a question?

If you have any questions about this proxy statement, please call us at 713-529-0900 between 9:00 a.m. and 5:00 p.m., Central Daylight Time, Monday through Friday.

STOCK OWNERSHIP

Who are the largest owners of the Fund's stock?

Based on a review of filings with the Securities and Exchange Commission (SEC), the Fund is aware of three beneficial owners of more than 5% of the outstanding shares of the Fund's common stock: Sam P. Douglass, Karpus Management, Inc., and Nolan Lehmann.

How much stock do the Fund's directors and executive officers own?

The following table shows the amount of the Fund's common stock beneficially owned (unless otherwise indicated) as of March 31, 2005, by (1) any person known to the Fund to be the beneficial owner of more than 5% of the outstanding shares of the Fund's common stock, (2) each director and nominee for director of the Fund, and (3) all officers and directors as a group. The number of shares beneficially owned by each entity, person, director, or executive officer is determined under the rules of the SEC and the information is not necessarily indicative of beneficial ownership for any other purpose.

Under such rules, beneficial ownership includes any shares as to which the individual has the sole or shared voting power or investment power and also any shares that the individual has the right to acquire as of March 31, 2005, or within 60 days after March 31, 2005, through the exercise of any stock option or other right. Unless otherwise indicated, each person has the sole investment and voting power, or shares such powers with his spouse, with respect to the shares set forth in the table.

Name	Amount and Nature of Beneficial Ownership				Percent of Class Outstanding
	Sole Voting and Investment Power	Options Exercisable Within 60 Days ⁽¹⁾	Other Beneficial Ownership	Total	
Sam P. Douglass ⁽²⁾	22,814	237,600	428,380 ⁽³⁾	688,794	10.4%
Karpus Management, Inc. ⁽⁴⁾	517,158	0	0	517,158	7.9%
Nolan Lehmann ⁽⁵⁾	197,951	202,700	48,537 ⁽⁶⁾	449,188	6.9%
Gregory J. Flanagan	9,267	19,801	1,289 ⁽⁷⁾	30,357	*
Robert L. Knauss	791	19,801	512 ⁽⁸⁾	21,104	*
Brad Orvieto	2,479	3,666	0	6,145	*
Gary R. Petersen	2,317	19,801	0	22,118	*
John W. Storms	9,237	18,701	0	27,938	*
Francis D. Tuggle	4,457	18,501	0	22,958	*
Edward E. Williams	47,781	19,801	0	67,582	1.0%
All directors and officers as a group (12 persons)	311,252	785,039	478,718	1,575,009	24.2%

* Indicates less than one percent.

⁽¹⁾ Reflects the number of shares that could be purchased by exercise of options available on April 30, 2005, or within 60 days thereafter under the 1997 Stock Incentive Plan.

⁽²⁾ Mr. Douglass address is 2727 Allen Parkway, 1st Floor, Houston, Texas 77019.

⁽³⁾ Includes (a) 33,149 shares held directly and in retirement accounts by Paula T. Douglass, Mr. Douglass wife, (b) 174,457 shares held by trusts for the benefit of members of Mr. Douglass family of which Mr. Douglass is the trustee and a lifetime beneficiary, a trust of which Mr. Douglass is the beneficiary, and a trust of which Mrs. Douglass is the beneficiary, and (c) 220,774 shares held by Equus Corporation International, a Delaware corporation of which Mr. Douglass is the Chairman of the Board and Chief Executive Officer. Mr. Douglass disclaims beneficial ownership of all shares not directly owned by him.

⁽⁴⁾ The address of Karpus Management, Inc. is 183 Sullys Trail, Pittsford, New York 14534. The address of and number of shares beneficially owned by Karpus Management, Inc. is based on the Schedule 13D/A filed by Karpus Management, Inc. with the SEC on April 7, 2005.

⁽⁵⁾ Mr. Lehmann s address is 2727 Allen Parkway, 1st Floor, Houston, Texas 77019.

⁽⁶⁾ Includes (a) 6,778 shares held by Jeanne Lehmann, Mr. Lehmann s spouse and (b) 41,759 shares held by Lehmann Investments, L.P., of which Mr. Lehmann is the general partner. Mr. Lehmann disclaims beneficial ownership of all shares not owned directly by him.

⁽⁷⁾ Includes 1,289 shares held by Mr. Flanagan s spouse.

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- ⁽⁸⁾ Includes 512 shares held by the Robert L. Knauss Defined Plan (the Knauss Plan) of which Mr. Knauss is a control person. Mr. Knauss disclaims beneficial ownership of the shares held by the Knauss Plan.

Section 16(a) Beneficial Ownership Reporting Compliance

Under the federal securities laws, the Fund's directors, executive (and certain other) officers, and any persons holding more than ten percent of the Fund's common stock are required to report their ownership of the Fund's common stock and any changes in that ownership to the Fund and the SEC.

Specific due dates for these reports have been established by regulation and the Fund is required to report in this proxy statement any failure to file by these dates in 2004. Based upon a review of filings with the SEC and written representations that no other reports were required, we believe that all of our directors and executive officers complied during 2004 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, with the exception of a Form 3 to report the election of James Philip Walters as an executive officer of the Fund which was filed late.

As of March 30, 2005, we believe that all directors and officers are current in their filings. In making these statements, the Fund has relied on the written representations of its directors, officers and ten percent holders and copies of reports that they have filed with the SEC.

GOVERNANCE OF THE FUND

What are the duties of the Board of Directors?

The Board provides overall guidance and supervision with respect to the operations of the Fund and performs the various duties imposed on the directors of business development companies by the Investment Company Act. Among other things, the Board supervises the management arrangements of the Fund, the custodial arrangements with respect to portfolio securities, the selection of accountants, fidelity bonding, and transactions with affiliates. All actions taken by the Board are taken by majority vote unless a higher percentage is required by law or unless the Investment Company Act or the Fund's Restated Certificate of Incorporation or bylaws require that the actions be approved by a majority of the directors who are not interested persons (as defined in the Investment Company Act). The Investment Company Act requires that a majority of the Fund's directors be individuals who are not interested persons of the Fund.

Who are the current members of the Board?

The members of the Board of Directors on the date of this proxy statement and the committees of the Board on which they serve, are identified below.

<u>Director</u>	<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Committee of Independent Directors</u>	<u>Committee to Study Methods for Enhancement of Shareholder Value</u>	<u>Governance and Nominating Committee</u>
Sam P. Douglass					
Gregory J. Flanagan		*	*	Chair	
Robert L. Knauss	Chair		*		*
Nolan Lehmann					
Brad Orvieto			*	*	*
Gary R. Petersen		Chair	*		*
John W. Storms	*	*	*		Chair
Dr. Francis D. Tuggle	*		*	*	
Dr. Edward E. Williams			Chair	*	

What committees has the Board established?

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The Board has five standing committees: an Audit Committee, a Governance and Nominating Committee, a Compensation Committee, a Committee of Independent Directors, and a Committee to Study Methods for the Enhancement of Shareholder Value.

Audit Committee

The functions of the Audit Committee are described below under the heading *Report of the Audit Committee*. The charter of the Audit Committee was attached to the 2004 proxy statement and is available on the Fund's website (www.equuscap.com). The Audit Committee met five times during 2004.

Each member of the Audit Committee is independent within the meaning of SEC regulations and the listing standards of the New York Stock Exchange (NYSE). Mr. Knauss, the chair of the Committee, is qualified as an audit committee financial expert within the meaning of SEC regulations and the Board has determined that he has accounting and related financial management expertise within the meaning of the listing standards of the NYSE.

Committee of the Independent Directors

The functions of the Committee of the Independent Directors are to: recommend to the full Board approval of any management, advisory, or administration agreements; recommend to the full Board any underwriting or distribution agreements; review the fidelity bond and premium allocation; review any joint insurance policies and premium allocation; review and monitor the Fund's compliance with procedures adopted pursuant to certain rules promulgated under the Investment Company Act; and carry out such other duties as the independent directors shall, from time to time, conclude are necessary in the performance of their duties under the Investment Company Act.

The Committee of Independent Directors met as needed at regularly scheduled Board Meetings. The Committee consists of all directors who are not interested persons of the Fund (as defined in the Investment Company Act).

Compensation Committee

The function of the Compensation Committee is to determine and issue stock options for officers of the Fund under the Equus II Incorporated 1997 Stock Incentive Plan (the 1997 Stock Incentive Plan), which is the only form of compensation paid by the Fund to its officers for serving as such. The charter of the Compensation Committee is available on the Fund's website (www.equuscap.com). The Committee met one time during 2004. All members of the Committee are independent within the meaning of the listing standards of the New York Stock Exchange.

Governance and Nominating Committee

The Governance and Nominating Committee is responsible for developing and implementing policies and practices relating to corporate governance. The Committee selects individuals for nomination to the Board of Directors of the Fund. In addition, the Committee develops and reviews background information on candidates for the Board and makes recommendations to the Board regarding such candidates. The Committee also prepares and supervises the Board's annual review of director independence and the Board's performance self-evaluation. The Committee met two times during 2004.

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All of the members of the Committee are independent within the meaning of SEC regulations and the listing standards of the NYSE. No member of the Committee is an interested person of the Fund as defined in the Investment Company Act.

Committee to Study Methods for the Enhancement of Shareholder Value

The function of the Committee to Study Methods for the Enhancement of Shareholder Value is to recommend to the Board plans and actions that might increase the value at which our common stock trades on the NYSE. The Committee held one meeting during 2004.

How does the Board select nominees for the Board?

The Governance and Nominating Committee considers candidates for Board membership suggested by its members and other Board members, as well as management and stockholders. A stockholder who wishes to recommend a prospective nominee for the Board should notify the Fund's Secretary or any member of the Governance and Nominating Committee in writing in care of Equus II Incorporated, 2727 Allen Parkway, 13th Floor, Houston, Texas 77019. To be considered by the Nominating and Governance Committee, stockholder nominations must be submitted before our fiscal year-end and must be accompanied by a description of the qualifications of the proposed candidate and a written statement from the proposed candidate that he or she is willing to be nominated and desires to serve if elected. The Governance and Nominating Committee will also consider whether to nominate any person nominated by a stockholder pursuant to the provisions of the Fund's bylaws relating to stockholder nominations as described in *Additional Information Advance Notice Procedures*, below. Nominees for director who are recommended by stockholders will be evaluated in the same manner as any other nominee for director.

Once the Governance and Nominating Committee has identified a prospective nominee, the Committee makes an initial determination as to whether to conduct a full evaluation of the candidate. This initial determination is based on whatever information is provided to the Committee with the recommendation of the prospective candidate, as well as the Committee's own knowledge of the prospective candidate, which may be supplemented by inquiries to the person making the recommendation or others. The preliminary determination is based primarily on the need for additional Board members to fill vacancies or expand the size of the Board and the likelihood that the prospective nominee can satisfy the evaluation factors considered by the Committee. If the Committee determines, in consultation with the other Board members as appropriate, that additional consideration is warranted, it may gather additional information about the prospective nominee's background and experience. The Chairman of the Committee and our Chairman of the Board will then interview a qualified candidate. A qualified candidate is then invited to meet the remaining members of the Committee and the other directors. The Committee then determines, based on the background information and information obtained in interviews, whether to recommend to the Board that a candidate be nominated to the Board.

Richard F. Bergner, Charles M. Boyd, Alan D. Feinsilver, Henry W. Hankinson, Anthony R. Moore, and James M. Walsh, who are being submitted to our stockholders for election as directors for the first time at the annual meeting, were identified and recommended to the Nominating and Governance Committee by Moore Clayton & Co., Inc.

The Committee believes a prospective nominee for director should, at a minimum, satisfy the following standards and qualifications and evaluates prospective nominees accordingly:

the ability of the prospective nominee to represent the interests of the stockholders of the Fund;

the prospective nominee's standards of integrity, commitment, and independence of thought and judgment;

the prospective nominee's ability to dedicate sufficient time, energy, and attention to the diligent performance of his or her duties, including the prospective nominee's service on other public company boards; and

the extent to which the prospective nominee contributes to the range of talent, skill, and expertise appropriate for the Board.

The Committee also considers such other relevant factors as it deems appropriate, including the current composition of the Board, the balance of management and independent directors, and the need for Audit Committee expertise. After completing this evaluation and interview, the Committee makes a recommendation to the full Board as to the persons who should be nominated by the Board, and the Board determines the nominees after considering the recommendation and report of the Committee.

How does the Board determine which directors are considered independent?

The Board undertook its annual review of director independence in March 2005. During this review, the Board considered transactions and relationships between each director or any member of his immediate family and the Fund, including those reported under *Other Indirect Interests* below. The Board also examined transactions and relationships between directors or their affiliates and members of the Fund's senior management or their affiliates. The purpose of this review was to determine whether any such relationships or transactions were inconsistent with a determination that the director is independent.

As a result of this review, the Board affirmatively determined that all of the directors nominated for election at the annual meeting are independent of the Fund and its management with the exception of Sam P. Douglass and Anthony R. Moore. Messrs. Douglass and Moore are considered inside directors because of their employment or proposed employment as senior executives of the Fund or MCCA.

How often did the Board meet during 2004?

During 2004, the Board met in person four times. Each director attended at least 75% of all meetings held by the Board or the committees of the Board on which he served. The Fund does not have a policy about directors' attendance at the annual meeting of stockholders. All directors attended the Fund's annual meeting of stockholders in May 2004.

How are directors compensated?

During 2004, each director who was not an officer of the Fund received an annual fee of \$20,000, plus \$2,000 for each meeting of the directors attended, \$1,000 for participation in each meeting conducted by telephonic conference, and \$1,000 for each committee meeting attended, and reimbursement for all out-of-pocket expenses relating to attendance at such meetings. The independent directors do not receive any additional compensation from the Fund or portfolio companies for any additional services rendered. Officers and directors of the Fund who are affiliated with management may serve as directors of portfolio companies and in such capacities may receive and retain directors' fees and other compensation directly from the portfolio companies. Officers of the Fund do not receive cash compensation directly from the Fund, but are employed by and receive a salary from ECMC. The Fund established the 1997 Stock Incentive Plan to provide incentive compensation to its directors, officers, and employees.

The directors who were not officers of the Fund were paid an aggregate of \$281,000 and \$242,333 as compensation for the years ended December 31, 2004 and 2003, respectively.

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Under the 1997 Stock Incentive Plan, each non-officer director serving at the time was granted an option to purchase 5,500 shares of the Fund's common stock on November 4, 1997 (Mr. Orvieto was granted an option to purchase 5,500 shares following his

election to the Board). In addition, each individual elected as a non-officer director is, on the first business day following the annual stockholders meeting, granted a stock option to purchase 2,200 shares of the Fund's common stock at the closing sales price for shares of the Fund's common stock on that date. In May 2004, the Fund granted options to purchase an aggregate 13,200 shares of stock at \$7.72 per share to its directors. The Fund currently has no bonus, profit-sharing, pension, or retirement plan.

Under the 1997 Stock Incentive Plan the Fund may grant stock options to eligible directors and officers for up to the number of shares of the Fund's common stock equal to 20% of the outstanding shares. At December 31, 2004, the Fund had outstanding stock options covering an aggregate of 809,000 shares. The Compensation Committee is responsible for granting awards of stock options under the 1997 Stock Incentive Plan.

Dollar Range of Equity Securities Beneficially Owned by Directors

Name of Director or Nominee	Dollar Range of Equity Securities in the Fund ⁽¹⁾	Aggregate Dollar Range of Equity Securities in All Funds Overseen or to be Overseen by Director or Nominee in Family of Investment Companies
Sam P. Douglass	Over \$100,000	Over \$100,000 ⁽²⁾
Gregory J. Flanagan	\$50,001-\$100,000 ⁽³⁾	\$50,001-\$100,000 ⁽²⁾ (3)
Robert L. Knauss	\$1-\$10,000 ⁽³⁾	\$1-\$10,000 ⁽²⁾ (3)
Nolan Lehmann	Over \$100,000	Over \$100,000 ⁽²⁾
Brad Orvieto	\$10,001-\$50,000 ⁽³⁾	\$10,001-\$50,000 ⁽²⁾ (3)
Gary R. Peterson	\$10,001-\$50,000 ⁽³⁾	\$10,001-\$50,000 ⁽²⁾ (3)
John W. Storms	\$50,001-\$100,000 ⁽³⁾	\$50,001-\$100,000 ⁽²⁾ (3)
Dr. Francis D. Tuggle	\$10,001-\$50,000 ⁽³⁾	\$10,001-\$50,000 ⁽²⁾ (3)
Dr. Edward E. Williams	Over \$100,000 ⁽³⁾	Over \$100,000 ⁽²⁾ (3)

(1) Based on closing price of the Fund's common stock on March 31, 2005.

(2) Includes only shares of the Fund. No director or nominee for director of the Fund is a director of another fund in the Equus family of investment companies.

(3) Excludes options exercisable within 60 days that are not in-the-money.

Compensation

The following table sets forth all compensation paid to the directors, and for each of the three highest paid officers who have aggregate compensation from the Fund in 2004 in excess of \$60,000:

Name	Aggregate Compensation from the Fund	Pension or Retirement Benefits Accrued as Part of Fund Expenses	Long-term Compensation Awards Number of Securities Underlying Options
Sam P. Douglass*	\$ 0 ⁽¹⁾	\$ 0	0
Gregory J. Flanagan	43,000	0	2,200
Robert L. Knauss	47,500	0	2,200
Nolan Lehmann*	0 ⁽¹⁾	0	0
Brad Orvieto	35,500	0	2,200
Gary R. Petersen	43,500	0	2,200
John W. Storms	38,500	0	2,200
Francis D. Tuggle	38,000	0	2,200
Edward E. Williams	35,000	0	2,200

* Designates an interested person.

⁽¹⁾ Mr. Douglass and Mr. Lehmann do not receive a salary from the Fund.

Other Indirect Interests

Dr. Williams may be paid additional sums by Equus Capital Corporation, a wholly owned subsidiary of ECMC (ECC), in connection with ECC s redemption of its Series C preferred stock. ECC has liquidated substantially all of its assets, but is retaining some cash for taxes, operating expenses, and contingencies. At December 31, 2004, the aggregate value of the assets held by ECC was \$1,971,964, of which Dr. Williams had a 5.3% interest.